

Body: Cabinet.

Date: March 19th, 2014

Subject: Eastbourne Housing and Economic Development Project (HEDP).

Report Of: Ian Fitzpatrick, Senior Head of Community.

Ward(s) All.

Purpose This report provides an update on the Eastbourne 2013-2015 Local Authority New Build programme and the Supporting Housing and Economic Progress initiative.

Decision Type: Key Decision.

Recommendation: Cabinet is recommended to:

- Approve a capital allocation totalling no more than £350,000 from the £18m Housing Regeneration capital allocation for the purchase and refurbishment of retail and commercial elements of properties being purchased for the SHEP initiative, subject to the application of the conditions and procedures previously agreed for SHEP funding delegations.
- Approve a revised budget for the Eastbourne 2013-2015 LANB, of £4,758,000 to include:
 - Twenty three affordable rented homes made up of sixteen at Coventry Court, three at Tenterden Close and four at Belmore Road
 - An additional six houses for shared ownership as part of the Coventry Court scheme, made up of three (3) x three bedroom houses and three (3) x two bedroom houses
 - An additional four homes for market sale as part of the Belmore Road scheme made up of four (4) x two bedroom homes
- Delegate authority to the Senior Head of Community in conjunction with the Portfolio Holder for Finance the purchase of a site adjacent to Belmore Road (Longstone Road) subject to final risk/financial appraisal
- Allocate up to £850,000 as a loan facility in the Council's capital programme to support economic development initiatives at Sovereign Harbour

Contact: Andy Thompson – Strategic Housing Manager
E-mail address : andrew.thompson@eastbourne.gov.uk
Telephone: 01323 415736

1.0 Introduction

- 1.1 This report considers a range of inter-linked housing and economic development projects and opportunities. All are related to the Housing and Economic Development Partnership (HEDP), a joint project set up in February 2013 by the Council and Eastbourne Homes Limited (EHL). The HEDP has a small team of officers working exclusively on projects for the initiative but also being used, as required, by the Housing Services team to help the wider strategic housing work of the Council as a whole.
- 1.2 The HEDP team has been tasked with delivering a number of strategic projects for the Council, including the programme to develop new Council-owned homes. There has now arisen an opportunity to further expand this programme. This report requests approval for the appropriate resources and policy decisions to be in place to be able to take advantage of these new development and funding opportunities.
- 1.4 In taking forward its work over the past year, the HEDP team has increasingly found itself needing to be able make use of both Housing Revenue Account (HRA) and General Fund (GF) resources. Current delegations of authority, agreed in September 2013 need to be revised to allow the project to operate more effectively as there is a risk that opportunities may be lost if this flexibility is not available for use when it is most needed. This report sets out and requests approval for those revisions.
- 1.5 The Council has been working with development partners in order to secure development of sites that have extant planning permission for business use on Sovereign Harbour.

2.0 Funding Mechanisms for HEDP

- 2.1 At this early stage in the development of the HEDP's work, it has not yet had cause to ask for consent from Members to draw upon the General Fund £20m capital allocation agreed in February 2013. This is because the nature of the work envisaged for the HEDP includes complex investment projects which have long lead in times.
- 2.2 However, as part of the Supporting Housing Economic Progress (SHEP) initiative opportunities have arisen for the Council to acquire and bring into productive use freehold premises retail the area of Seaside which are seen as having potential to support the leisure and tourist economy. Some of the targeted long term empty properties are traditional shop unit with flats above. The upper floors can be converted to residential use, using the funds already approved for the SHEP but these resources cannot be used for the shop or commercial elements of the buildings because being part of the HRA they can only be used for Council-owned homes. Failure to address the problems at a street level will reduce the overall impact on the regeneration of the area. In addition, it is not always possible to secure ownership of the upper floor residential accommodation without also taking on the ground floor commercial elements of the properties. As such, for the scheme to have the maximum impact, the Council will on occasion have little choice but to buy mixed use properties which in turn will require mixed funding to be available.

2.3 The use of the £18m capital allocation is necessary to cover the cost and refurbishment of securing those commercial elements of the property to allow the Council to secure the acquisition of the whole property and so deliver not only its housing outcomes, as determined by SHEP, but also begin to deliver a street level programme of renaissance to currently under exploited retail and commercial areas of the town. These properties will be managed on behalf of the Council by EHL.

2.4 The three currently identified commercial and retail units have been appraised alongside the affordable homes above the premises and have been through the same detailed risk assessment and viability review process to meet the conditions and procedures previously agreed for SHEP funding delegations. This has incorporated advice from local agents on rental values and demand levels. The appraisals assume total scheme costs of £330k, a gross annual rental income of £30k (9% yield) and provide a year 1 operating surplus of £11k. The commercial units therefore contribute to the viability of the overall programme. There is some risk associated with the operation of commercial leases in projecting future demand. The Risk Review Group considered this and took into account planned mitigations (existing lessee for one unit, advised demand, plan to establish an enhanced offer compared to other nearby premises with competitive rents, contribution to wider regeneration) and concluded that there was a reasonable business case to proceed.



2.5 Members are recommended to:

- Approve a capital allocation totalling no more than £350,000 from the £18m Housing Regeneration capital allocation for the purchase and refurbishment of retail and commercial elements of properties being purchased for the SHEP initiative, subject to the following:
 - Acquisition and redevelopment of any individual property will only be progressed if the result is a financially viable development that has no net cost to the Council and contributes to the wider regeneration of the area.
 - Each acquisition will be approved by the Council's Housing and Finance specialists before contracts for purchase are exchanged.

2.6 The Council was successful in obtaining £750,000 in Section 106 contributions towards employment initiatives in the borough. This has been earmarked for Sovereign Harbour to begin development of employment space. The Council has been working with the County Council and Seaspaces Ltd to secure an innovation mall on site 7. Whilst the Section 106 contribution can be used to finance this opportunity, the structure of the development proposition requires this by way of a loan on commercial terms. To allow for the scheme to progress the loan needs to be up to a value of £850,000. The additional £100,000 will be financed by way of the investment return.

3.0 Development of new Council owned homes

3.1. Members will recall in February 2013 approving the building of a total of 23 affordable rented homes across three sites – Coventry Court (16 homes), Belmore Road (four homes) and Tenterden Close (three homes) as part of the Eastbourne 2013-2015 Local Authority new Build (LANB) programme.

- 3.2 As part of the development of the Eastbourne 2013-2015 LANB programme, the opportunity has emerged to develop additional homes. This has arisen from:
-  An architectural competition to determine which practice should design the Council's new homes. This exercise showed that six more homes could be provided at the Coventry Court site.
 -  An opportunity to purchase a plot of land adjacent to the Belmore Road site that would allow an additional four homes to be provided.

3.3 Expansion of the Coventry Court Scheme


3.3.1 The ability to increase the number of homes available at Coventry Court from 16 to 22 provides an opportunity to develop homes for sale to low and middle income households as well as generate capital receipts for the Council. By offering a shared ownership option, homes for low and middle income households are provided in a way that helps those who are unable to secure a mortgage for outright purchases yet can afford the monthly cost of a shared ownership option¹. The Council has in the past successfully developed shared ownership homes.

3.3.2 The cost of developing six family homes is £657,000, reflecting construction costs as the land is already in the ownership of the Council. The open market sale value of the six is estimated at £975,000. Purchasers would buy a minimum stake of 25%, generating an immediate capital receipt to the Council of a minimum of £243,750. Residents would then pay rent on the remaining equity calculated as being on 2.75% per annum of the retained equity. This income would cover the cost of to the Council of funding the retained equity stakes until such time as the occupiers chose to exercise their right to increase their own share in the property. Residents are at any time able to increase their equity stake in their home, by buying additional shares at the prevailing market value, which generates future capital receipts for the Council.

3.3.3 The financial model for this scheme has been designed to allow for the properties to be either retained at no net cost to the Council as affordable rented homes or sold on the open market for a net return. This helps mitigate the risk to the Council of developing shared ownership homes.

3.4 Expansion of the Belmore Road/Longstone Road Scheme

3.4.1 An opportunity has risen adjacent to the Belmore Road site, at Longstone Road, to improve the access to the site and add four additional homes to the four approved in February 2013. The Council has secured an option to purchase a site currently occupied by a warehouse and yard. Purchase of this site offers two advantages to the Council:

-  The viability and desirability of the Council's Belmore Road scheme will be improved

¹ Shared ownership can put a roof over the head of Generation Rent – The Guardian, November 2013; One foot on the ladder: how shared ownership can bring owning a home into reach - Resolution Foundation, November 2013

 Four additional homes can be developed for sale, to provide a net receipt to the Council.

3.4.2 In terms of improving the site, the purchase would improve access to the new homes by making the main route into the scheme via Longstone Road rather than a narrow driveway running from Belmore Road. It will also allow the layout of the site to be improved by creating a simple rectangular foot print rather than one with an unusual angled border to one side. Appendix A shows the location and layout of the site.

3.4.3 As noted above, the site also provides the opportunity to build four homes for sale, at an estimated sale value of £680,000. Taking the initial investment of £155,000 for the site and subsequent development/site improvement costs of £460,000 the scheme generates a potential net return of £65k.

3.4.3 Properties available at the values suggested above will be particularly helpful to first time buyers, who are increasingly being priced out of the market by Buy-to-Let landlords. To prevent these properties falling into that category, a covenant can be imposed on them preventing sale requiring purchasers to themselves live in the homes at first sale.

3.4.4 Because the Council has to purchase land for the extension of the Belmore Road scheme, the development is only financially viable if the properties are sold. The combined cost of land purchase and construction mean that the properties could not be retained within the HRA and let at an affordable rent without capital subsidy from the Council. However, the demand for properties in this area is high and the risk of these properties not selling is low.

3.5 Financial impact of the opportunities

3.5.1 If Cabinet approve both the above initiatives the overall LANB capital programme will be £4,758,000 subject to the outcome later this year of the construction tenders.

3.5.2 This figure includes updated information on construction costs which have risen since the original report was presented Members in February 2013. This is because of a national rise in demand for new buildings. The cost of materials and specialist labour has increased over and beyond headline inflation rates².

3.5.3 Members are asked to note that the revised programme will generate receipts, as a result of the outright sale of four homes and an initial 25% share of six others totalling £923,750. This means that the net investment by the Council is £3,835,000. Appendix B to this report provides further detail on the assumptions made to inform the revised programme.

3.5.4 Members are therefore recommended to approve:

² Labour costs soar as house building rises on Help to Buy scheme – Financial Times September 2013; Materials prices rise but labour rates remain pressurised – Construction News October 2013; Increase In Costs Could Threaten The Building Industry – Federation of Master Builders – October 2013

- Approve a revised budget for the Eastbourne 2013-2015 LANB, of £4,758,000 to include:
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4.0 Risk Assessment

4.1 LANB Expansion Risk Summary

Risk	Likelihood	Mitigation
Properties fail to sell	Unlikely – the housing market is currently buoyant with unmet demand for properties priced below £200,000	Shared ownership properties can be taken into the HRA for use as rented homes
Construction costs increase	Possible	Competitive tender used to reduce costs
Borrowing costs increase substantially	Unlikely – the Bank of England has indicated that rates are likely to remain low	Funds are secured using long term interest rates in line with scheme viability assumptions

5.0 Consultation

- 5.1 The Council has undertaken and continues to undertake extensive consultation and market research in developing and delivering 'At Home in Eastbourne', which underpins and informs the Eastbourne 2013-2015 LANB.
- 5.2 The extensive consultation work for 'At Home in Eastbourne', the Council's housing strategy, showed that there is a considerable desire amongst local people to buy a home of their own. The proposals in this report will demonstrate a positive response by the Council to that consultation work.

6.0 Environmental, Human Rights, Community Safety, Youth, Anti-poverty Implications.

- 6.1 The delivery of an expansion of the Eastbourne 2013-2015 LANB will give the Council greater scope to deliver its wider role of community well being. Developing the wider economy and encouraging investment in homes in a sustainable and equitable way will help to reduce crime, improve the environment and contribute towards human rights.

7.0 Resource Implications

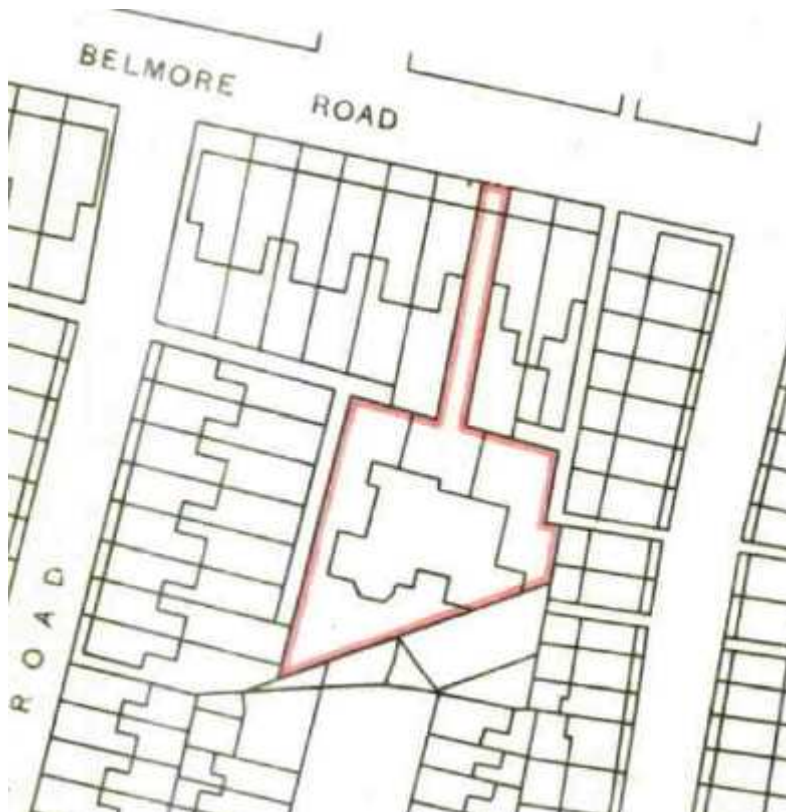
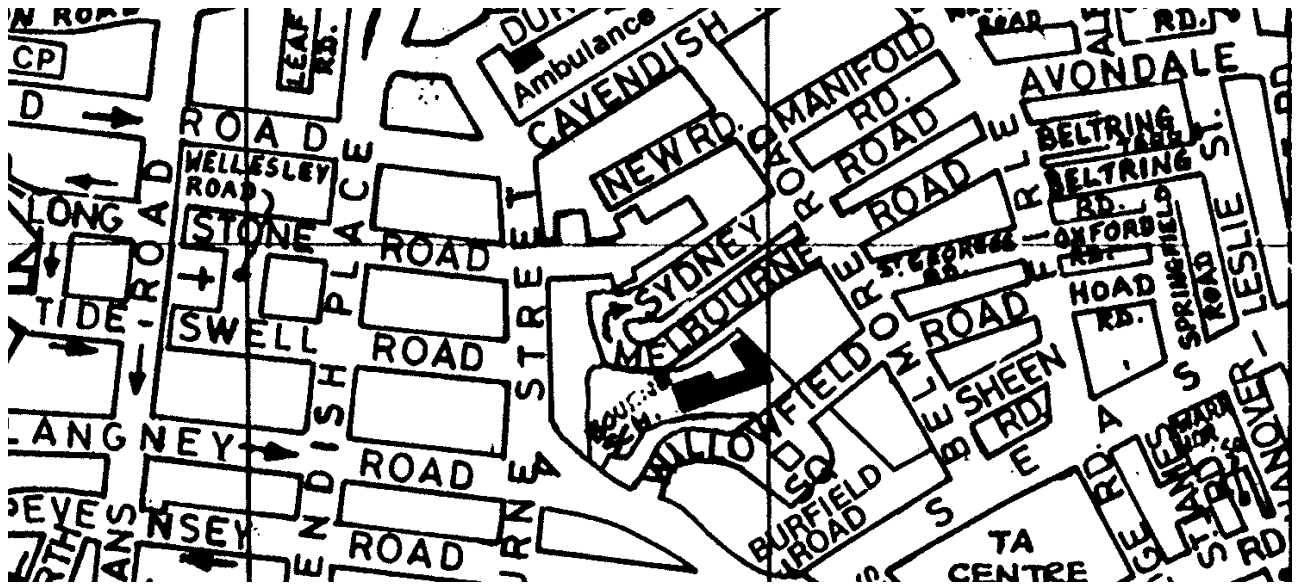
- 7.1 Acquisition of the site at Belmore Road/Longstone Road will require input from the Council's Legal and Estates specialists although much of the preparatory work will be undertaken by EHL. There is sufficient capacity within the current teams to be able to absorb those elements of acquisition that will require Council input.
- 7.2 The managing all construction works will be delivered by the HEDP and EHL, within their existing resources, subject to professional and financial oversight by the Council's Housing Services team. The team currently has the capacity and capability to do this work.

8.0 Legal Implications

- 8.1 The acquisition of properties that have a long history means that careful research is needed to make sure that there no legal matters, such as rights of way or unexpired leases that may impact upon the ability of the Council to make the best use of its acquisitions. The HEDP team, employed by EHL and acting as the Council delivery agent for the Eastbourne 2013-2015 LANB and the SHEP undertakes thorough research into the background to all such purchases, taking legal advice from the Council's Legal Services team.
- 8.2 Purchases are not authorised by the Council's Strategic Housing and Financial Services managers unless all such legal matters have been resolved satisfactorily. This is to avoid the Council being put at risk of investing in properties over which it may not have full control.

Lead officer name: Andy Thompson BA MSc
Job title: Strategic Housing Manager

Appendix A: Location of Belmore Road/Longstone Road Development Site



The red outlined area shows the land currently within the Council's ownership. The area to recommended for purchase is the small irregular plot, adjacent to this site, below the area shown as being owned by the authority.

Appendix B: Financial summary of the expenditure and income assumptions for the Expansion of Eastbourne 2013-2015 LANB

1. Scheme Assumptions

- Allowances for build costs and sales values are based upon the standard assumptions which have been arrived at after recent market research and a review of relevant recent data. These assumptions have been reviewed and agreed by senior officers at both Eastbourne Borough Council (EBC) and Eastbourne Homes Ltd (EHL)
- Build cost allowances have been made after an assessment of current construction prices for new build properties including projected Build Cost Information Service data, input from local cost consultancy practice FFT, discussions with contractors and data from other similar schemes known to the authors of this report
- On-costs, to include project management, planning, legal and employment/training (1%) design to planning have been allowed for at a range of 11% to 14% of the total works and acquisition costs after a review of relevant data as above.
- Rental and sales income figures have been derived from a review and assessment of the local market carried out over the last month. Rental income on the shared ownership properties has been assumed as being 2.75% of the retained equity.
- Allowances for bad debts, service charges, and management costs have been established via consultation with (EHL)
- Allowances for inflation and interest rates have been made following consultation with relevant officers of (EBC) and EHL
- A summary of assumptions and outcomes is available for review from the Council's Strategic Housing Manager

2. Scheme Summary

- Six Shared Ownership Homes: three x 3 bedroom, five person and 3 x 2 bedroom, three person
- Four Market Sale Homes: all 2 bedroom four person
- Fourteen Affordable Rented Homes: three bedroom , five person
- Nine Affordable Rented Homes: two bedroom, three/four person

3. Scheme Finances

- Total scheme cost: £4,758,000 (23 affordable rented homes, four homes for market sale, six homes for shared ownership)
- Sales receipt (four outright sale): £680,000
- Initial sales of 25% equity sale (six shared ownership): £243,750
- Initial annual rental income after costs and deductions (retained 75% equity in six shared ownership properties): £20,100.
- Initial annual rental income (23 affordable rented homes): £169,800
- Repayment (repayment mortgage) in year 40.

This is commensurate with the accepted financing time of forty years for new social housing.