HOUSING COMMITTEE	Agenda Item 36 Brighton & Hove City Council

Subject:		**New Homes for Neighbourhoods – development of new homes on Housing Revenue Account (HRA) land**		
Date of Meeting:		**13 November 2013**		
Report of:		**Geoff Raw, Executive Director, Environment, Development & Housing**		
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Ward(s) affected:		**All**		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

1.1 At its meeting on 26 September 2012, Housing Committee agreed the procurement of initial feasibility and design of identified case studies for housing opportunities on appropriate HRA land, including stakeholder engagement and consultation.

1.2 Following a recommendation from Housing Committee, in March 2013 Policy & Resources Committee authorised that the former Housing Office at Manor Place, Whitehawk and bungalows in the grounds of 243-245 Preston Road be demolished in order to develop new homes, subject to planning consent.

1.3 Since these reports the Estate Regeneration team have commissioned business cases for these sites which look at the financial viability and design feasibility for developing new homes. This report includes the findings of these studies and seeks authority to develop these sites as part of Phase 2 of the New Homes for Neighbourhoods programme.

2. RECOMMENDATIONS:

That Housing Committee:

2.1 Delegates authority to the Executive Director Environment, Development & Housing in consultation with the Executive Director, Finance and Resources to procure and award a contract (or contracts, if appropriate) for demolition works, final feasibility study, design and development of new council housing on the sites of (i) the former Housing Office at Manor Place, Whitehawk, Brighton and (ii) 243-245 Preston Road, Brighton and authorises the Head of Legal to complete the required documentation .

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

Background

3.1 Building new homes on council land is a council priority and essential if City Plan housing targets are to be met and the city's 'housing crisis' tackled. The council's New Homes for Neighbourhoods programme is split into three overlapping phases: Phase 1(garage sites project), Phase 2 (vacant land and infill sites) and Phase 3 (wider estate regeneration). This report focuses on two sites the team wish to progress under Phase 2 of the programme.

3.2 On the recommendation of Housing Committee, Policy & Resources Committee agreed on 21 March 2013 to the demolition of the four vacant and unlettable prefabricated bungalow units in the rear gardens of 243-245 Preston Road, Brighton and the vacant former Housing Office at Manor Place, Brighton at the appropriate time to enable redevelopment of these sites with new housing, subject to planning consent.

Tenure mix and Affordable Rents

3.3 Housing Committee unanimously agreed at its meeting on 6 March 2013 that a range of funding, rent and home ownership options should be provided in new housing to be developed on HRA land under the Estate Regeneration Programme in order to ensure that development is viable and to increase the number of new homes the Estate Regeneration Programme can deliver. The report indicated the level of Affordable Rents and the impact these higher rents would have on the number of homes the HRA could develop.

3.4 Agreement was based on indications from viability studies for Phase 1 of the New Homes for Neighbourhoods programme to develop garage sites. These indicated that the council could build five and a half homes for Affordable Rent to every one home at Target Rent. For example, the assumed revenue surpluses in the medium financial strategy for 2014/15 of £2m (currently identified for debt set aside) would achieve 125 new homes per annum with Affordable Rents compared to 23 homes a year with Target Rents.

3.5 The Committee agreed that mixed tenure options with new funding models and higher rents are required to maximise output from HRA assets. Mixed tenure development complies with the council's Housing Strategy and the draft City Plan requirement that affordable housing provision should incorporate a mix of tenures. New development would also follow the City Plan policy on the proportion of affordable housing within developments and unit size mix.

3.6 Although recognising the need to increase rent levels for new homes and build mixed tenure developments in order to maximise numbers built, members of Housing Committee also expressed concern about the affordability of 'Affordable Rents' if based on 80% of the market rent in Brighton & Hove. However, the council's Tenancy Strategy, also approved at the March 2013 Housing Committee meeting, seeks to make sure that Affordable Rent homes remain affordable and do not encourage long term benefit dependency. It states the council would expect Affordable Rents to be set at the lower of either 80%

market rent level or the Local Housing Allowance (LHA) limit. It was agreed that rent models and tenure mixes for individual schemes would be taken to Housing Committee and that affordable rents should be capped at Local Housing Allowance levels in accordance with the Tenancy Strategy.

3.7 The council's Affordable Housing Brief requires developments of over 10 homes to include 40% affordable housing. Affordable housing is defined as social rented, affordable rented and intermediate housing Generally across the city the Brief's required tenure split for the affordable housing within a development is for 55% of it to be social rented or rented at Affordable Rents and 45% to be intermediate housing. Intermediate housing includes shared equity products such as Help to Buy, other low cost homes for sale and intermediate rent but not including affordable rented housing.

3.8 In order to inform decisions on individual schemes the business cases have looked at a range of tenure options including financial viability modelling for Manor Place to the Affordable Housing Brief based on 40% of properties on a variety of rent levels with 60% market or shared ownership sales. The smaller Preston Road development of only four new homes has been modelled on 50% rented to 50% market sales. Details of the estimated subsidy required if all new homes in the schemes were rented are also provided for comparison.

3.9 Higher rents for new homes will be, to some extent, mitigated by lower fuel bills as homes will be built to higher sustainability standards than our existing stock. Analysis of energy savings related to homes built to sustainability Code level 4 (the minimum for homes planned in the programme) shows that energy bills reduce by between 68% and 86% compared to a traditional home[1]. This means that the average family combined energy bill of around £1500 per year is reduced by between £1020 and £1290 per year. For those on full Housing Benefit this represents additional money in their household budget.

Business Case findings: Manor Place

3.10 The Manor Place Housing Office was vacated when housing staff relocated to the new Whitehawk hub in spring 2012 and is no longer required as office space. This prefabricated building would also need to be demolished to make way for new development on the site. Local ward councillors and Robert Lodge Resident Association confirmed their support for developing new homes on the site which are in keeping with the existing buildings of Robert Lodge and its current resident profile of residents mainly over the age of 55.

3.11 The architects (Feilden Clegg Bradley Studios) have looked at potential for the site and developed proposals for a scheme which has a total of 17 homes with a mix of one and two bedroom flats. The footprint of the current office would not be acceptable for a building above one storey, so the homes are contained within a slimmer building at the Southern end and a new small block at the Northern end of the Robert Lodge neighbourhood garden. They are designed

[1] http://www.sustainablehomes.co.uk/blog/bid/104136/Code-for-Sustainable-Homes-level-4-energy-bill-savings

to have minimal impact on current Robert Lodge residents and the initial design proposals received very positive feedback from residents at the Robert Lodge Resident Association meeting on 1 October 2013. As well as understanding the need for new homes, residents welcomed the design of the scheme which would create a more enclosed and private space for Robert Lodge residents. The new homes will meet the council's standards in terms of size, layout and features such as balconies, and will be built to the Lifetime Homes Standard to ensure they can be adapted as residents become frail or develop disabilities. Two flats will be built to the council's wheelchair accessible standard. There is provision for the Southern building, which has 11 of the 17 homes, to have a lift. This is in line with the feedback from Robert Lodge Resident Association before the business case was commissioned.

3.12 The construction costs for the scheme including contractor's profit and overheads, fees and other development costs are estimated to be £2,342,000. They include a provisional sum for diverting a major sewer which runs under the current office building, which would need Southern Water's approval. Development at this end of the site is subject to obtaining this approval. Scheme development costs could be met from HRA capital budgets or borrowing, but the ultimate costs to the HRA would be reduced by income from rent, proceeds of any sales of the homes developed either outright or as shared ownership, and any other funding which may be available. The level of rents for the new homes and number of properties sold therefore have an impact on the schemes' financial viability, with the gap between the development costs and income from the new homes needing to be met from the HRA budget or other sources such as Homes and Communities Agency grant if this were to become available. The choices made on tenure mix and sales therefore have a direct impact on the council's ability to take forward future schemes. If the 'viability gap' can be minimised or the overall mix of tenure and sales used to generate a surplus, the council will be able to maximise the number of new homes it can build over the lifetime of the programme.

3.13 The business case has modelled a number of different mixes of tenure and rent levels in order to provide a range of options for taking forward this scheme and indicate the likely level of subsidy or surplus. The schemes have been modelled on the following tenure options:

- 100% of homes rented (at various rent levels)
- 60% shared ownership sales and 40% of homes rented
- 60% sales at market value and 40% of homes rented
- 60% market sales and 40% affordable housing split in line with the Affordable Housing Brief, i.e. 55% of the 40% affordable flats are rented and 45% are sold under shared ownership as intermediate housing
- For one bedroom flats, Affordable Rent at 80% current Market Rent works out at £145, below the current LHA Housing Benefit allowance of £150. Market rents have also been included for reference.

Tenure and rent level options	Surplus/viability gap for scheme if developed by the council and all 17 flats (100%) are rented at:	Surplus/viability gap if 10 flats (60%) are shared ownership sales and 7 flats (40%) are rented at:	Surplus/viability gap if 10 flats (60%) are market sales and 7 flats (40%) are rented at:	Surplus/viability gap if follow Affordable Housing Policy and 10 flats (60%) are market sales, 3 (18%) shared ownership and 4 (22%) rented at:
Market Rent	+ £357k			+ £322k
Affordable Rent at the lower of 80% Market Rent or LHA cap	- £821k	- £256k	- £728k	- £201k
60% of Market Rent	- £1.08m			- £254k
Target Rent +5%	- £1.37m			- £386k

3.14 Cost savings and some risk transfer might be achieved if the council were to develop with a commercial development partner rather than develop the scheme itself. For example, a positive return of +£121k has been estimated if the scheme were developed in accordance with the council's Affordable Housing Policy with the four rented flats at Affordable Rent capped at LHA levels through the commercial developer procurement route; or a viability gap of £407k if the partner developed all flats at Affordable Rent. However, the council would have to consider the financing, ownership and management of the scheme and funding any viability gap even if it did not retain ownership. For example, an approved Registered Provider might develop and manage the completed scheme. Up to 12 months may be required to procure a commercial partner through an open tender, especially if the council wanted either to reserve nomination rights or undertake direct management of the completed scheme.

Business Case findings: 243-245 Preston Road

3.15 On Housing Committee's recommendation, the Policy and Resources Committee agreed in July 2012 that the buildings and land at 243-245 Preston Road be appropriated to the HRA. The bungalows were originally identified for leasing to Brighton & Hove Seaside Community Homes, however Housing Committee suggested that the bungalows may be more suitable for redevelopment and only flats in the main buildings were therefore leased. The Seaside leases only cover the individual flats within the main villas and the council retains full rights over all the garden land, including the right to build new homes. The bungalows were used as a site office and staff welfare facility by the contractors refurbishing the main buildings, but all four bungalow units are now vacant. Housing Committee and Policy and Resources Committee agreed in March 2013 that they can be demolished so the land can be redeveloped for new housing.

3.16 The architect's proposal is to provide a development of four, two bedroom houses at the end of the garden of the existing building. The existing bungalows would be demolished allowing more of the garden to be restored to the residents of the villa. The concept design for the homes is an L-shaped mews with bedrooms having sloping roofs on the first floor. They have been designed to have minimal impact on the adjacent properties and in keeping with the Preston Park Conservation Area. The homes will be built to the Lifetimes Homes and the other standards outlined above.

3.17 The construction costs from the scheme including contractor's profit and overheads, fees and other development costs are estimated to be £933,000 on a current costs basis. The same issues as outlined under Manor Place above apply with regards to financial viability.

3.18 The business cases have modelled a number of different mixes of tenure in order to provide a range of options for taking forward this scheme and identify the level of subsidy or surplus. The schemes have been modelled on the following tenure options, based on 100% rented and a 50/50 mix of sales and rented as the scheme contains just four homes. Market rents have also been included for reference.

Tenure and rent level options	Surplus/viability gap for development by the council if 4 houses (100%) are rented at:	Surplus/viability gap if 2 houses (50%) are market sales and 2 houses (50%) are rented at:
Market Rent	+ £44k	+ £57k
Affordable Rent capped at LHA levels	- £328k	-£132k
60% of Market Rent	- £454k	- £185k
Target Rent +5%	- £611k	- £265k

3.19 Cost savings and some risk transfer might be achieved if the council were to consider a developer acquiring the site with an obligation to meet the council's affordable housing requirements. For example, a positive return of +£12k has been estimated if the scheme were developed with two houses at market sale and two at Affordable Rent capped at LHA levels through the developer procurement route. Such a disposal – probably to an approved Registered Provider - would require an obligation on the council both to meet project deficit under some scenarios and to agree long term management of the completed units. The procurement process, timescales and management arrangements would need more detailed analysis if Housing Committee were to agree this as a preferred approach.

Procurement options

3.20 The council need to follow compliant procedures to procure a development partner(s) for these sites under the council's contract standing orders and Public Contract Regulations where EU thresholds are exceeded. If the council develops the homes itself, procurement options include:

- Procuring Registered Providers to develop the schemes as the council's development agent and hand the completed homes back to the council for management (as with the current garage sites project phase 1
- Procuring for individual schemes
- Using an OJEU compliant framework such as the HCA Delivery Partner Panel or local IESE construction framework
- Procuring a new OJEU compliant framework specifically for the Estate Regeneration Programme

3.21 All of these procurement options will require support of separately procured technical and development experts. The procurement options involve significant timescales and will be weighed up in light of the likely scale of the Estate Regeneration Programme from funding available, the options' speed of delivery, value for money and optimum outcome for the council, including wider benefits to the city.

4. COMMUNITY ENGAGEMENT AND CONSULTATION

4.1 As set out in the report to Housing Committee in March 2013, consultation with council tenants and leaseholders on the HRA budget for 2013/14 found substantial resident support for house building with HRA funds, increasing rents for new homes and effective management of council housing assets, including sale of buildings and sites. The Building New Council Homes resident group (BuNCH) received a briefing and were consulted prior to the Housing Committee meeting on 6 March 2013 and expressed their support for the approach set out in the New Homes for Neighbourhoods report for that meeting, including the inclusion of higher rent levels and home ownership options in development in order to deliver a viable and larger development programme.

4.2 In May a presentation on the New Homes for Neighbourhoods programme was given to council tenants and leaseholders at the City Assembly, which also included indicative Affordable Rent levels and the impact those and home ownership options would have on increasing the number of new homes that can be built. No concerns were expressed by residents, who were also encouraged to suggest potential sites. Around twenty residents came to speak to the team and several sites were suggested. An information sheet about the programme was distributed at the Assembly and the same information is also available to all on the New Home for Neighbourhoods page on the council's website.

4.3 The Summer 2013 edition of Homing In carried a piece about the programme and again asked residents to contact the team with any suggestions or queries. Two residents wrote to welcome the plan to build more homes and suggest a potential site.

4.4 As regards the individual sites, local ward councillors and the Robert Lodge Resident Association were consulted at an early stage and have been kept updated about potential development at Manor Place. There is no council tenant and resident association covering the Preston Road site but local ward councillors have been consulted and kept informed of the proposals. The economic regeneration task and finish group of the Neighbourhood Council covering Whitehawk has also been updated about plans for Manor Place. The architects also met with the Chair of Robert Lodge Resident Association and the council's Neighbourhood Co-ordinator to seek their views and local information before starting their work. Feedback has been very supportive of the current proposals for the Manor Place site from the Robert Lodge Resident Association and local ward councillors.

4.5 The team will continue to liaise with the local ward councillors and resident association as the sites progress. Local residents will also be fully consulted as projects are taken forward and have opportunities to be involved as set out in the 6 March 2013 report on the New Homes for Neighbourhoods programme.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

5.1 The current estimated cost of the two schemes is £3.275 million plus future inflation estimated at 2.4% per annum. If the recommendations within this report are agreed by committee, these costs will be incorporated into the HRA capital and revenue budget setting process for 2014/15 and beyond as necessary. However, the ultimate costs to the HRA and the amount of borrowing required will be reduced by income from rent, proceeds of any sales of the homes developed either outright or as shared ownership, and any other funding which may be available such as the use of 'Right to Buy' receipts to cover up to 30% of the cost. The level of rents for the new homes and number of properties sold therefore has a direct impact on the amount of resources that need to be met from the HRA.

5.2 The HRA is currently allowed to borrow up to £158.2 million - the borrowing cap set by government. Current levels of borrowing mean that the HRA still has the headroom to borrow an estimated £28 million subject to affordability of loan repayments and interest. Therefore the HRA does have the required borrowing capacity to undertake these schemes

5.3 Once the final design and development plans are known, there will be a further report to Housing Committee and Policy and Resources Committee to agree the final scheme design, tenure mix, the contribution from the HRA and required level of borrowing

Finance Officer Consulted: Monica Brooks Date: 30/10/13

Legal Implications:

5.4 The procurement legal implications are set out within the body of the report.

Lawyer Consulted Isabella Sidoli: Date: 29/10/13

Equalities Implications:

5.6 An increase in housing supply will increase the opportunity to provide new, well designed homes to local households registered in need. New development and renovation provides an opportunity to better meet the needs of particularly vulnerable households including those, such as existing elderly residents, who may be under occupying their current home.

Sustainability Implications:

5.8 High sustainability standards are important for new homes built by the council and we want to achieve homes that are energy efficient and minimise carbon emissions. New homes should also include features to help support people to live sustainable lifestyles and encourage the development of more sustainable communities.

5.9 The business cases are for homes to be built to Code for Sustainable Homes Level 4 for Manor Place and the higher level 5 for Preston Road as this is defined as a greenfield site. The business cases also support One Planet Living and identify a range of ways in which both schemes can support the 10 One Planet Principles. Suggestions include:

- District Heating study for new buildings and Robert Lodge
- Enriching bio-diversity of the existing garden
- Investigate potential for solar photo voltaic panels
- Herb boxes on balconies
- Look into onsite food waste recycling (using Bokashi micro-organism method)
- Use of local and low impact materials in construction
- Rainwater butts and low water use fittings
- Making links with the existing excellent clubs, associations and facilities at Robert Lodge to enrich social lives

5.12 The costs of these measures will need to be evaluated, but some measures may not need to significantly increase scheme costs and will help new residents to live more sustainable lives.

Crime & Disorder Implications:

5.13 The Estate Regeneration Programme will offer the opportunity to provide new, well-designed homes and link to wider regeneration opportunities, including work to deliver the council’s economic and sustainability objectives. Good urban housing has been shown to influence the rate of crime and disorder and quality of life.

Risk and Opportunity Management Implications:

5.14 There are a number of risks and benefits associated with the estate regeneration programme and a risk log will be maintained to monitor these and ensure contingency plans are in place. Key risks include:

- Social – that schemes do not have long term sustainability e.g. fall into disrepair or anti-social behaviour
- Financial – that schemes are not financially viable or unable to gain sufficient finance to fund them
- Planning – that planning permission is not given or there is a protracted planning process for individual schemes
- Stakeholder – that local communities do not support individual schemes
- Sustainability – that it is difficult to balance sustainability goals with financial viability.

Public Health Implications:

5.15 There are strong links between improving housing, providing new affordable homes and reducing health inequalities. Energy efficient homes which are easier and cheaper to heat will help support the health of households.

Corporate / Citywide Implications:

5.16 Each new unit of housing has potential to generate new income for the council by providing New Homes Bonus. The New Homes Bonus (NHB) is paid by government for each new unit of housing or home brought back into use in the city. This is paid annually for six years and is based on Band C Council Tax (currently £1,339.80) plus an additional £350 for each affordable unit.

5.17 Every new unit of housing in the city is potentially a source of additional Council Tax income for the council. This is potentially affected by the following factors:

- Single persons get a Council Tax discount of 25% (45% of households in the city are single occupancy)
- People in receipt of Council Tax benefit will not pay full Council Tax (7-93% depending on income)

5.19 New Housing has an economic impact in a number of ways:

- HCA analysis shows every £1 spent on construction creates £2.60 in added economic value
- Construction jobs – direct and indirect (one new home gives equivalent of one job for 2-3 years)
- Local supply chain
- Stable housing enables people to get stable work
- Mix of tenure needed for mix of skills in labour market
- Good mixed housing improves ‘place competitiveness’

5.18 Partners will be asked to work with the Local Employment Scheme to ensure that work, apprenticeship and training opportunities are provided for local people. We will also look at how larger schemes can provide employment opportunities for people living on estates included in the Estate Regeneration Programme.

SUPPORTING DOCUMENTATION

Appendices:

1. Feasibility Summary Manor Place
2. Feasibility Summary Preston Road

Documents in Members' Rooms

None

Background Documents

New Homes for Neighbourhoods – Estate Regeneration Programme report to Housing Committee 6 March 2013