

Subject: HOUSING INVESTMENT 2012-2020: STRATEGY & IMPLEMENTATION PLAN

Date of Meeting: 26 September 2012

Report of: Strategic Director, Place

Contact Officers: Name: Jugal Sharma Tel: 29-1095 / 1757

E-mail: jugal.sharma@brighton-hove.gov.uk

Wards Affected: All

FOR GENERAL RELEASE

1. SUMMARY:

Delivering decent, affordable housing to meet local demand is a corporate priority and addresses a range of social needs, budgetary imperatives, economic and environmental choices facing the Council and city as a whole. Current market conditions and changes to government grant subsidy mean old funding and delivery models no longer work. New funding models and delivery solutions are needed and this requires the Council and local communities to navigate a new landscape of options. In June 2012 the Council hosted a Housing Summit to increase the understanding and awareness of the new funding landscape. This report presents a funding and delivery strategy for the development of new and improved affordable housing on Council owned Housing Revenue Account (HRA) land with funding and development choices (including viability considerations) being made at a local level reflecting stakeholder requirements. This report also sets out proposals for community consultation for affordable housing development on specific 'garage sites' identified on HRA land.

Engaging local ward Councillors, tenants, leaseholders, other residents and local stakeholders in development options, scheme design, project governance and delivery will be essential to the success of the initiative and will be the subject of future reports to Housing Committee.

2. RECOMMENDATIONS:

That Housing Committee agree to:

- 2.1. the procurement of a delivery partner to take forward final feasibility, design and development of new council homes on vacant garage sites in consultation with stakeholders, utilising a range of housing options based on Low Cost Home ownership, Affordable Rents, and Target Rents.

Once full schemes are developed they will be reported to Housing Committee.

- 2.2. the procurement of initial feasibility and design, on identified case studies for housing opportunities on HRA land, where appropriate at an estimated cost, including stakeholder engagement and consultation of £1 million.
- 2.3 Note the current timetable for the development of the garage sites in paragraph 4.20 and for development of feasibility studies in paragraph 4.27.

3. POLICY CONTEXT

- 3.1. Our Corporate Plan identifies affordable housing as a priority and delivery of this priority is reflected in a number of key documents:

Housing Strategy

- 3.2 Retaining our Council housing stock is a cornerstone of our city-wide Housing Strategy and commits us to making best use of HRA assets, building new council homes and increasing housing supply in order to address the shortage of affordable housing in the city. Consistent with corporate accommodation requirements, we also seek to free up poorly used residential accommodation and reduce social care costs, which many national commentators are predicting to escalate dramatically in the future.
- 3.3 Our existing projections identify:
 - The City needs an additional 3,759 affordable dwellings by 2030;
 - Intense pressure on housing to meet the needs of vulnerable adults and children;
 - High property prices and low incomes;
 - Small social rented sector, large private rented sector;
 - High proportion of people who have housing & support needs;
 - Rising homelessness.

Housing Investment Programme

- 3.4 Investment has already been identified for over 500 new affordable homes under the existing 2011-14 Affordable Housing Investment Programme in partnership with Registered Providers and the Homes and Communities Agency (HCA). Over 400 of these new affordable homes are currently in development on sites across the City.

City Plan

- 3.5 Our draft City Plan sets a local housing target for the city to 2030 of 11,300 new homes. It also identifies the broad locations, scale and types of development needed together with the supporting infrastructure; sets clear policies on issues such as affordable housing provision, the protection of open space and ensuring new development is built to high standards of design and sustainability.

Commissioning Plans

- 3.6 This work has been commissioned against the key Corporate & Housing Commissioning priorities:
- Improving housing supply to ensure that the City has the type of housing to meet the needs of residents. This includes identifying opportunities to improve and develop deprived neighbourhoods;
 - Improving housing quality to ensure that residents are able to live in decent homes suitable for their needs;
 - Improving housing support to ensure that residents are supported to maintain and increase their independence;
 - Contributing to the wider city agenda of reducing worklessness, improving community cohesion, reducing anti social behaviour and reducing inequality;
 - Meeting wider strategic accommodation needs such as those relating to vulnerable adults and children to whom the council owes an accommodation duty such as extra care housing for older people.

4. FUNDING OPTIONS, DELIVERY STRATEGY & IMPLEMENTATION PLAN

- 4.1 As highlighted in the Housing Summit the funding landscape has changed. Development surpluses generated from homes built for sale and used to cross subsidise, via planning obligations, the provision of affordable housing are squeezed. This reflects a major shrinkage in the mortgage market as bank lending has reduced and buyers are generally required to invest more significant amounts of their own equity. In addition, government Social Housing Grant is no longer available and Registered Providers are expected to combine available funding with any balance sheet surpluses to provide affordable housing for rent at no less than 80% of the market level capped at LHA rates. To instigate the supply of more affordable housing means the council exploring innovative funding options. Over the last year the council has been working with a number of agencies, including dedicated support from the HCA, to develop the opportunities. Broadly these fall into three categories with potential for permutations:

HRA Self Financing Option

- 4.2 The HRA Self Financing is detailed in the Localism Act was introduced in April 2012. The implications of self financing were detailed in the HRA Budget report to Cabinet on 9 February 2012. In summary, government has abolished the subsidy system and, for a one off settlement, local authorities now retain their rent receipts and manage their finances from within their own income. For Brighton and Hove after a one off settlement payment of £18m to central government, the council will be retaining an estimated £3.9m surplus for 2012/13 over and above management and maintenance costs. The annual surpluses would support future investment in existing stock and enable the council to fund a development programme over the next few years .

- 4.3 Whilst £3.9m may seem like a large capital sum it will only generate some circa 50 -90 new homes, per annum assuming rents are charged at current council levels. The downside of this approach therefore is that the supply (quantum and pace) of fundable homes and the capacity to place-make will be significantly constrained by the size of capital programme. The upside is that the cost and risk of funding is likely to be very low. The base model assumes all homes built remain in the HRA albeit there is scope for other permutations including the council building homes for sale, shared ownership or other financial arrangement. In 'clienting' development, the Council has options on managing the development process itself or procuring a development partner from the private and social sectors.

Registered Provider (RP), Co-operatives & Charitable Vehicle Provider Funding Option

- 4.4 RPs, Co-operatives and Charitable Vehicle Providers in the city have indicated that they would be willing to work in close partnership with the council where appropriate and supported. Whilst some may be willing and capable of acting solely in a development capacity, the funding option likely to be attractive is where they take ownership of the new homes financed and/or built by them.
- 4.5 Depending on specific site development viability, this may produce a capital receipt for the Council on a sale or leasehold arrangement. RPs in particular are likely to be better structured, experienced and staffed to manage development risk than the local authority. It may also be possible to expand the funding capacity of the development programme and thus the volume of new homes supplied. Such an arrangement, however, may involve ownership, rents, service charges, management and maintenance being held and primarily determined by the Provider. That said some Providers may be open to negotiating the principle and detail of this including Council led nomination to new tenancies.

Private Sector Funded Options

- 4.6 A range of private sector funding options are emerging and the council is already utilising private bank funding from Santander in the establishment of Brighton & Hove Seaside & Community Homes (BHSCH). Perhaps the most significant change has been the interest of Institutional investors, including pension companies and finance houses in providing development finance in return for guaranteed (i.e. the council underwrites) and inflation indexed (i.e. Retail Price Index) loans at market interest rates. The market interest rate will reflect that banks and institutional investors are seeking to invest relatively large sums in safe places against the backdrop of stock market and business uncertainty and council guaranteed borrowing is regarded by them as low risk. However, the council takes finance risk and has to satisfy complex accounting arrangements under International Financial Reporting Standards to ensure any transaction is properly reflected in the final accounts. Additionally some major development companies are seeking to create tailored packages of finance and development delivery with local authorities. These may include price negotiated permutations

related to housing ownership, leaseback deals, management, maintenance, rent levels and nomination rights.

- 4.7 The upside to these arrangements is that it potentially creates a much bigger development and place making funding pot and programme and, depending on arrangements, may enable the local authority to avoid development risk. The downside is that the lending rate and indexation will be at a higher cost than through self financing and prudential borrowing.
- 4.8 Council borrowing counts towards government borrowing which the Treasury may seek to restrict in the future so a further consideration, is to structure private sector funding options off the council's balance sheet as happened with the creation of BHSC. This is to guard against any future proposals that emerge from HM Treasury to restrict council borrowing.
- 4.9 At this stage it is recommended that all funding options are kept under consideration until clarity emerges on the scale of a development programme.

DELIVERY STRATEGY

- 4.10 Working with local communities, tenant and leasehold representatives, together with partner agencies, the council has a strong track record in devising innovative housing solutions. It is recognised that the best solutions emerge where council officers provide an enabling role bringing options and potential partners to the table. It is also accepted that a 'one size fits all' solution may not be appropriate for all potential development sites across the city. Rather funding, development, ownership and management, amongst other factors, may need to be tailored to specific localities and situations. Thus it is recommended that the council's delivery strategy reflects a 'localism' and 'neighbourhood' approach with development options being tailored to the specific circumstances of each site, the preferences of the local community and the support of ward councillors.
- 4.11 In adopting this approach, the Committee will need to acknowledge that the choice to take forward affordable housing opportunities will be subject to constraints and compromise. For example, not all affordable housing aspirations will achieve development viability. There will inevitably be trade offs to be agreed on the volume of supply against the affordability of accommodation. Funding and development risk comes at a cost to those who carry it. The complexity of options chosen and the extent of consultation will have a bearing on the delivery timetable. These considerations will need to be clearly communicated, appraised and quantified in order to manage expectations and determine which if any route can be taken forward on each identified development site.

IMPLEMENTATION PLAN

Vacant Garage Sites

- 4.12 Cabinet approved £0.675m during 2011/12 for preparing (initial feasibility, design and demolition) vacant council owned (HRA) garage sites for housing development, securing £0.440m of funding from the HCA. Site preparation and initial feasibility studies have now been undertaken. The 2012/13 HRA Capital budget includes £1m for building costs for these new council homes with an additional £4.315m in the provisional 2013/14 programme with funding availability occurring once full schemes have been developed and reported to Cabinet. The former garage sites are:
- Foredown Road, off Easthill Drive, Portslade
 - Flint Close (south side), Portslade
 - Mountfields off Hinton Close, Hollingdean
 - Natal Road, Off Lewes Road, Brighton
 - Hardwick Road, off Harmsworth Crescent, Hangleton
 - Rotherfield Crescent, Hollingbury
 - Plumpton Road, Queens Park
 - 4-7 Kensington Street & 15-20 Kensington Street land, Brighton
- 4.13 The next stage of the project is to move to consultation on the development phase, financial feasibility and the appointment of a delivery agent. Currently initial feasibility, design and site preparation work has been completed including details on future procurement and funding options to deliver new council homes. As indicated earlier in the report financial feasibility is subject to a number of variables which can be modelled to achieve different permutations of outcome including the volume of homes created, subsidy required, rental level, tenure split and size of dwelling.
- 4.14 A baseline feasibility appraisal found that up to 29 homes can be delivered with a total scheme cost of £4.471m. The funding of scheme costs can be achieved through a variety of methods including use of HRA reserves (surpluses), capital receipts (such as Right To Buy) and prudential borrowing financed from the net revenue surpluses from the new homes.
- 4.15 Based on current target rents (from the government rent restructuring formula), £1.918m of borrowing could be financed from the net revenue surpluses of the new homes with the remaining £2,552m requiring a subsidy from the rest of the housing stock through the use of reserves. This equates to a subsidy of circa £88,000 per home excluding any retained Right to Buy receipts that can be used to fund new build.
- 4.16 This level of subsidy may be considered high compared to that required by government and HCA of RPs. Hence alternative options have been modelled. To reduce the level of subsidy, a proportion of the properties built would need to be allocated for low cost homeownership and or affordable rents based on the government's 80% of market rent (inclusive of service charges) rule used by the HCA. This could reduce the subsidy to £0.460m equating to a subsidy of £16,000 per property which may reduce to zero depending on the value of the retained Right to Buy receipts that can be used to fund new build .

4.17 In addition, development costs (and thus subsidy) may be further reduced by seeking economies of scale and placing all schemes under an umbrella development management arrangement. Lessons are being drawn from the experience of council led development of Ainsworth House and the capacity of the council to effectively client and manage development. Detailed options and recommendations on how best to client and manage the development process will be reported back to Housing Committee once further feasibility and consultation has taken place.

4.18 Importantly the feasibility work undertaken to date shows that all of the sites are capable of being developed albeit there are different risks associated with each site. Thus it is proposed that scheme designs and planning applications are prepared. A critical part of this process is to actively engage and consult local residents in the design and funding options.

4.19 Alternative options include:

- Do Nothing: This option would not meet council priorities to deliver more affordable homes. In addition the sites have been cleared with Homes and Community Agency funding with the expectation that development proposals are worked up.
- Dispose of the sites on the Open Market: These sites are currently without Planning Permission (with the exception of Kensington Street) and would have very little value on the open market.
- Dispose of the sites to a Housing Association on the condition the sites are developed out as 100% affordable housing: Members have expressed aspirations that new housing developments are council led.

4.20 The schedule below sets out the steps and timeframe for taking the garage site scheme development forward. Some of the tasks can be manage concurrently.

	Task	Time
1.	The procurement and appointment of a development agent	Dec 2012 3 months
2.	Detailed feasibility including searches and investigations A financial viability test to include borrowing capacity , subsidy , availability and tenure mix	June 2013 6 months
3.	Consultation with internal stakeholders	August 2013 2 months
4.	Community consultation process, involving local councillors and residents	December 2013 4 months
5.	Planning Application Preparation and Assessment	April 2014 4 months
6.	Planning	July 2014 3 months
7.	On site construction	July

		2015 12 months
--	--	-------------------

Other HRA opportunities

- 4.21 Further phases are being developed for consultation drawing on the work undertaken by CB Richard Ellis consultants (CBRE) who in 2010 provided a high level view of new opportunities on HRA land. CBRE developed an estates master plan database, including an initial high level review and some initial case studies to inform best use of HRA assets and enable Members of the Committee, in the first instance, to have an informed discussion about future HRA investment choices and opportunities. In all, development sites with potential for over 800 new homes were identified. Of this number 212 were identified as being developed within 1-3 years, 315 were identified as being developed within 3-7 years and 296 have been identified as being developed in 7+ years.
- 4.22 Building on from the CBRE feasibility work and as presented at the June Housing Summit GVA consulting were commissioned to refresh the original CBRE work on estate regeneration and development. In order to test viability further detailed feasibility modelling is required as outlined in the indicative time table at paragraph 4.26
- 4.23 Future opportunities for housing development need to be considered within the various funding options but also within the context of the HRA 30 year Business Plan and investment within the existing stock. For example spending priorities need to be assessed and agreed for:
- The level of future investment in existing stock. For example, the standard of future decent homes works, sustainable and environmental works. In addition, there are a number of capital budgets which are discretionary such as estate improvements, extensions etc.
 - Those opportunities for increasing the 'asset and social' value of existing homes. Some homes may have low net present values which could be increased through short term investment, which would increase the potential revenue surpluses from these properties in the future..
 - Opportunities for increasing housing supply.
- 4.24 The 2010 feasibility work is being updated to reflect the current position in order to identify all future opportunities. However, it is proposed that in the meantime, to procure initial feasibility and design for the case studies identified by CBRE & GVA , including stakeholder engagement and consultation at an estimated cost of £1.m.
- 4.25 It should be noted that the estimated costs are for initial feasibility and design and that those schemes, then taken forward for final feasibility and planning can cost between £0.200m - £1m per scheme depending on the scheme design and complexity.
- 4.26 The indicative timetable below details the sequence of steps from detailed feasibility, scheme consultation and agree design, to planning

permission and including stakeholder consultation. The indicative time line is a maximum development period which will be affected by the scale and number of developments that are taken forward.

4.27 Potential Development Sites Specification

Specification	Time frame
Strategic Plan Assemble Team	1-3 month September 2012 In hand
Update Masterplan including Net Present Values	1 month October 2012
Assess results & Identify estates with development potential-	1 month November 2012
Carry out detailed feasibility	6 months May 2013
Carry out internal consultation	2 months July 2013
Review with stakeholders	4 months November 2013
Masterplan Framework	3 months – February 2014
Appoint Development Agent	3 months May 2014
Interim Planning Guidance	6 months (November 2014)
Outline Planning Application	6 month - small schemes May 2015) 14 months - large schemes January 2016
Prepare Planning Applications, Submit, Approval	4 months September 2016
Commence Build	12 months September 2017

* Small scheme up to 50 units

Governance & Delivery

4.28 The project will be overseen by the Strategic Director of Place and, subject to consultation, will be led by a head of regeneration working in conjunction with heads of housing, property and planning.

4.29 Working in an enabling capacity, the regeneration initiative has been offered the dedicated support of the HCA who are supporting local authorities regardless of ownership, development and management of affordable housing. The project team has been supported by relevant specialists at points throughout the initial feasibility stages who will continue to be needed in the project stages detailed below.

Resource	Project Stages
Programme manager	Throughout
Programme support officer	Throughout
Financial viability –analyst Housing Finance	At points during the following periods of work Development Options Appraisal Post consultation periods
Neighbourhood officers	Consultation phase
Development officer	Throughout
Consultant- architect /quantity surveyor/viability consultant/structural engineer	Feasibility Options development Options appraisal Some element of the consultation periods Some elements of the planning requirements

5. CONSULTATION

- 5.1 This report follows from the June 12 Housing Summit which initiated stakeholder engagement in understanding funding options and viability constraints. The summit highlighted the importance of making informed choices about new affordable housing development particularly on sites where current council maintenance and capital costs are not keeping pace with rental income. It is essential stakeholders are provided with the necessary information to make informed choices about development in their locality.
- 5.2 Our approach will be to engage with local ward Councillors, tenants, leaseholders, other residents and local stakeholders at key points in the process ensuring that local choice is at the heart of any decision making enabling development to take place where this is desired.

6. FINANCIAL & OTHER IMPLICATIONS:

6.1 Financial Implications:

- 6.2 The estimated costs of £1 million to take forward detailed feasibility, design and consultation work for housing opportunities on HRA land will be included in the Month 5, Targeted Budget Monitoring report to Policy & Resources on 11 October 2012 and funded from HRA usable reserves.

- 6.3 The 2012/13 HRA Capital budget includes £1.000 million for building costs for new council homes with an additional £4.315 million in the provisional 2013/14 programme. Once detailed feasibility, design and consultation work has been completed these schemes and their proposed funding arrangements will be reported to Housing Committee and Policy and Resources Committee.
- 6.4 The capital programme budget strategy for 2013 – 2016 will include future provision for final feasibilities, design and build of identified case studies as detailed in paragraph 4.25, where appropriate.

Finance Officer Consulted: Sue Chapman
2012

Date: 11 September

6.2 Legal Implications:

The development proposals in the report are within the council's powers. Section 9 of the Housing Act 1985 empowers local housing authorities to provide housing accommodation on HRA land. Actions incidental to the provision of new housing, such as applications for planning consent, also have statutory backing. Under the council's constitution, the Housing Committee is authorised to exercise the council's powers as a housing authority.

At this stage, it is clear that no individuals Human Rights Act rights will be adversely affected. However, any future on site development will need to take account of the right to peaceful enjoyment and the right to respect for private and family life.

Lawyer Consulted: LizWoodley
2012

Date:17 September

Equalities Implications:

- 6.3 An increase in housing supply will increase the opportunity provide new, well designed homes to local households registered in need.
- 6.4 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 homes.
- 6.4 Across the housing portfolio 10% of all new housing will include accommodation designed for households with a disability increasing the visibility and inclusion of such households.

Sustainability Implications:

- 6.5 Newly built homes will be designed to achieve Life Time Homes space standards and Code for Sustainable Homes Level 4 as a minimum and Level 6 where practical and feasible.

Crime & Disorder Implications:

- 6.6 Redevelopment and regeneration affords an opportunity to address a range of housing and housing related factors that may contribute to crime and disorder. Good architectural and urban design can contribute to more safer homes and neighbourhoods.

Risk and Opportunity Management Implications:

- 6.7 Development risks and opportunities will continue to be assessed and amended throughout the life of the project and adjusted in line with internal and external factors which emerge including those arising from consultation.

Corporate / Citywide Implications:

- 6.8 The city will benefit from additional housing units and assist in meeting the targets for new housing as identified in the draft City plan.

7 SUPPORTING DOCUMENTATION

Documents in Members' Rooms:

None

Background Documents:

None