

<b>Subject:</b>	<b>New Homes for Neighbourhoods – Kensington Street – Final Scheme Approval</b>		
<b>Date of Meeting:</b>	<b>14 January 2014 – Housing Committee</b> 22 January 2014 – Policy & Resources Committee		
<b>Report of:</b>	<b>Executive Director for Environment, Development &amp; Housing</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Jaine Jolly</b>	<b>Tel:</b> 01273 290356
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<b>Ward(s) affected:</b>	<b>St Peter's &amp; North Laine</b>		

**FOR GENERAL RELEASE****1. SUMMARY AND POLICY CONTEXT:**

- 1.1 Increasing need for affordable housing in the city means that building new homes on council land is a council priority. The delivery of new homes is essential to tackle the city's housing crisis and meet City Plan housing targets.
- 1.2 A key priority identified in the draft Housing Strategy is to increase housing supply; specifically identifying the lack of new affordable rented housing as a key issue for the city.
- 1.3 Housing Committee gave delegated authority in September 2012 to award a contract following the completion of a procurement process for a delivery partner to take forward final feasibility design and development of new council homes to rent on four former garage and parking sites in the city. The Guinness Partnership was selected to take four sites forward including the car parking site at Kensington Street, Brighton.

**2. RECOMMENDATIONS:****That Housing Committee:**

- (i) Agree Option One for the scheme as set out in Table 1
- (ii) Note the design
- (iii) Approve the rent model set at 80% market rent capped at LHA rate
- (iv) Approve the estimated levels of subsidy required from the HRA for the chosen rent model and delegates authority to the Executive Director of Environment, Development and Housing and the Executive Director of Finance and Resources in consultation with the Estate Regeneration Member Board to agree reasonable amendments to that subsidy if changes arise.

(v) Recommend to Policy & Resources Committee that the site is appropriated to the Housing Revenue Account for a capital receipt of up to £225,000 for the development of new housing.

### **3. CONTEXT/ BACKGROUND INFORMATION**

- 3.1 Kensington Street was identified as a potential infill opportunity by consultants in the Housing Revenue Account (HRA) Estate Masterplan and included in the procurement of a development partner along with three other sites. However after the contract was awarded to the Guinness Partnership it has been identified as actually belonging to the General Fund. The site is currently managed as commercial car parking spaces on behalf of the council.
- 3.2 Initial calculations indicate that the loss of rental income to the General Fund will necessitate a capital receipt of up to £225,000 in favour of the General Fund when offset by the combined income from New Homes Bonus and Council Tax associated with the new homes.
- 3.3 The proposal includes 3 parcels of land on a narrow site in the North Laine. The site(s) was originally laid out as a residential street. The west of the street is occupied by Argus Lofts and the surrounding area is a vibrant and lively mixed use area. The active street scene is enlivened by temporary graffiti and mural decorations. The existing graffiti in Kensington Street will be covered by the new development. However, other temporary graffiti canvases in the city are being identified, such as those seen in Elder Place, Brighton.
- 3.4 Kensington Street is a complex site and has needed more time to progress than the other garage sites being taken forward by the Guinness Partnership. The site complexities such as Right to Light mean that build costs are higher than the other sites being taken forward by Guinness. The need to compensate the General Fund has increased the development costs and therefore the subsidy requirement per unit.
- 3.5 Previous marketing of the site for sale has not been successful as another developer would not benefit from local authority powers to overcome Right to Light constraints on the site. Sale of the site to a private developer is therefore unlikely to be financially attractive.
- 3.6 This issue has been considered by the cross party Estate Regeneration Member Board who agreed that the Council is in a unique position to deliver housing on the site due to our contract with the Guinness Partnership. Significant progress has been made using combined Guinness and in-house expertise in order to overcome the site constraints and issues.

## Subsidy Requirements

- 3.7 Table one below sets out the unit build costs and subsidy requirements for each tenure mix option. Since a capital receipt of £225,000 is required in favour of the General Fund this has been incorporated into the financial modelling.
- 3.8 The Members Board asked for the final tenure mix to be considered by Housing Committee. An appraisal of the options is set out in Appendix 1.

**Options table 1**

	Tenure Mix	Affordable Homes	For Sale Homes	Build Cost per affordable unit	Subsidy per unit	Total Subsidy
<b>1</b>	100% Affordable Rent	<b>12</b> (9x 1 bed flats, 2 x2 bed flats and 1 x3 bed house)	<b>0</b>	£147,724	£47,500	£570,000
<b>2</b>	50% Affordable Rent and 50 % Market Sale	<b>6</b> (6 x 1 bed flats)	<b>6</b> (3 x 1 bed flat, 2 x 1b m/ettes and 1 x 2 bed houses)	£133,661	£11,116	£66,700
<b>3</b>	Affordable Rent/ Market Sale	<b>10</b> (9 x 1 bed flats and 1 x 2 bed houses)	<b>1</b> (1 x 3 bed house)	£142,543	£41,964	£419,640
<b>4</b>	Affordable Rent and sale of central plot (planning consent for 1 x 3 bed house or 2 x1 bed m/ettes)	<b>10</b> (9 x 1 bed flats and 1 x 2 bed houses)	Central plot sale	£142,543	£33,000	£333,000

## Tenure and rent levels

- 3.9 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, 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 of higher rents on the number of homes the HRA could develop.
- 3.10 Although Members of Housing Committee recognised the need to increase rent levels for new homes and build mixed tenure developments in order to maximise numbers built, they also expressed concern about the affordability of 'Affordable Rents' if based on 80% of the market rent in Brighton & Hove.
- 3.11 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.
- 3.12 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.
- 3.13 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 the council's 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<sup>1</sup>. 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.
- 3.14 Guinness has now developed detailed designs for the site and undertaken financial viability studies on these designs. Costs for developing smaller sites are generally higher per home than for larger sites due to the loss of scale economies and the need to manage complexities of the site e.g. site abnormalities such as Right to Light, access or ground-works. The costs currently include a risk contingency that reflect these complexities. However, as the site is delivered, it is possible that some of these risks will diminish resulting in reduced overall costs. The council has instructed a Technical Adviser to scrutinise the plans and financial modelling to ensure that the council is obtaining value for money across the life of the project.

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

## Rent Modelling

- 3.15 The table below identifies the rent levels by unit type following HRA subsidy (see 1.5) tracking rental income over 30 years and the deduction of Right to Buy capital receipts to fund 30% of total scheme costs. Rents have been modelled as set out in 3.3 above.

Kensington Street	Rent per week at 80% market rent/LHA rate p/w
Rent per 1 bed flat/maisonette	£151.50 per week
Rent per 2 bed house	£190.57 per week
Rent per 3 bed house	£228.00 per week

- 3.16 The development costs modelled are still subject to consultation and planning approval, and assume that the delivery of the scheme is through the HRA. Thus costs and funding can only be indicative at this stage.

### Development timeline:

Milestone	Target date
Planning	June 2015
Constructor procured	September 2015
Start on site	November 2015
Practical completion	May 2017

## **4 COMMUNITY ENGAGEMENT & CONSULTATION**

- 4.1 Ward councillors have been briefed and provided with updates as the project has progressed.
- 4.2 Subject to Housing Committee agreement, the consultation event will be carried out on 29<sup>th</sup> January at the Jubilee Library between 3 and 7pm.

## **5 CONCLUSION**

- 5.1 The delivery of new homes helps to meet the City's strategic objectives as set out in the Council's Housing Strategy and City Plan. This is an excellent opportunity to provide up to 12 much needed affordable homes to rent in the city centre. The local authority is in a unique position to deliver the site, being able to resolve Right to Light issues that may otherwise prove problematic to a private developer and has a procured partnership with Guinness ready to move the project forward.

## 6. FINANCIAL & OTHER IMPLICATIONS:

### Financial Implications:

- 6.1 The financial viability modelling sets out to show whether a given scheme can pay for itself by using the new rental stream only (net of management and maintenance costs) over 30 years to pay for the principal and interest on the borrowing required to fund the development. It also assumes that 30% of the development costs of the affordable housing element are met from retained Right to Buy (RTB) Receipts. If the rental stream and RTB receipts are insufficient to meet the costs, then a subsidy is required by the HRA.
- 6.2 The four options which are set out in table 1 in the main body of this report have been modelled by the Guinness Partnership showing the estimated HRA subsidy requirement for each option. The subsidy requirement ranges between £66,700 (£11,116 per affordable unit) to £570,000 (£47,500) per affordable unit).
- 6.3 The HRA Capital Programme 2015-2018 includes a budget estimate of £2.5 million for Kensington Street as part of the garage sites total budget. This currently assumes that all units are affordable with 30% funding from retained RTB receipts and 70% funding through borrowing. (the highest level of subsidy option 1).
- 6.4 If a decision is made to choose one of the options 2 – 4 this will require an adjustment to the capital programme funding assumptions in the financial year 2016/17, not affecting budget and funding approvals for 2015/16.

*Finance Officer Consulted: Susie Allen*

*Date: 11 December 2014*

### Legal Implications:

- 6.5 The Council has the power under Section 19(1) of the Housing Act 1985 to appropriate any land for the time being vested in it for the purposes of Part II of the Housing Act 1985 (Provision of housing accommodation). Section 19(1) provides that the Council will have the same powers in relation to land appropriated into the HRA as it has in relation to land acquired by the Council for HRA purposes. Once the land is appropriated the Council will therefore have the power to build housing for sale on the sites.
- 6.6 Any neighbouring property benefitting from rights over the land (including rights to light) following appropriation will no longer be able to enforce their rights by way of an injunction against the Council to stop them building. Instead, the owner of the benefitting land will only be entitled to compensation which, in the absence of agreement by negotiation, will be set by the courts.

- 6.7 With regard to funding the possible development of housing for sale through the HRA, expenditure in respect of HRA land which is capital expenditure and which the Council has decided should be charged through a revenue account falls to be debited from the HRA pursuant to Schedule 4, Part II of the Local Government and Housing Act 1989.
- 6.8 With regard to the disposal of any market sale properties once built, disposals of HRA property out of the Council's ownership require consent under Section 32 of the 1985 Act. The current general consents are contained in the General Housing Consents 2013, issued in March 2013. General consent A3.1.1 allows a local authority to dispose of land (which could include houses and flats) at market value. Disposals of tenanted properties (other than to another local authority) and disposals to a body in which the local authority owns an interest (other than where the local authority has no HRA or in the case of the first 5 disposals in any financial year) are not covered by this consent but this should not apply to the Council's proposals here. The Council therefore has the power, subject to Secretary of State consent, to dispose of any HRA properties which it develops for market sale and under the current Section 32 general consents it should be able to rely upon General Consent A3.1.1.

*Lawyer Consulted Oliver Asha*

*Date: 09/12/14*

Equalities Implications:

- 6.9 An increase in housing supply will extend opportunities to provide new, well designed homes to local households registered in need. New development provides an opportunity to better meet the needs of particularly vulnerable households including those, such as existing elderly residents, who may be under occupying a home that no longer meets their changing needs.
- 6.10 At least 10% of homes in the New Homes for Neighbourhoods programme to wheelchair standard will meet the needs of residents with mobility needs and wheelchair users. One flat proposed for Kensington Street is designed for wheelchair users and it is anticipated that the flat will be allocated with sufficient time before scheme completion for the flat to be fitted out to meet the new tenants' exact requirements before they move in.
- 6.11 The design of the new properties are laid out to conform with HQI and Lifetime Homes Standards, however the upside down plan of the upper level of the maisonette units will require a waiver on the Lifetime Homes recommended standard. This layout, without which development would not be possible, is necessary because of constrained site conditions. An Equalities Impact Assessment has been carried out for the New Homes for Neighbourhoods programme.

Sustainability Implications:

- 6.12 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 will also include features to help support people to live sustainable lifestyles and encourage the development of more sustainable communities.

6.13 The designs are for homes to be built to Code for Sustainable Homes Level 4 which includes high sustainability and energy efficiency standards. The architects have also looked at ways that One Planet Living can be supported and an allowance for that has been included in the estimated scheme construction costs.

Crime & Disorder Implications:

6.14 The New Homes for Neighbourhoods Estate Regeneration Programme offers 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. New developments are designed to Secure by Design principles to minimise risk of crime.

6.15 Infill sites are places that can attract anti-social behaviour and fly-tipping. Development of these sites can therefore improve neighbourhoods and reduce crime and the fear of crime.

Public Health Implications:

6.16 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:

6.17 The Guinness Partnership is committed to working with the Local Employment Scheme to ensure that work, apprenticeship and training opportunities are provided as part of the development of this site in conjunction with the former garage sites at Flint Close, Foredown Road and Flint Close. This will result in one apprenticeship being offered across the sites.

6.18 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 plus an additional £350 for each affordable unit.

6.19 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 Council Tax discount
- People in receipt of Council Tax benefit

6.20 New housing has an economic impact in a number of ways:

- Homes and Communities Agency analysis estimated 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'

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Options Appraisal
2. Risks and benefits appraisal
3. Site Briefing Note

### **Documents in Members' Rooms**

None

### **Background Documents**

None

## Appendix 1

### Options Appraisal

There are 4 tenure mix options to be considered. The benefits and issues are outlined below:

Option	Benefits	Issues
1	<p>All homes in Council ownership for affordable rent</p> <p>Meets Housing Strategy objectives to increase housing supply of affordable homes</p> <p>Supports City Plan targets to provide 10,000 new homes by 2030</p>	<p>Higher subsidy levels to achieve capital receipt required by General Fund</p>
2	<p>Capital receipt achieved for General fund and additional receipt to lower subsidy requirement on affordable rented homes</p> <p>Mixed tenure development</p> <p>Supports City Plan targets to provide 10,000 new homes by 2030</p>	<p>Loss of 6 affordable rented homes</p> <p>Risk of not being able to develop one or more of the sites resulting in reduction of capital receipt or affordable homes.</p>
3	<p>Provides partial receipt to meet acquisition costs</p> <p>Provides lower per unit subsidy costs</p> <p>Provides one family house for sale with integral parking</p> <p>Mixed tenure development</p> <p>Supports City Plan targets to provide 10,000 new homes by 2030</p>	<p>Loss of 2 affordable rented homes</p> <p>Integral parking does not encourage sustainable lifestyles/One Planet Living approaches</p>

<p><b>4</b></p>	<p>Provides partial receipt to meet acquisition costs</p> <p>Provides planning consent for one family home.</p> <p>Potential to achieve higher market value for the unit</p> <p>Mixed tenure development</p> <p>Supports City Plan targets to provide 10,000 new homes by 2030</p>	<p>Loss of 2 affordable rented homes</p> <p>Risk that consent is not attractive to the market/price expectations are not met</p>
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## Appendix 2

### Risk and Opportunity Management Implications:

There are a number of risks and benefits associated with the Estate Regeneration Programme and a risk log is maintained to monitor these and ensure mitigation measures and contingency plans are in place. Key risks for Kensington Street include:

<b>Risk</b>	<b>Mitigation</b>
<b>Financial risk</b> Increasing costs due to construction inflation	<ul style="list-style-type: none"> <li>Guinness Trust has been appointed as a developing agent for the Council; in turn they will appoint a constructor as a fixed price contract ensuring costs from the outset.</li> </ul>
<b>Financial risk</b> If market sale units/plots are not of interest to the market	<ul style="list-style-type: none"> <li>Market research undertaken by Guinness Trust suggests there would be significant interest in the plots or homes</li> <li>Marketing expertise would be procured at an early stage to minimise marketing risk for any sales units</li> </ul>
<b>Planning risk</b> Planning permission is not achieved for the sites	<ul style="list-style-type: none"> <li>Planning have been consulted from an early stage in the development of the council's proposals</li> <li>Workshops held with Planning as initial and final design developed</li> </ul>
<b>Community risk</b> Scheme is not supported by local community	<ul style="list-style-type: none"> <li>New Homes for Neighbourhoods programme is committed to early consultation with residents and other stakeholders</li> <li>Ward councillors have been informed about proposals</li> </ul>
<b>Community Risk</b> Loss of graffiti results in opposition and delay to development of the site	<ul style="list-style-type: none"> <li>The Estate Regeneration Team is investigating opportunities for alternative community art projects in the city centre area.</li> </ul>
<b>Legal Risk</b> Council does not have sufficient powers to develop for market sales and make a surplus (if chosen)	<ul style="list-style-type: none"> <li>Legal advice has confirmed that the council is able to develop for market sale and consent for disposal is covered under general consents</li> </ul>
<b>Logistics</b> Lead in times for bricks and other materials result in a delay to Start on Site resulting in an uplift in construction costs	<ul style="list-style-type: none"> <li>Planning and phasing of project to minimise risk</li> <li>Check as part of procurement</li> </ul>

<p><b>Construction</b> Site constraints result in lower number of units and/or delay in construction</p>	<ul style="list-style-type: none"><li>• Early and ongoing involvement of the chosen contractor to find construction solutions for the site</li></ul>
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