



ADUR & WORTHING
COUNCILS

Joint Strategic Committee
10 July 2018
Agenda Item 13

Key Decision: No

Ward(s) Affected: Shoreham and Lancing

Delivery of new homes through the Housing Revenue Account

Report by the Director for Communities

Executive Summary

1. Purpose

1.1. This report provides Members with an update on the progress on three specific sites which will deliver new Council housing in Adur:

- Albion Street,
- Cecil Norris House and
- 101, North Road Lancing

The report also outlines the 'Hidden Homes' project and makes a request to release funding for further feasibility work.

1.2 The report requests that members of the joint strategic committee recommend to Council the release of the appropriate budgets for the delivery of this important development work to take these schemes forward and set the scene for a future programme of Council house development within Adur.

2. Recommendations

2.1 The Joint Strategic Committee is recommended to:

- i) Release a budget of £2.1m for the development of 14 homes at Albion Street funded by capital receipts;
- ii) **Recommend** to Council to approve a budget of £3.3m (including fees) for the redevelopment of Cecil Norris House
- iii) Approve the release of a budget of £160,000 to fund the conversion of the ground floor of 101 North Road Lancing
- iv) Approve the release of £275,000 to undertake feasibility studies to take forward the development of new homes as part of the 'Hidden Homes' project.

3. Introduction

3.1 The Council has made a firm commitment to the delivery of new homes both within its housing strategy Housing Matters 2017 - 2021 and in our strategic document Platforms for our Places. The aim is to develop new homes to increase the supply of properties available to local people who cannot afford to buy or rent in the market. Properties available to rent provide a critical part of the housing supply in the district and are the foundation for many households to be able to bring up their families and to be able to work and contribute to our communities and the local economy.

3.2 As members will be aware, there is a chronic shortage of such homes in the area and the Housing Register for Adur has approaching 1000 households who are registered in housing need. These households range from single person households to families with 7 children, consequently a full range of one, two, three and four bedroom properties are needed.

3.3 The Council's priority for developing new homes is to focus first on those areas or homes which are no longer fit for purpose or where the Council owns land and buildings on which it can create new accommodation and crucially, social and other value. The main aim is to increase supply rather than move properties from one tenure to another ie buying existing private sector homes and/or ex Right To Buy properties. These purchases have a place to meet specific needs and or to respond to good opportunities to acquire specific properties but on a limited basis as they tend to be more expensive because the land element of the property also has to be funded. In the longer term the

council will also have a focus on maximising the use of its land within the HRA and other opportunities to increase supply.

- 3.4 At present the Council is employing the services of an experienced external development specialist, in order to support the programme implementation, however we are fast approaching the stage where the programme will be of sufficient scale to employ an internal Housing Development Manager to support this work across Adur and Worthing.
- 3.5 The Council has also commissioned some initial advice from one of the leading specialist legal firms Trowers and Hamlin to better understand the wide range of models and approaches being used elsewhere which are successfully delivering new homes in a range of challenging circumstances, for example, where there is a shortage of land, funding or both. This advice will also include guidance on the options for procurement and 'partnering' models.

4.0 The development sites

4.1 Albion Street, Shoreham by Sea

4.1.1 Background and proposal

4.1.2 A condition survey of these homes revealed the need to spend at least £800,000 to bring the properties up to modern standards. This clearly did not present good value for money and ultimately any refurbishment would have been a compromise compared with a new build solution.

4.1.3 The original proposal as set out in the report to JSC in November 2016 was to work with a developer (Albion Street developments) to develop the overall site. The council in return for surrendering a proportion of its land would receive 15 units equivalent to the value of land.

4.1.4 Subsequently, the principle nature of the transaction has changed and the council will now receive a payment of up to £1.6m for the land and will pay an equivalent amount towards the cost of the new homes. Specialist advice from Eversheds Solicitors was sought on the basis for the agreement between the Council and developer.

4.1.5 The Council has commissioned an updated independent valuation of the land and the proposed council-owned development to ensure that the principles of Best Value are met with this approach.

4.1.6 As a result it is now necessary to formally amend the budget to bring in the cost of the new homes.

4.1.7 Consultation and planning

A successful two day public consultation event was held at the Shoreham Centre in April this year with the public and other interested parties attending to view the proposals and provide feedback. This feedback was assessed and amendments made as appropriate. In addition, extensive consultation has been undertaken regarding specific aspects such as highways and parking and several pre-planning sessions have been held with Adur District Council planning officers. The planning application is due to be submitted in July.

4.1.8 Specification and cost plan

4.1.9 Housing and technical services colleagues have worked with consultants to produce the specification for the rented homes and the cost plan to deliver the 15 new council homes, the current plan being for 9 x 1 bed dwellings and 6 x 2 bed dwellings. The aim is to break new ground with exceptional quality and design for council housing and to demonstrate the benefits which can be achieved with a new build scheme for example for; components, heating design, doors windows, energy efficiency etc. This will be a first for including "Smart Technology" enabling ADC to manage its estate using 'artificial intelligence' to provide real time data in order to support the management and maintain of its estate to provide economic service levels on behalf of its tenants.

4.1.10 Procurement

4.1.11 Specialist external legal advice has been sought with regard to procurement. It is proposed that tenders will be sought from an initial list of 5 contractors as agreed between the council and the developer. It is intended that the tender programme will run in parallel to the planning process in order to maximise the time available and move this project to site as quickly as possible.

4.1.12 Specialist consultants, services and fees

The Council has or will need to commission the following professional services:

- Legal fees (advice on procurement, land sale, and unregistered land)
- Development Appraisal

- Employers Agent
- Quantity Surveyor
- Services Engineering consultants
- Clerk of the Works
- Commissioning engineer

4.1.13 Programme and timetable

Planning - current

- Planning application: to be submitted week commencing 25th June 2018
- Decision of planning committee: 14th September 2018
- Judicial Review period: 7th December 2018
- Discharge pre commencement conditions: September - December 2018

Procurement - proposed indicative timetable

- Complete tender documents: August 2018
- Out to tender: August/September 2018
- Tender Returns: September 2018
- Final agreement between ADC and Developer on build costs for affordable units: October 2018

Construction - indicative timetable dependent on successful completion of tender

- Commence building Works on Site: October/November 2018
- Complete Construction - Demolition: December 2018
- Commence New build works: December/January 2018/19
- Complete New Build Works - June/July 2020

Progress on the scheme will be reported via the regular capital monitoring reports and will be overseen by the Head of Housing.

4.1.14 Budget and funding

It is expected that the scheme will cost upwards of £1.6m. The capital receipt for the land of £1.6m will fund most of the cost of the new units. However, until such time as the building works have been tendered for, there is a degree of uncertainty about the final cost and so a contingency sum has been added to ensure that there is sufficient budget in place to enable the scheme to progress.

The cost of this scheme will be funded from capital receipts as follows:

	£'000
Initial scheme estimate	1,600
Contingency sum	500
Total scheme cost	<u>2,100</u>
Funded by:	
Capital receipt from sale of land	1,600
Set aside Right to Buy receipts	500

4.1.15 Members are asked to recommend approval of the budget of £2.1m as set out in the financial section above. As this is a back-to-back land transaction where it is anticipated that the cost will be funded from the land sale the Council will not need to submit a bid for any government funding.

4.1.16 The average cost per dwelling will be between £114,300 and £150,000 dependent on the final cost of the scheme. This development will create a valuable new asset for Adur District council with an expected life of at least 60 years and the provision of brand new homes at this cost represents very good value for money. The additional design elements, such as improved energy efficiency will ensure that residents benefit not only from new, fit for the future properties, but dwellings that are less costly to heat. Given that many of our tenants are vulnerable and in receipt of benefits, this is a significant additional benefit.

4.2 Cecil Norris House, Shoreham by Sea

4.2.1 Background and proposal

4.2.2 This site previously provided sheltered accommodation with shared facilities and was declared not fit for purpose three years ago. As with Albion Street the cost to convert the homes into self contained flats and bring the accommodation up to modern standards would have been prohibitive, technically very difficult and would not have demonstrated good value for money. A firm of 'Guardians' have been in the property which has helped to protect the property, whilst plans have been developed.

4.2.3 It is proposed that the current structure is demolished and replaced with a new building accommodating 15 new one and two bedroom rented homes.

4.2.4 Planning and consultation

4.2.5 Several pre-planning application sessions have been held with the Council's planning team and the proposals are due to be submitted formally for planning in July 2018. Local informal consultation will be undertaken with residents in the immediate neighbourhood area and formal consultation will be undertaken as part of the planning process.

4.2.6 Specification and cost plan

4.2.7 The newly developed specification for rented homes as described above will be used for the new build homes at Cecil Norris House. Cost consultants have assessed the cost of the scheme at £3.3m which includes fees and professional services.

4.2.8 Procurement

4.2.9 Contract

4.2.10 ADC will deliver this project through a “traditional” JCT (Joint Contracts Tribunal) building contract. The costs saved by not paying a design & build contractor a premium for the planning, design development, and procurement risks, will be invested in the quality of the product, to deliver an efficient asset, adding to Adur District Council’s new build stock.

4.2.11 Professional services

4.2.12 As with the Albion Street development, the Council will need a diverse team of professional consultants and service providers to bring this scheme forward.

These include :

- Architects
- Town Planning consultants
- legal (land, planning, funding, procurement, construction, and operational management)
- Cost Consultants, procurement
- Services consultants
- ICT consultants
- Community Engagement specialist
- valuation surveyors
- Highways Consultant
- Development Management
- Construction Design Management consultant

- Project Manager
- Structural engineer

4.2.13 Programme and timetable

Planning - current

- Planning application: week commencing 9th July 2018
- Resolution to Grant : 28th September 2018
- Judicial Review Period: 21st December 2018
- Discharge pre commencement conditions: October - December 2018

Procurement - proposed

- Complete tender documents: August 2018
- Out to tender: August 2018
- Tender Returns: October 2018
- Final agreement between ADC and Developer on build costs for affordable units: October 2018.

Construction - dependent upon successful completion of tender

- Commence building Works on Site: October 2018
- Complete Construction - Demolition: November/December 2018
- Commence New build works: December/January 2018/19
- Complete New Build Works: June/July 2020

4.2.14 Budget and funding

	£'000
Initial scheme estimate	3,300
Funded by:	
Set aside Right to Buy receipts	900
Grant income	227
Use of new development reserve	48
Borrowing	2,035

4.2.15 Members are asked to recommend that the Council approves the budget for the scheme at £3.3m (including associated fees). Early discussions have been held with Homes England about the possibility of funding for the development. Our development lead is meeting with Homes England again for more detailed discussions and will then submit a formal bid once the planning application has been submitted. The Council will also be able to use

a combination of Right To Buy receipts and S106 funding as appropriate. This is set out in more detail in the financial section below.

4.2.16 The scheme will provide 15 new homes, 9 x 2 bedroom dwellings, 4 x 1 bedroom dwellings and 2 x maisonettes. The average cost per home will be £220,000 which includes all the demolition costs, fees and services, construction and consultants costs etc. This development will create a valuable new asset for Adur District Council with an expected life of at least 60 years and the provision of brand new homes, at a cost which represents good value for money. The additional design elements, such as improved energy efficiency will ensure that residents benefit not only from new, fit for the future properties, but dwellings that are less costly to run. Given many of our tenants are vulnerable and in receipt of benefits, this is a significant additional benefit. Additionally these plans which support our ambitions to be a Council that promotes sustainability in all of our projects.

4.3 101, North Road, Lancing

4.3.1 Background and proposals

4.3.2 This building is owned by the Council and is arranged as flats over two storeys with the ground floor having most recently been used as an office for some of the housing team. The team have moved office base to Portland House in order to bring more of our housing services together and to free this space in order to convert it to new rented accommodation.

4.3.3 The Council commissioned architects Crowther Associates to produce a high level feasibility study to identify options available for the site. There are three possibilities subject to planning,

- i) to convert the ground floor to two flats,
- ii) add one or two further storeys to the existing structure to create additional flats and
- iii) add residential accommodation to the car park at the rear.

At present the proposal is to move forward to convert the ground floor into residential accommodation as soon as possible and to consider any further phases in due course as part of a wider development options appraisal.

4.3.4 Planning

4.3.5 Early discussions have been held with the Councils planning service and the proposal is to submit an application as soon as possible.

4.3.6 Budget and funding

	£'000
Initial scheme estimate	160
Funded by:	
Set aside Right to Buy receipts	48
Use of new development reserve	112

4.3.7 The estimated cost to develop two, two bedroom flats is £160,000. This will be funded via the Housing Revenue Account capital programme and RTB receipts.

4.4 The Hidden Homes Project

4.4.1 Background

4.4.2 The Council identified last year that a survey and feasibility study was needed to understand what and where there may be the opportunity to use the Council's own land on held within the Housing Revenue Account (HRA) to develop new homes.

4.4.3 The project commenced with an initial commission for a firm of consultants who had undertaken this work for other housing providers, Baily Garner, to look primarily at garage compounds and some parking areas. 49 sites were identified for a high level assessment. Baily Garner specialise in finding space in unusual areas to develop homes on constrained sites in built up areas, hence the term for this work 'hidden homes'. They have produced a survey report which considered whether development was feasible or not and whether it was potentially viable or not.

4.4.4 Next steps - Although most of the sites present various challenges there is enough scope to recommend that this work was taken further in two work streams. Firstly for more detailed feasibility work to be undertaken on the most deliverable areas and secondly for a detailed review to be undertaken on the garages held within the HRA. This second work stream is assessing each of the garage compounds for the demand for garages in the location, the cost to manage and maintain them and the income they generate.

4.4.5 This report and recommendations will be considered by this committee in October 2018 and will form a partner report to the report on the next phase of the 'Hidden Homes' project.

4.4.6 Budget for feasibility work

	£'000
Initial scheme estimate	275
Funded by:	
Set aside Right to Buy receipts	48
Use of new development reserve	112

4.4.7 Members are asked to recommend to Council funding of £275,000 to undertake this next phase.

4.5 Summary programme and funding

	Number of units	Total Budget	2018/19 £	2019/20 £	2020/21 £	2020/21 £
Albion Street	15	2,100,000	583,300	1,400,000	116,700	
Cecil Norris	15	3,300,000	200,000	1,550,000	1,550,000	
North Road Lancing	2	160,000	160,000			
Hidden homes - feasibility work	Not yet known	275,000	275,000		1,000,000	1,000,000
Total development programme		7,835,000	1,218,300	2,950,000	2,666,700	1,000,000
Buy-back allowance (up to 2 units per unit)		1,080,000	270,000	270,000	270,000	270,000
Total expected programme		8,915,000	1,488,300	3,220,000	2,936,700	1,270,000
Financing:						
Set aside RTB receipts (1-4-1)		2,290,700	383,040	772,550	817,560	317,550
Capital receipt from sale of land		1,600,000	408,310	1,110,000	81,690	
New Development Reserve		160,000	160,000			
Homes England Grant		227,000		227,000		
Borrowing		4,637,300	536,950	1,110,450	2,037,450	952,450
		8,915,000	1,488,300	3,220,000	2,936,700	1,270,000

4.6 Rent strategy

- 4.6.1 As members may already be aware the Council is constrained in its ability to set rents and that some funding stream, e.g. Homes England grant funding can be linked to a requirement to charge a specific type of rent e.g affordable rent.
- 4.6.2 There are several terms in connection with 'rent' which can cause confusion as some are used interchangeably, these are explained in more detail in Appendix 1.
- 4.6.3 For all of these proposed developments the Council will need to carefully consider the options, parameters and restrictions in setting rent and as a consequence the type of rent set may vary between schemes, depending upon specific circumstances, (such as funding streams) relating to that scheme.

5.0 Financial Implications

- 5.1 The Council currently has the following revenue budgets within the capital programme:
- 2018/19 £2,141,810
 - 2019/20 £662,000

These budgets are sufficient to fund the development at Albion Street and North Street, as well as funding the feasibility work of the Hidden Homes initiative and the buy-back allowance. Consequently, approval is sought to release these budgets.

- 5.2 However there is not sufficient funding available for the construction costs of Cecil Norris House, so approval is sought to add this to the programme. Overall the programme is expected to generate sufficient income to recoup all of the debt charges incurred in delivering all the schemes taken as a programme, as illustrated in the table below.

	Borrowing required £	Annual interest costs at 3% £	Annual Maintenance costs £	Total additional costs £	Expected annual rental income (5% voids allowance) £	Net loss / surplus in year 1 £
Albion Street	0	0	22,500	22,500	-70,7800	-48,280
Cecil Norris	2,035,000	61,050	22,500	83,550	-81,640	1,910
North Street	0	0	3,000	3,000	-9,440	-6,440
Total revenue impact		61,050	48,000	109,050	161,8600	-52,810

5.3 Each new scheme will need to be financially appraised on an ongoing basis to ensure that any costs arising can be accommodated within the HRA.

5.4 The Council has several resources at its disposal to fund capital investment requirements. These include:

5.4.1 Set aside receipts from the sale of Council Housing (Right to Buy) - There are two types as follows:

- One for One replacement receipts - The Council had £852,000 at the year end and generates approximately £350,000 per year in new receipts. Up to 30% of any new schemes designed to deliver new affordable units can be funded from this source. 6.5% of any proposed purchase of existing units can be also funded from this source.
- Council share of Right to Buy receipts that can be used for any purpose - The Council has £1.4m as at the 31st March 2018 and generates approximately £320,000 per year. These receipts are generally used to support the Housing Maintenance Programme.

5.4.2 Borrowing - The Council has the freedom to borrow to fund capital expenditure provided that such borrowing remains within a statutory limit (the 'debt cap'). The statutory limit is currently £68,912,000 and the underlying level of borrowing is £60,102,700 which means that the Council can currently borrow up to a maximum of £8.8m.

5.4.3 In addition to the borrowing proposed to take forward the development

scheme, the Council will need to borrow to support the Housing Maintenance Programme. Consequently the ability to support the current programme through borrowing is limited as follows:

	2018/19	2019/20	2020/21	2021/22	2022/23
	£	£	£	£	£
Borrowing Headroom	8,809,300	8,272,350	7,161,900	4,778,050	3,314,600
Less: Planned borrowing for new development and acquisition programme	-536,950	-1,110,450	-2,037,450	-952,450	0
Less: Borrowing planned for Housing Improvement Programme	0	0	-346,400	-511,000	-511,000
Headroom remaining	<u>8,272,350</u>	<u>7,161,900</u>	<u>4,778,050</u>	<u>3,314,600</u>	<u>2,803,600</u>

5.4.4 Members are reminded that there is significant need to invest in the current stock to bring it up to modern standards. The condition survey has identified the need to invest around £30m over the next 5 - 7 years to address maintenance issues. Consequently there is the dilemma of which type of investment to prioritise - new development or maintenance of existing stock.

5.4.5 The government has very recently announced a potential increase to the debt cap for Housing Revenue Account authorities for the purpose of delivering additional homes. The Secretary of State announced on the 26th June 2018 details of how to bid for part of the £1 billion additional borrowing programme which is designed to help local authorities build new council homes.

5.4.6 Local authorities in areas of high affordability pressure will be able to bid for increases in their borrowing caps between 2019-20 and 2021-22. In recognition of the affordability pressures in London, the programme is being split equally between London Boroughs and local authorities outside London.

5.4.7 Adur District Council is in a designated area of 'high affordability' and so will be eligible to bid. The Council will be able to bid for additional affordable units, however certain types of projects would be excluded:

- housing at intermediate rent/ Rent to Buy;
- market housing for sale or rent;
- conversions;
- acquisitions;
- housing that will be owned by a Local Housing Company, joint venture or other type of housing vehicle.

5.4.8 The Council must be in a position to deliver the new units within the prescribed time frame 2019 / 22. Local authorities can bid for:

- i) Additional borrowing headroom only;
- ii) Additional borrowing headroom to be used alongside grant funding from Homes England (subject to the requirements in the Shared Ownership and Affordable Homes Programme 2016-21);
- iii) Additional borrowing headroom to be used alongside their own unspent Right to Buy receipts.

5.4.9 Consequently the Council will be able to bid for both Cecil Norris scheme and potentially the Albion Street scheme (thereby preserving the capital receipt from the land sale to support other projects within the programme).

5.4.10 The Council will need to submit a bid by 7th September 2018.

5.4.11 Members are asked to note that borrowing has implications for the Housing Revenue Account. Each £1m borrowed will cost the HRA £30,000 in interest costs (at 3%) which will have to be funded. However, in the case of the new development and acquisition programme, these costs would be potentially funded by the rental payments made by the tenants.

5.4.12 External funding - The Council has successfully sought funding from Homes England towards the delivery of new homes (£227,000) which will, subject to Homes England approval, be used to fund the delivery of the scheme at Cecil Norris House. Further bids will be made for the Hidden Homes initiative and other projects as they come forward.

5.4.13 HRA Reserves - Whilst the HRA does have access to reserves, the use of these is recommended to be kept to a minimum over the next few years whilst the HRA addresses the issue of falling rent yield due to the Government's rent limitation policy. The rents are due to fall by another 1% in 2019/20 adding further to the financial pressures on the HRA. As set out elsewhere on this agenda, the HRA is dependent on the use of reserves for the next 5 years as follows:

	Budget 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2019/20	Forecast 2020/21
	£'000	£'000	£'000	£'000	£'000
Planned use of reserves	734	1,016	714	395	129
Cumulative use of reserves	734	1,750	2,464	2,829	2,958

6. Legal Implications

- 6.1 Section 8 Housing Act 1985 places a duty on every local Housing Authority to consider housing conditions in their District/Borough and the needs of the District/Borough with respect to the provision of further housing accommodation.
- 6.2 Section 123 Local Government Act 1972 permits the sale of Council owned land but provides that such a disposal must be for a consideration not less than the best that can be reasonably obtained. Consideration is not limited to the money purchase price but may include other elements in the transaction, provided they have a quantifiable commercial or monetary value.
- 6.3 Section 120 Local Government Act 1972 empowers the Council to acquire land by agreement, for the purposes of any of its functions, or the benefit, improvement or development of the area.

Background Papers

JSC 8/11/16 New homes for Adur district - Albion Street redevelopment

Additional Housing Revenue Account Borrowing Programme, Housing Revenue Account Borrowing Programme (2019/20, 2020/21, and 2021/22) - Prospectus for local authorities in England outside London (DCLG)

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Sustainability & Risk Assessment

1. Economic

The proposals set out in the report to deliver additional affordable rented homes will mean that residents of the new homes will be able to be work more easily and be economically active.

2. Social

2.1 Social Value

New affordable housing brings tremendous social value as residents of all incomes can be part of the community. Affordable homes keep families together and bring stability for households to feel settled and belonging to an area.

2.2 Equality Issues

Affordable housing traditionally helps those with less equal life chances and therefore brings a positive benefit for equalities issues..

2.3 Community Safety Issues (Section 17)

It is well known that good quality well designed new homes improve community safety being secured by design and developed to reduce the options for antisocial behaviour and crime.

2.4 Human Rights Issues

New affordable homes help residents to enjoy article 8 'the right to respect for a private and family life, his home and his correspondence'

3. Environmental

New affordable housing brings benefits to the environment due to its much improved energy efficiency eg modern day specifications for insulation, heating systems, windows and doors.

4. Governance

The proposals in this report help the Council to deliver its commitments in the Housing strategy 2017 - 21 and platforms for our Places.

Rent descriptions

- Social rent - usually the most subsidised form of rent which makes it the lowest level rent in an area. Currently the Adur District Council housing stock rents are set at social rent but service charges are collected on top of this 'Limit' rent
- Local Housing Allowance - set by Central Government as the maximum Housing Benefit that can be paid for a type of property/claimant and related to a specific geographical area. The LHA for parts of Adur is the same as that for Brighton and is higher than the rate in the area which is the same as Worthing.
- Affordable rent - 80% of market rent but which must also include charges which would have been collected as a service charge (see social rent). In some cases an affordable rent equals the Local Housing Allowance rate which means it should be accessible to residents on benefits.
- Limit rent - the limit at which Housing benefit subsidy is payable to the Council, whilst the claimant would be eligible for benefit (up to 80% of the Local Housing Allowance), the Housing Revenue Account will not receive benefit subsidy for rent income over this level.