Subject:	**URBAN RENEWAL – PROPOSALS FOR THE DEVELOPMENT OF NEW HOUSING ON COUNCIL OWNED LAND**
Meeting and Date:	**Special Cabinet – 1 October 2012** **Scrutiny (Community and Regeneration) Committee – 2 October 2012** **Extraordinary Council – 3 October 2012**
Report of:	**Roger Walton, Director of Environment and Corporate Assets**
Portfolio Holders:	**Councillor Nigel Collor, Portfolio Holder for Access and Property Management and Councillor Sue Chandler, Portfolio Holder for Community, Housing and Youth**
Decision Type:	**Key Decision**
Classification:	**Unrestricted**

Purpose of the report: To seek the agreement to and make budget provision for, a new initiative involving the development of Council owned land holdings for housing purposes in support of the Council's Corporate Objectives for Regeneration and Urban Renewal.

Recommendation: Cabinet are asked to:

1. Confirm their support for the proposed initiative.

2. Request the Leader to Delegate to the Portfolio Holder for Community, Housing and Youth acting in consultation with the Portfolio Holder for Access & Property Management and the Director for Environment & Corporate Assets responsibility for the selection of the most appropriate sites and methods of development, in accordance with the criteria set out in Appendix 1 to the report with the proviso that the awarding of contracts to deliver the developments will be reported to Cabinet for decision in accordance with the Council's constitution.

3. To recommend to Council that;

   (i) An additional budget of £125k per annum be allocated from within the HRA budget to finance a project team of 2 FTE for this project.
   (ii) That within the HRA capital programme, an initial budget allocation be made of £2.5m, for the development of additional housing;

Council are asked to:

1. Confirm their support for the proposed initiative.

2. Agree to the additional budget requirements as set out in the Cabinet recommendations.

1. **Summary**

This report sets out proposals for the Council to take a more active role in the development of the Council's own land assets for housing purposes, focusing initially on small under used areas of land within the Council's ownership to act as a catalyst for regeneration within the Dover urban area especially. The plan is to achieve early gains with small and "easy to develop" sites and refurbishments, and to take a strategic view of larger and more challenging sites as opportunities arise.

The report also notes that there may be benefit in certain circumstances for the Council to seek to acquire and refurbish selected poor quality housing properties currently within the private rented sector and recommends that the authority should seek to identify any such opportunities for review and decision.

2. **Background**

<u>DDC Strategy</u>

2.1 The Council's strategic plans, whilst clearly focused on the economic regeneration of the District recognise the requirement to improve the quality and affordability of housing within the District.

2.2 The Corporate Plan sets out a clear commitment to regeneration;

Strategic Priority 1 is focused on;

'Enabling and supporting growth of the economy and opportunity for investment and jobs' recognising that 'It is therefore important to focus on economic recovery and growth and continue attracting and enabling inward investment to the district, to support the creation of local jobs, and aim to keep wealth locally to see our district grow and thrive.'

Strategic Priority 2 is focused on;

'Facilitating strong communities with a sense of place and identity' and commits the Council that 'Through the Housing Strategy we will enable housing growth and the delivery of more affordable homes, as well as improving the condition of existing homes, addressing inequality, and enabling vulnerable people access to quality housing to live independently.'

2.3 The Housing Strategy 2010 -2015 notes that there:

'…are a number of key housing issues which the Council will need to address over the next five years:

- Delivering overall housing growth to support regeneration and economic development objectives within safe, sustainable and inclusive new communities.
- Meeting the need for affordable housing.
- Delivering good quality market housing and affordable housing at a time when the future direction of the economy, housing market and public investment remains uncertain.
- Improving the particularly poor housing conditions in the private sector (especially Dover town) and tackling fuel poverty.
- Responding to the climate change agenda.

- Making best use of the housing stock including bringing empty homes back into use.
- Addressing the housing needs of a growing population of older households. By 2026, it is expected that those aged 65-84 will increase by 55.7% and those aged over 85 by 54%.
- Addressing housing causes of social and health inequality and ensuring that vulnerable people are able to access good quality housing and housing services.
- Continuing to address the problem of homelessness and especially youth homelessness.

National Strategy

2.4 At a national level, tackling empty homes is one of the Coalition Government's policy priorities. As part of the Comprehensive Spending Review in October 2010, the Government announced a £100m fund to bring more empty homes back into use. It is estimated that empty homes in England account for 3% of the total housing stock. According to Council Tax Data collected by local authorities, there were 734,000 vacant dwellings at the end of September 2010. Out of those, 301,000 are in the private sector, which accounts for 1.6% of all private sector stock.

2.5 The Government published its Housing Strategy on 21 November 2011, of which an important part is its strategy for tackling empty properties. The strategy included details of £100m capital funding from within the 2011-15 Affordable Homes Programme that had been set aside to tackle long-term empty properties which would not come back into use without additional financial intervention. The majority of that funding is available over the period 2012-15 and is intended to deliver at least 3,300 Affordable Homes by March 2015.

2.6 The Department for Communities and Local Government (DCLG) is the department responsible for shaping housing policy in England and it is up to individual District and Borough Councils to formulate and implement their own policies to deal with empty residential properties. DCLG Policy Statement: "It is important to maximise use of the existing housing stock so that we can minimise the number of new homes that need to be built each year, particularly in areas of the country where housing demand is high, such as the south east of England."

2.7 The government's Housing Strategy openly encourages Councils to take a stronger role in the provision of new social and affordable housing and with authorities such as London Borough of Hammersmith & Fulham, London Borough of Barking & Dagenham and Woking Borough Council bringing forward proposals for housing development.

2.8 In Hammersmith & Fulham, the Council was concerned that the option of disposal of land to developers, be they housing associations or private sector developers, fails to maximize its financial return, gives it limited control over what is built on the site and takes away control of any affordable housing on the site.

2.9 Woking Borough Council was successful in securing £44million of government funding for the Priority Homes Project - a Private Finance Initiative (PFI) scheme aiming to provide at least 190 homes let at affordable rents to applicants on the Council's housing register. It will provide much needed homes for local families. Approximately 400 dwellings are to be built under the scheme. Those dwellings not part of the PFI will be private houses available for sale on the open market. The residents of the affordable housing will not be Council tenants; they will be tenants of a Registered Social Landlord (RSL) or Housing Association who will be managing and maintaining those properties to standards agreed to by the Council.

2.10 The government has also sought to reinvigorate the right to buy market. In *Laying the Foundations: A Housing Strategy for England,* the Government announced its intention to increase the caps on Right to Buy discounts to enable more tenants to achieve their ambition for home ownership. It also set out the Government's commitment to ensure that the receipts on every additional home sold under the Right to Buy are used to fund its replacement, on a one for one basis, with a new home for Affordable Rent. These changes took effect from 2 April 2012.

2.11 In recent years the number of properties sold each year by this Council under the Right to Buy had dwindled to single figures. These new policies have the potential to increase the numbers of properties sold and to increase the pressure on the Council to provide additional dwellings.

3. Objectives for this Authority

3.1 There are a number of drivers, which support the proposal that the Council should take a more active role in the development of new housing on Council owned land including:

- Add to local housing stock

  It will make some contribution to meeting the LDF core strategy new homes target and may help generate New Homes Bonus monies including a premium for affordable homes

- Maintain the delivery of affordable housing

  The need to provide more affordable homes is evidenced by the 2009 Strategic Housing Market Assessment and the number of applicants on the Council's register which is currently just under 3,000. Housing association development activity in the district is relatively low. HAs have become more risk averse since the impact of the credit crunch on the housing market and they are also impacted by a general difficulty in accessing development finance. Development viability issues affecting sites in parts of the district mean the Council can't rely on the delivery of affordable housing via S.106 sites.

- Kick start house building

  The housing market both nationally and locally remains reasonably depressed. The Department for Communities and Local Government (DCLG) reported in May that public and private house builders started building just 24,100 new homes in the first three months of the year. That was an 11% drop from the last three months of 2011, and a 15% drop from the first quarter of last year. There were 109,020 new homes completed in England last year, which was up from 103,300 in 2010, but below the average of 142,000 for the previous decade. The construction industry has seen a fall in output between March and May of 7.4% from the same period in 2011. Developers appear to be finding it difficult to access funds despite various government initiatives and so any intervention by the Council has the potential to assist in meeting the current shortfall in new-starts.

- Stimulate regeneration

  Selected investment in new building has the potential to support the Council's Regeneration and Urban Renewal objectives by bringing forward sites where redevelopment has been delayed and/or by so stimulating other landowners to invest in their own sites.

- Adding value to existing Council land holdings

  The Council's land holdings include many plots of land which as a consequence of their location or use currently have little intrinsic value. This proposal will enable the Council to progressively increase the overall value of its estate as sites are developed

4. Identification and Evaluation of Options

4.1 In a project of this complexity there are a wide range of options. For simplicity, these have been broken down into:

- High Level Options;
- Development Options; and
- Delivery Options.

4.2 Each of these options are considered below.

High Level Options

4.3 At the highest level the options are:

- to utilise HRA resources in a sustainable way, to implement a policy of developing spare or under used pieces of land for housing purposes and refurbishment; or
- to maintain current policies and not to utilise HRA resources in a sustainable way, to implement a policy developing spare or under used pieces of land for housing purposes and refurbishment

Evaluation of High Level Options

4.4 Maintaining current policies will avoid any potential risks, and will protect the HRA balances at their current high level. However, it will also fail to promote regeneration and house building opportunities in a range of sites in the district, will not increase the housing stock and would not ensure best use of spare or under used pieces of land. For these reasons this is not the preferred option.

4.5 In contrast, sustainable development of sites currently owned by the HRA will add to the housing stock in the district, add value to the Council's existing land holdings, assist in local regeneration and potentially improve the quality of estates. For these reasons, this is the recommended high level option.

Development Options

4.6 In a development strategy like this, with a number of small sites that could be developed, there are three main options. They are:

- Consider and report to Cabinet on the merits of each site

- Adopt criteria for assessing each site and delegate the approval of individual developments to the appropriate portfolio holder(s); or

Evaluation of Development Options

4.7 The production of separate reports to Cabinet for individual sites, which are already owned by the HRA, leading to the development of a few properties on each site, would give Cabinet tight control over the project. However, development, even of small sites, can be a complex process. Production of reports to seek approval of the initial development, and subsequent reports where there are changes is likely to slow down the delivery of the completed development.

4.8 For these reasons, this option is not recommended.

4.9 If a comprehensive set of criteria for each development can be approved, then these criteria can be applied to each potential site and the relevant portfolio holder(s) can approve or reject the proposed developments based on these criteria. This will ensure that no developments happen outside of the agreed criteria, but will minimise the level of detailed reporting required and therefore facilitate progress on delivery. For these reasons, this is the preferred option.

4.10 A comprehensive list of criteria which it is proposed be used for the assessment of individual sites has been developed as set out in Annex 1. Additional criteria could be developed, but they would add to the complexity of the project.

Delivery Options

4.11 There are a number of options available to the Council as to how the proposed programme can be delivered.

4.12 They are:

- Partnership with a single housing association partner

- Sites packaged and marketed to Housing Associations

- Council develops the sites

- Council directly procures development

- Development is procured via a special purpose vehicle

- Development is procured via a joint venture model

4.12.1 These are considered as set out below. Based on this analysis, the preferred delivery option is Option 3. Within that option there are further delivery mechanisms that would be selected depending on the scheme to be delivered based on the development criteria appropriate for the specific site. In general it is anticipated that the best solution will be for the Council to directly procure the development but there may be some sites where a joint venture approach might be better. This could include joint ventures with developers or other statutory agencies such as KCC.

1. **Partnership with a single housing association partner**

Strengths

- The Council would develop a close working relationship with the HA.
- The HA may be more willing to assist with development funding from its own reserves.
- Working with one partner across a number of sites may help achieve economies of scale.
- Working with one partner on a larger program may assist with the development of an employment and skills package providing apprenticeship opportunities and making use of local labour.

Weaknesses

- Council would be reliant on one HA delivering a large number of units on mostly very constrained sites.
- Most of the main HAs including those operating in the district have signed their Affordable Housing Programme 2011-15 contracts with the HCA. Consequently, they will be limited in terms of capacity.

2. **Sites packaged and marketed to HAs**

Strengths

- Competition may generate an increased capital receipt for the land.
- Relatively low risk to the Council. Each site would be developed by a HA that had a specific interest in it.
- More chance they could accommodate a small package of sites in their HCA programme.

Weaknesses

- A small package of sites may not generate much interest, particularly those in Dover.

3. **Council develops the sites**

Strengths

- The Council has absolute control over what development happens where, how the properties are let, which tenures are used and when each site comes forward.

- The HRA would benefit from increased long term rental income and it would help offset property sales under RTB.

- Not subject to individual HA development or design restrictions.

- Not subject to HCA design restrictions if there is no HCA grant funding.

Weaknesses

- To develop each site will be expensive.

- The Council would assume all the development risks e.g. project overspends, unforeseen exceptional site costs, demand risks (void/sale losses), contractual issues.

- Likely staff resource costs.

- No capital receipt for the land.

- New properties potentially subject to the RTB (discount currently subject to cost floor rule which has recently been extended to 15 years).

The Council could use a combination of Options 2 and 3.

In relation to Option 3 there are some further sub options:

3a. **Council directly procures development**

This is the approach being taken by both Canterbury and Thanet.

3b. **Development is procured via a special purpose vehicle**

This is the approach being taken by Ashford.

Advantages of the SPV approach are:

- It enables borrowing outside the HRA thereby avoiding the restriction of the HRA borrowing cap.

- Any new homes are beyond the scope of RTB. However, as the source of the majority of funding, at least initially, is likely to be HRA reserves and the RTB receipt is now protected by the cost floor rule for 15 years, these benefits are not so significant for DDC.

3c. **Development is procured via a joint venture model**

House builders and RPs may be interested in a joint venture in order to build out sites in local authority ownership. They may see this as a way of reducing some of the risks associated with development particularly up front land costs.

The house builder will front fund the development and take their standard profit on the development costs with any additional profit on house sales being shared.

The Council can use their share of profits to recycle into affordable housing.

5. **Implementation**

5.1 In order to take these proposals forward it is proposed to establish a small team (2FTE) managed by the Property Services Manager within the Environment & Corporate Assets Directorate.

5.2 Subject to the recommendations within this report now being agreed an initial review of potential sites within the Council's ownership will then be quickly undertaken in discussion with the relevant Portfolio Holders and with colleagues from the Planning team to identify those sites which can most easily be quickly progressed. In the short term the objectives will be pursued primarily through:

- Refurbish structurally sound, but unused / rundown and isolated properties under DDC ownership

- Development on easily developed small / medium ad hoc unused parcels of DDC land

5.3 Discussions have also been held with officers from Ashford BC with the aim of both learning from their experience and also to see whether there is an opportunity to collaborate with them on the delivery of specific sites as this might enable the programme to commence more quickly whilst the recruitment process for the new team members is underway.

5.4 In the medium / long term as the programme progresses it is proposed to move on to more strategic development sites where the objectives will be pursued primarily through:

- Development on the more challenging small / medium ad hoc unused parcels of DDC land

- Development, where viable of larger / more complex sites.

- The sites to be considered are currently being investigated and will be the subject of a further report.

6. **Resource Implications**

6.1 Current staff resources within the authority are not sufficient nor have the requisite expertise to develop a project of this size. It is therefore recommended that a small project team (initially 2 FTE), financed from the HRA, be established within the Council's Corporate Property Team to deliver the project.

6.2 The costs of the programme are clearly dependent upon the sites chosen for development and the success or otherwise of the project but will be split between:

a) Revenue costs of the new Project Team

   - Small project team (circa 2 FTE) required for project delivery – to be financed from the HRA.

b) Capital costs to support the development

- Depends on financing option
- HRA balances circa £10m
- £2.5m earmarked for HRA initiatives.

Revenue Implications	*2011/12 £000*	*On-Going £000*
Expenditure:	45	125
Income:	0	0
Budget requirement	45	125

7. **Risk Assessment**

	Risk	**Likelihood**	**Impact**	**Mitigation**	**Residual Likelihood**	**Residual Impact**
1	Cost overrun	M	H	Full project controls and budget monitoring will be in place.	L	H
2	Project changes lead to delays and additional costs.	M	H	Delegation to the portfolio holder(s) will provide faster decision taking and flexibility to cope with changes.	L	H
3	The impact on the HRA makes the project unsustainable.	M	H	The HRA has significant balances, but the business plan will be reviewed to identify any long-term challenges and enable the project to be managed accordingly.	L	H
4	The new properties are subject to Right to Buy Purchases.	M	M	Any newly developed properties have a 15 year protection against RTB. They cannot be sold for less than the cost of development.	L	L

8. **Corporate Implications**

8.1 Comment from the Section 151 Officer: At 31 March 2012 the HRA reserves stood at circa £10m including £2.5m earmarked for "HRA Initiatives".

On 31 March 2012 the Housing Subsidy system came to an end and was replaced with a self financing system requiring a one off payment to Government of £90.473m. DDC financed this payment by taking out a loan for the same sum with the PWLB on a 30 year repayment basis at a fixed interest rate. Annual payments against this loan will be substantially less than would have been expected under the Housing Subsidy system so it is anticipated that significant additional funds will become available for Housing initiatives.

In view of the above, adequate HRA funding is available to meet both the revenue and capital requirements of these proposals subject to legislation as indicated below.

Legislation is complex but in general terms cross subsidisation between the HRA and General Fund is not permitted. Care needs to be taken to ensure HRA funds are only used on projects that the HRA will derive the benefit from (generally by way of future income streams).

The advised cost of the project team will be able to be charged to the HRA if the expectation is that their time will be wholly spent on HRA related activities. If any of the anticipated activities are considered to be General Fund then there will be the need for a pro rata split.

The use of HRA balances for any capital programme arising will depend upon the individual projects undertaken and may require the assistance of Legal to confirm the legitimacy.

Additional funding is likely to be available from retained Right to Buy receipts expected from recent Government initiatives but the level of this funding is unknown at this time. The use of these funds will be less restrictive than the HRA reserves as they can be used to help fund ‘affordable rented homes’ irrespective of whether or not the HRA directly benefits.

Any projects undertaken need to be sustainable in the long term as this will help ensure the long term viability of the HRA. (PH)

8.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.

8.3 Comment from the Equalities Officer: The report has been amended to include in the development criteria Equality Impact Assessment. (MV)

9. Appendices

Annex 1: Criteria for assessing development projects

10. Background Papers

None.

Contact Officer: Roger Walton, Director of Environment and Corporate Assets

Annex 1

Proposed Development Criteria

It is proposed that in selecting sites for inclusion in the programme consideration should be given as a minimum to the following criteria:

- Ease of delivery
  - Create quick wins in easily developed sites
  - Develop more challenging small sites and larger strategic sites over the medium term.

- Locality
  - Type of site – ensure the proposals are sympathetic to surrounding developments and housing
  - Impact on local residents / community
  - Housing needs in the area
  - Potential for letting / re-sale

- Types of housing to create
  - Flats / houses (in terms of affordable housing, the mix of house types needs to be determined on a site by site basis. The Council has been trying to encourage Housing Associations to build houses in recent years but there are sites which lend themselves more to flats than houses e.g. Southern Housing's Maison Dieu Road development.
  - No of bedrooms – The loss of a greater proportion of family homes under RTB means that we have a real need currently for 3 & 4 bed houses. However, welfare reform changes which will result in those tenants who under occupy homes having their benefit reduced, may result in a need to increase the supply of smaller homes to enable people to downsize.
  - Social or market housing – again needs to be determined on a site by site basis

- Form of tenure options
  - Market sale; as certain sites may have the potential to realise a commercial return and to thus allow receipts to be reinvested in the programme.
  - Shared equity (A recent report commissioned by Thames Valley HA (Cambridge Study) shows relatively low % of shared owners staircasing to 100% ownership - since 2001 only 27,908 (19%) of the 145,000 homes bought through a shared ownership scheme had been staircased up to 100% . However, a rent is often charged on the retained equity – typically around 2.5%). Shared ownership generally works best with smaller homes – typical first time buyer properties such as 2 bed houses.
  - Housing association
  - DDC rental

- Funding Options
  - HRA balances
  - S106 / developer contribution
  - Capital receipts
    - right to buy receipts
    - other asset sales
    - recirculation of receipts from sales of developed properties
  - Prudential borrowing
  - HCA or other grant income

- Viability
  - Impact on the HRA balances
  - Impact on the HRA Business Plan
  - Equality Impact Assessment