

POLICY & FINANCE COMMITTEE

28 NOVEMBER 2019

HOUSING REVENUE ACCOUNT - HOUSING DEVELOPMENT PROGRAMME

1.0 Purpose of Report

- 1.1 To seek capital finance approvals from the Committee to support the ongoing delivery of the Housing Revenue Account (HRA) development programme.

2.0 Background Information

- 2.1 Delivery of new affordable housing is a strategic objective for the Council, with the need to develop a mixed provision of affordable homes to meet the requirements of younger people, families with young children and older people across the district's urban and rural communities.
- 2.2 Set against this the Committee at its meeting on 30 June 2016 approved that the Council and Newark and Sherwood Homes work in partnership to deliver a 5 year housing (HRA) development programme to provide an indicative 335 new affordable units across the district, with the Homes & Communities Committee charged with monitoring the delivery of the programme.
- 2.3 The development programme is being delivered over 5 phases and to date 180 new Council homes have been delivered, of these 50 units are currently on site all scheduled for completion by April 2020. Phase 3 is now commencing with the target to deliver 40 - 50 units.

3.0 Capital Financing

HRA Site Acquisition

- 3.1 The Committee has previously approved (27 January 2017) a HRA site acquisition fund of £2m. *(With the finance available to be apportioned between capital and revenue costs as determined by the Director – Safety and Business Manager & Chief Financial Officer – Financial Services.)*
- 3.2 This was done to enable both site acquisition to bring additionality to the current programme, to meet the 335 unit delivery target, and to increase the HRA land portfolio for future programmes.
- 3.3 It was noted at the time of the approval that any site(s) identified for purchase would need to be fully appraised prior to acquisition. This would include financial modelling (*capturing the cost of site acquisition, associated works, e.g. demolition, and development of the site*), risk and liability assessments, legal and planning review, market intervention/competition, consideration of site location and housing need
- 3.4 Recent work has been undertaken to review the capacity and nature of the remaining HRA sites within the programme to deliver the 335 target, which shows that there is a predicted shortfall of 45 units. The Committee should note this figure is indicative with some HRA sites still subject to initial investigations and gaining planning permission approval.

- 3.5 In the search for sites the Council has been presented with the opportunity to acquire a parcel of land at the former fire station site located off Boundary road, Newark. Officers have commissioned a valuation of the site based on an affordable housing development and through this negotiated a price for the land with the fire authority.
- 3.6 The price, detailed in the Exempt Item at Agenda No. 15, also reflects a requirement of the fire authority to ensure that the disposal offers both a market and social value return. By the Council acquiring this site, it will deliver a 100% council housing affordable rented scheme through the approved HRA development programme to meet the needs of local residents.
- 3.7 Dependant on the Committee's decision to acquire this site at the agreed price, this would be subject to the Council achieving planning consent (*a prepared scheme design shows the site can deliver 10 units consisting of 6 x 1 bed apartments and 4 x 2 bed houses*), the satisfactory completion of ground investigations and relevant searches.
- 3.8 It is anticipated that the development of the site would be delivered through phase 3 of the approved HRA development programme, where HRA finance has already been committed, and added to HRA asset base.
- 3.9 Officers from the fire authority have advised that the offer they have accepted from the Council is subject to its formal Committee approval, the meeting of which will be held in February 2020.

Acquisition Parameters

- 3.10 In progressing a programme of site acquisition officers have reviewed the approach to ensure this offers value for money to the HRA Business Plan, along with considering the social return of the acquisition, (*e.g. where a site(s) is blighted by anti-social behaviour, in a higher housing need area, etc.*).
- 3.11 It has been decided that the appropriate measure to ascertain whether a site acquisition offers value for money is by determining a price per unit cost. That is by taking the price of the land (*identified by commissioning an independent Royal Institute of Chartered Surveyors (RICS) valuation*) and dividing that price by the number of units proposed (*informed by an initial scheme design*). An example of this calculation is illustrated below:

Criteria	Site A	Site B
Purchase Price <i>(Supported by an independent valuation and assessment on the value of social return)</i>	£220,000	£440,000
Stamp Duty Land Tax	£1,400	£11,500
Site investigations	£5,000	£5,000
Total	£226,400	£456,500
Size of site (hectares)	0.5	0.5
Number of units <i>(informed by an initial scheme design)</i>	10	10
Price per unit	£22,640	£45,650

Viable	Yes	No
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- 3.12 Through this calculation an upper limit would be set at £40k per unit cost, reflecting the range of land values across the district, and as the table shows above this would identify if any planned acquisition is viable or not. It is proposed that delegated authority is given to the Director of Governance and Organisational Development and/or Section 151 Officer to approve the acquisition of a site within the parameter set.
- 3.13 In addition, as indentified at paragraph 3.4, there is a predicted shortfall of 45 units to meet the overall 335 target of the development programme. Taking into the consideration the existing commitments of the approved £2m acquisition fund and based on the principle of a maximum spend of £40k per unit when acquiring a new site(s), there is a requirement to increase the acquisition fund by £720,000 to ensure there is capacity, within the parameter set, to deliver the overall target.
- 3.14 Reflecting on the comments at paragraph 3.3, the Committee should note that the principle detailed at paragraph 3.12 will be adopted only when it brings additionality to the Committee’s already approved 5 year HRA development programme to meet the 335 unit target and within the approved finances of the HRA acquisition fund.
- 3.15 There is also potential for the Council when applying for Homes England funding to secure grant for acquisition costs and officers are now exploring this further as the Council starts to acquire sites.

Forster Avenue, Newark

- 3.16 A report was presented to the Committee at its meeting on 27th June 2019 on the redevelopment proposals for the HRA properties at 38 and 40 Forster Avenue, Newark further to significant fire damage.
- 3.17 The Committee approved the following option:

Option 3 is for the demolition of the existing fire damaged units and replacement with three, two bed homes. The cost model for this option is detailed below:

Description	Amount
Cost of new build properties 3, 2 bed units	£382,736
Cost of refurbishment (met by insurers)	£211,000
HRA capital finance requirement	£171,736

- 3.18 Further to detailed pre-application planning advice it has been deemed that 3 x 2 bed units were not appropriate for the locality because they were not in keeping with the local street scene. This has resulted in a redesign of the scheme that proposes construction of 4 x 1 bed 2 person apartments, which the Development Management Business Unit have viewed favourably.
- 3.19 This redesign has meant an increase in the requirement for capital finance due to the additional build costs associated with the development of the redesigned scheme, as detailed below:

Description	Amount
Cost of new build properties 4, 1 bed 2 person flats	£490,967
Cost of refurbishment (met by insurers)	£211,000
HRA capital finance requirement	£279,967 <i>(an addition of £108,231 from the currently approved option)</i>

3.20 The development of 4 x 1 bed 2 person apartments does meet the evidenced local housing need and provides the opportunity to increase income to the HRA by approximately £8000 per annum, through the addition of 2 units to the rent roll.

3.21 Subject to approval to increase the HRA capital finance, it is anticipated that the site would be delivered within phase 3 of the programme. All units in this phase are anticipated for completion by March 2021.

Recycled Capital Grant Fund

3.22 Under an exempt item the Committee at its meeting on 5th April 2018 agreed to allocate funding to enable acquisition through the HRA of 9 PA Housing units on the Yorke Drive estate, aiding the wider regeneration proposals for that locality.

3.23 At the time it was assumed that the Homes England grant attributed to the 9 units of £485,607.81 (*PA Housing secured housing grant at the time these were built*) would be recycled into the redevelopment of estate should the regeneration scheme go ahead. This being a grant funding condition stipulated by Homes England, which will pass to the Council once the properties are acquired.

3.24 Further to officer discussions with Homes England, to ensure the Council satisfies the grant conditions at acquisition it is now proposed to establish a '*Recycled Capital Grant Fund*' (RCGF) at the time the 9 units are demolished through the Yorke Drive regeneration proposals.

3.25 The grant would be deposited into the RCGF at the point when the 9 units are demolished and has to be used for additional affordable housing in another scheme(s) within three years. Homes England require that the allocation of RCGF is to bring additional affordable housing rather than replacement of stock.

3.26 Taking into the consideration the above points it is proposed that the £485,607.81, which is the attributed housing grant to the 9 PA Housing units and will need to be deposited into a RCGF at the point of demolition, is financed through the HRA's Major Repairs Reserve balances. Once deposited the RCGF would support financing of the HRA development programme. The £485,607.81 is in addition to the already approved finance to acquire the 9 PA Housing units, the price of which was discounted to reflect the grant attributed to the units.

4.0 Proposal

4.1 In considering the above matters the following proposals are being made to the Committee:

- Acquisition of the former fire station site off Boundary Road, Newark at the price detailed in the Exempt Item at Agenda Item No. 15 and subject to the conditions set out at paragraph 3.6.
- Delegated authority is given to the Director of Governance and Organisational Development and/or Section 151 Officer to approve the acquisition of additional sites for inclusion in the approved HRA development programme within the parameters set as detailed at paragraphs 3.10 – 3.13.
- The HRA acquisition fund is increased by £720,000 to aid delivery of the 335 HRA development programme target.
- HRA capital finance within the approved HRA development programme is increased to £108,231 within Phase 3 of the programme to enable the development of 4 x 1 bed 2 person apartments at Forster Avenue, Newark.
- A sum of £485,607.81 is deposited into a 'Recycled Capital Grant Fund' at the point of acquiring the 9 PA Housing units at Yorke Drive, Newark. This is in order to meet Homes England grant funding conditions and utilised to support financing of the approved HRA development programme.

5.0 Equalities Implications

5.1 The Council's housing needs evidence base informs the type of affordable housing to be delivered across the district to meet the needs of all communities, including those with protected characteristics.

6.0 Financial Implications (FIN19-20/7348)

6.1 As described in paragraph 3.11 to 3.14 the cost of land prior to purchase will be reviewed to ensure value for money, as the budget for the land acquisition and the development programme is already taken account in the HRA Business Plan. However, when new schemes are considered outside of the HRA BP, a full investment appraisal will be carried out to ensure the investment is worthwhile.

6.2 The additional budget requirements of £720,000 for site acquisition to enable the development programme to continue to phase 5 would need to be added to the Capital Programme in 2020/21 and can be financed by existing Capital Resources.

6.3 The additional budget requirement of £108,231 for the increased cost of Forster Avenue would need to be added to the Capital Programme for 2020/21 and can be financed by the Major Repairs Reserve.

6.4 The additional budget required for £485,607.81 regarding the Recycled Grant scheme would need to be added to the budget for the property purchase and can be financed via the Major Repairs Reserve in 2019/20 with a view to setting up a 'Recycled Grant Fund' which will sit on the Council's balance sheet as a liability until such time as the Homes England Grant conditions are met. At which time the money can be used to finance a future phase of the development programme.

7.0 Community Plan – Alignment to Objectives

7.1 The delivery of the HRA housing development programme meets the following strategic objective of the Community Plan:

- *Accelerate the supply of new homes including associated facilities;*

with the supporting action of:

- *Direct delivery of homes:*
 - *Our Housing Revenue Account will deliver 335 homes by 2021/22;*

8.0 RECOMMENDATIONS that:

- a) acquisition of the former fire station site off Boundary Road, Newark, at the price detailed in the Exempt Item (Agenda No. 15) and subject to the conditions set out at paragraph 3.6, be approved;
- b) delegated authority be given to the Director - Governance & Organisational Development and/or Section 151 Officer to approve the acquisition of additional sites for inclusion in the approved HRA development programme within the parameters detailed at paragraphs 3.10 – 3.13;
- c) a sum of £720,000 from HRA Capital Receipts be approved and added to the HRA acquisition fund to aid delivery of the HRA development programme;
- d) approval be given to increase Phase 3 of the HRA development programme to £108,231, financed by HRA Capital Receipts to enable the development of 4 x 1 bed 2 person apartments at Forster Avenue, Newark; and
- e) a sum of £485,607.81 from the HRA Major Repairs Reserve be approved to be deposited into a 'Recycled Capital Grant Fund' at the point of acquiring the 9 PA Housing units at Yorke Drive, Newark so to meet Homes England grant funding conditions and be utilised to support the capital financing of the ongoing HRA development programme.

Reason for Recommendations

The housing (HRA) development programme will meet the Council's strategic objective set in the Community Plan to 'Accelerate the supply of new homes including associated facilities', address the evidenced housing need across the district for affordable housing and maintain a viable Housing Revenue Account Business Plan.

Background Papers

Nil

For further information please contact either Rob Main, Business Manager – Housing Strategy & Development on 01636 655930 or Jenna Norton, Accountant, 01636 655327

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