SUPPLEMENT 1 (HRA)

THE EXECUTIVE

Tuesday, 17 November 2009

Agenda Item 5. **Construction of New Council Housing within the Housing Revenue Account (to follow) (Pages 1 - 13)**

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THE EXECUTIVE

17 NOVEMBER 2009

REPORT OF THE CORPORATE DIRECTOR CUSTOMER SERVICES

This report is submitted under Agenda Item 10. The Chair will be asked to decide if it can be considered at the meeting under the provisions of Section 100B(4)(b) of the Local Government Act 1972 as a matter of urgency.

Title: Construction of New Council Housing within the Housing Revenue Account	**For Decision**

Summary:

The purpose of this paper is to set out the delivery options for Housing Revenue Account (HRA) new build in accordance with the Department for Communities and Local Government (DCLG) note 'Exclusion of new council housing from the Housing Revenue Account Subsidy System and Pooling: Guidance for local authorities'.

This report deals only with considering HRA new build and the reallocation of capital resources and runs parallel to the formation of the Barking and Dagenham Local Housing Company (LHC) for the redevelopment of previously identified large scale multi-tenure residential sites.

The wider plan for securing new supply and the boroughs regeneration outcomes is:

1. **Large empty sites:**
   - that are better suited to mixed tenure redevelopment will be developed by the LHC if viable in terms of finance and higher quality
   - If the LHC model is not viable for such sites, then a contingency option (though the Council would lose its stake in the land) is for a private developer to (a) take forward site/s with an RSL or (b) if capital finance resources are one day available (having funded the Decent Homes programme as a priority) the borough could substitute in Council homes in relation to rented homes; or (c) substitute in LHC homes for mixed and rented tenures
2. **Estate regeneration:** (that is demolition and re-provision) is taken forward either via the LHC or other methods of delivery where determined by Members
3. All other **Decent Homes** refurbishment is via the capital programme if HRA reform occurs
4. **New-build Council Homes:** on smaller (single tenure) sites (say up to 15 units) funded through redirected capital funding (and National Affordable Housing Programme (NAHP) grant if available) as set out in this report and any additional Government/ Homes and Communities Agency (HCA) money that may become available. However, the scope of this may be revised in the future in the light of new and emergent opportunities.

It should be noted that the HRA reforms being proposed and consulted on by Government are intended only to achieve decent homes and will not be of sufficient scale to cover all aspects of 1 and 2 above which would require funding considerably in excess of the current HRA subsidy payments of £22m made annually by LBBD to the HRA subsidy system.

Wards Affected: All Wards

Recommendation(s)

The Executive is asked to agree:

1. That £7.1m is reallocated from the Capital Programme to fund a rolling programme of local authority new build homes based on the sites set out in **Appendix A**.

2. That the following sites be funded for redevelopment as a priority subject to further detailed development and financial appraisals and statutory consents as set out in 3.0, 4.0, 5.0 in this report.

   Phase 1 Sites

   - Rogers Road Depot — 4 units
   - Land adjacent to Essex Road — 3 units
   - 135 Bromhall Rd and Surgery — 4 units
   - Highlands Ave (behind 28-30) garages — 8 units

   (Total) (19 units)

3. That the full extent of the programme be submitted to Executive for approval once confirmation of NAHP grant funding has been received from the HCA for the sites set out below:

   Phase 2 Sites
   - Maplestead Crescent — 10 units
   - Beamway Road — 5 units
   - Alfred gardens — 5 units
   - Thornhill Gardens — 6 units

   (Thames View sites)
   - Chelmer Cresecent — 9 units
   - Curzon Crescent — 7 units
   - Charlton Crescent Site 1 — 4 units
   - Charlton Crescent Site 2 — 6 units
   - Roycraft Avenue — 6 units
   - Alderman Avenue — 8 units

   (Total) (64 units)

4. That the Corporate Director Customer Services be delegated powers to submit Section 80B applications to the Secretary of State for any sites not benefiting from NAHP grant assistance where required

Reason(s)

To increase the supply and range of family sized social rented housing in Barking and Dagenham by utilising existing HRA land.

Implications

Financial
Reallocation of existing capital resources

A review has taken place of current schemes within the capital programme. A scheme prioritization model has been used, which identifies schemes as falling within the following categories:

Priority 1 – statutory scheme or fully externally funded, fully meets corporate/community objectives, and a high profile strategic scheme
Priority 2 – externally funded more than 50% and of high/medium level community benefit
Priority 3 – non statutory scheme, requires significant Council funding and low to medium fit to corporate/community objectives

Following the application of this model, a number of schemes have been identified as Priority 3. A further review was undertaken to identify which of these Priority 3 schemes were contractually committed, and which were not. Those schemes not committed, and as such to be considered for re-direction into social housing, are as follows:

- Refurbishment of the Mall Car Park - £100k
- Performing Arts Centre (corporate contribution) - £855k
- Road safety schemes - £2,000k (scheme will progress but funded by department)
- Marks Gate Community Centre - £1,600k
- Rush Green New Library - £1,125k
- Trewern Additional Accommodation - £443k
- Controlled Parking Zones - £300k (scheme will progress but funded by department)
- Major Repairs/Fair Funding - £150k
- Teresa Green Backlog Maintenance - £100k

In addition, the following capital projects have made a saving on their budget as follows:
- Ripple Road - £200k
- Valence House - £200k

The total resources available for re-direction are therefore £7.073m. These schemes will not be deleted from the programme, as it is appreciated that they are important in the delivery of member aspirations. They will merely be deferred until such time as suitable funding has been identified.

Financial appraisal of HRA new build schemes

Each HRA new build scheme will need to undergo a full financial appraisal to assess both value for money and affordability for both LBBD and HCA. A financial appraisal model has been developed by the borough's Section 151 advisors which assesses scheme and programme viability on a scheme and prudential borrowing basis, with or without NAHP.

Section 5 sets out the appraisal process in detail. It is proposed that each scheme be approved under delegated powers by the boroughs Section 151 officer.

Council Rent Rebate Subsidy Limitation

Consideration of the impact of the new build properties on the Council's Rent Rebate Subsidy Limitation with respect to Housing Benefit

Legal
Section 80B of the Local Government and Housing Act 1989 enables local authorities to exclude specified properties from the Housing Revenue Account Subsidy System by agreement with the Secretary of State. This includes new build properties developed by the council. Such properties remain within the HRA with the council being able to retain the full rental income from such properties.

In addition amendments to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 enable local authorities to retain the full capital receipt on any subsequent sale of excluded properties, provided the receipts are used for affordable housing and regeneration projects.

Application for a section 80B Agreement must be made to the Homes and Community Agency. HCA will assess the application having regard to the considerations set out and will make recommendations to the Secretary of State.

Contractual
Contractors will be selected from the Council's existing Framework.

Risk Management
Each HRA new build scheme will be subject to the council's CPMO process which includes a full risk management process from inception through to design, construction and completion.

The HRA new build programme will be managed by a dedicated project manager in Capital Delivery and Strategic Asset Management. The programme will be monitored and approved by the Housing Joint Ventures Board which membership includes Divisional Directors of Capital Delivery and Strategic Asset Management, Regeneration and Economic Development, Legal Partner, Procurement, Property and Planning, Finance and Divisional Director Land Services.

Staffing
No specific implications.

Customer Impact
There will be a greater supply of high quality family accommodation for social rent in the borough.

Safeguarding Children
Children of families moving from overcrowded accommodation will live in an environment more conducive to educational achievement.

Crime and Disorder

Section 17 of the Crime and Disorder Act 1998 places a responsibility on local authorities to consider the crime and disorder implications of any proposals. In any development the council will seek to achieve 'secured by design' status to ensure that the opportunities for crime are minimised at the design stage of development..

Property / Assets
Sites identified for redevelopment in the HRA new build programme will not be available for disposable as part of the borough's disposal programme. The estimated combined land value of the HRA new build development sites identified in Appendix A is £2.58m. However, retention will create a long-term capital asset within the HRA for households requiring social rented housing.

Options appraisal

Each HRA new build site is subject to a full option appraisal process to ensure that the development optimises its contribution to meeting housing supply and impact on the local environment. In addition each site will be required to meet minimum sustainability thresholds to minimise impact on the environment in both construction and occupation.

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1. Background

1.1 The Housing Green Paper: ‘Homes for the future: more affordable, more sustainable’ dated July 2007 set out proposals allowing local authorities to undertake the construction of new social rented housing, on a ring-fenced basis, within the HRA. These powers have now been enacted and detailed guidance has been issued by Department of Communities and Local Government (DCLG).

The main points of the Guidance are:

- Schemes started after 22 July 2008 will be eligible
- Eligible units:
  - New units built within the HRA
  - Remodelling or adaptation of existing structures: e.g. works to difficult to let dwellings or creation of sheltered housing (it is not clear if this could apply to existing LA properties although the guidance rules out properties already held under Part II of the Housing Act 1985)
  - Purchase of exiting properties: e.g. former Right to Buy Homes; purchase of properties from developers, second hand properties
- This paper focuses on HRA new build. Further work will be carried out to explore approaches for dealing with the Council’s wider housing strategy and will focus upon the full range of housing supply options including, for example, rent deposit schemes, empty property programme and enforcement work in private sector housing

- Applications for exclusion will be made to the HCA, on a scheme by scheme basis, who will then make a recommendation to Secretary of State on whether a Section 80B agreement should be granted
- Section 80b applications will contain the following information:
    - scheme development details: unit sizes, formula rents, code level etc
    - committee approvals
    - scheme costs and funding
    - planning permission details
    - development timetable
- Applications should be made at the same time as applications for NAHP grant and can be for a programme of sites
- If a Section 80B agreement is granted then rents and future capital receipts, arising from those properties, will be excluded from the HRA subsidy system and pooling arrangements
- If a property is held under a Section 80B agreement then capital receipts from the sale of those units under RTB must be ring fenced for housing and regeneration projects but with any NAHP grant being repaid to HCA (it is not clear if LBBD would be able to retain grant for recycling into additional HRA social rented schemes)

The Section 80b application process is intended to be largely light touch and reliant on authorities certifying the information provided to HCA

2. Report detail

Funding

2.1 Reallocation of Capital Resources

The identification of £7.1m (see Financial Implications above) of capital resources will enable the Council to build approximately c45 Council Houses. This is the worst case scenario, assuming that no other government funding is received (i.e. NAHP), or that no approval is given by government for these units to sit outside of the HRA subsidy system. This is based on an average build cost of £150,000 per unit plus 15% on costs.

However, this funding is seen as “pump priming” for the development of social rented housing. Should the Council gain access to NAHP grant, this will enable the number of units to be expanded to include Phase 2 and Thames View sites set out in Appendix A. Should the Council gain approval for these units to sit outside of the HRA subsidy system, the rental income stream will enable the Council to fund further borrowing, so the number of units could be expanded. These issues are considered in detail below:

2.2 NAHP grant

- LAs are now eligible to bid for NAHP grant on a scheme by scheme basis. To access grant each LA must become an approved development partner of the HCA. LBBD has now been awarded Preferred Partner status.
- Being a Preferred Partner does not guarantee access to NAHP and LBBD will have to apply for NAHP in competition with other providers in the London Region

- Should LBBD fail to successfully be awarded any NAHP grant then they will have to fully fund construction costs themselves. This will reduce the number of units that can be delivered with the £7.1m by approximately 40%
- Further, should LBBD fail to access NAHP grant then rental income from the new units will fall significantly short of the revenue cost of the £7.1m capital resources used

2.3 Prudential borrowing

- Nationally LA's have requested for HRA new build to be excluded from Public Sector Borrowing Requirement (PSBR) requirements, as it is elsewhere in Europe, due to the fact it is supported by rental income.
- If this does not happen then it is likely that HRA new build will only ever be small scale in nature given the impact on PSBR and the need to produce sustainable mixed tenure communities on larger developments

2.4 Right to Buy

Residents of new build HRA properties will have the Right to Buy. However, applications to purchase will be subject to a cost floor which will ensure that the Councils development costs are covered if the Right to Buy is exercised.

2.5 Section 80B agreement

If the Council were to fail to get a section 80B agreement to exclude the new build properties from the HRA subsidy system then LBBD would have no income to offset against the revenue cost of the £7.1m capital resources used

The full financial appraisal that will need to be carried out on the proposed HRA new build is detailed in Section 5.

3. Initial HRA New build Programme

Appendix A sets out the potential sites identified for local authority new build and their full capacity amounts to c83 units subject to the grant of planning permission and confirmation of NAHP grant funding.

These sites will be brought forward for redevelopment as follows in accordance with 2.1 above

- Phase 1 sites as set out in Appendix A in accordance with Recommendation 2 above

- Phase 2 and Thames View sites as set out in Appendix A in accordance with Recommendation 3 above once confirmation of NAHP grant funding has been received from the Homes and Communities Agency

Development of the sites will involve early consultation with local residents.

A detailed HRA new build financial model has been developed by officers which will be used for the detailed evaluation of the viability of potential HRA new build schemes and will make explicit all known risks including the impact on scheme viability of factors such as RTB sales.

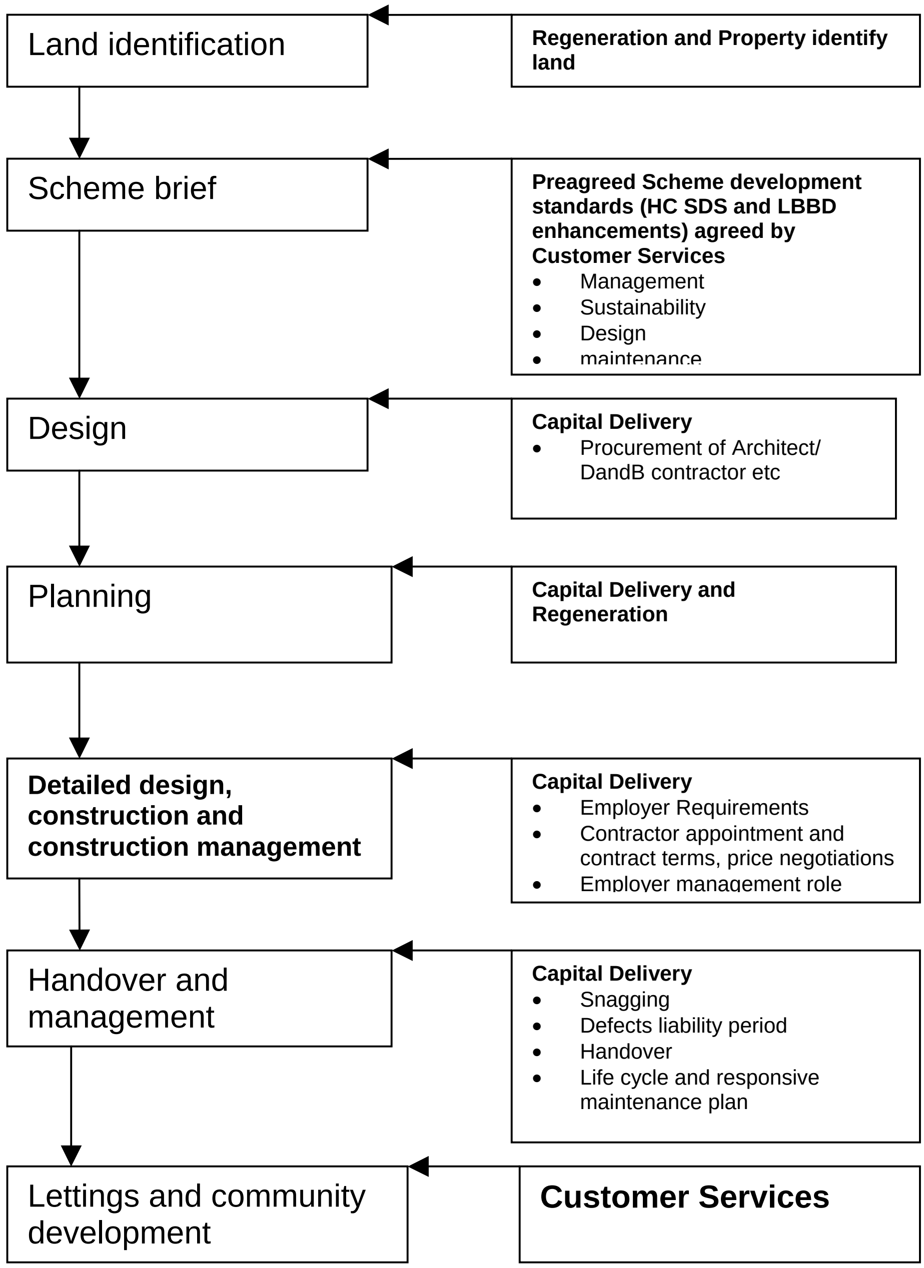
The sites detailed in appendix 1 show indicative development costs; financial viability information and development timetable information. However, this is likely to be subject to change as detailed project feasibilities are undertaken.

4. HRA New Build Delivery Process

4.1 Project Governance

Appropriate robust project governance arrangements have been established to ensure delivery. The HRA new build programme will be overseen by the Housing Joint Ventures Project board.

4.2 Development Process



5. Financial appraisal and funding

Each HRA new build scheme will need to undergo a full financial appraisal to assess both value for money and affordability for both LBBD and HCA. The base assumption for carrying out this appraisal is that all new build schemes are assessed on a stand alone basis, i.e. with no subsidy from existing HRA or General Fund resources.

This financial appraisal must include:

- A robust financial model for the development and operational phase of the new build over a suitable timeline for the scheme (likely to be 30 years);
- Unit mix for the site;
- Fully costed development phase, including internal and external costs, and including as a minimum:
  - Cost of site preparation
  - Legal costs
  - Planning costs
  - Design, architects and other professional services
  - Construction costs
  - Development management fees
  - Financial appraisal and modelling
- Fully costed operational phase, including internal and external costs, and including as a minimum:
  - Management costs
  - Ongoing and cyclical major repairs
  - HRA and Corporate overheads, including any additional Information technology costs
  - Financing costs (i.e. revenue cost of capital for any Council borrowing)
- Consideration of impact of any Right to Buy sales on the financial viability. This is an important point: if tenants have the RTB from day one and exercise their right in the first few years after completion then the scheme may be unviable because the property's value would be unlikely to have increased sufficiently to cover outstanding prudential borrowing after recycling of NAHP;
- Funding strategy, for the development and operational phases. Sources of funding are likely to be NAHP, Council borrowing, rental and sales income;
- Affordability of any Council borrowing required, including consideration of the revenue costs of capital and the impact, if any, on the General Fund of the borrowing in the HRA;
- Value for Money assessment against other options for delivery of social housing including assessment of the opportunity cost of the sale of land used at open market value;
- Capturing of the need to recycle any NAHP; and
- Sensitivity analysis of costs, incomes and inflation indices, including assessment of approach for funding any abortive costs if a scheme does not proceed

Risks and uncertainties that currently exist around how HRA new build will operate include:

- Level of NAHP funding that local authorities will be able to access after the 2008-11 grant round (£100m currently available in 2008-11);
- Treatment of new build properties with respect to Right to Buy; and
- Freedoms on prudential borrowing in the HRA

6. Consultees

6.1 The following were consulted in the preparation of this report:

Councillor(s)
Councillor P Waker Cabinet Member for Housing

Officers:
Chief Executive's Group

Jeremy Grint	Head of Regeneration and Economic Development
Ken Jones	Programme Director Local Housing Company

Customer Services

David Woods	Corporate Director Customer Services

Finance and Commercial Services

Tracie Evans	Corporate Director of Finance and Commercial Services

Resources

Yinka Owa	Legal Partner (Procurement, Property and Planning)
Sue Lees	Divisional Director of Asset Management and Capital Delivery

7. Background Papers Used in the Preparation of the Report:

7.1 The following papers / reports were used in the preparation of this report:

- Department for Communities and Local Government note 'Exclusion of new council housing from the Housing Revenue Account Subsidy System and Pooling; Guidance for local authorities'.

8. List of appendices:

Appendix A: HRA New Build Programme of Site

Appendix A:

HRA New Build Programme of Sites

Phase 1 Council Housing

	Site area [1]	Capacity [2]	Ward	Delivery (months)	Financial summary					
					Land value	Build cost	On-costs	Total	HCA Grant	LBBD Net Financial Position
SSA SM17: ROGER'S ROAD DEPOT, 81-83 ROGER'S ROAD	0.09	4	Alibon	12months Oct 2009 – Sept 2010	125k	£538k	£107k	£646k	£387k	£259k
SSA SM21: LAND ADJACENT TO 1A ESSEX ROAD	0.06	3	Gascoigne	12months Oct 2009 – May 2010	125k	£402k	£81k	£483k	£291k	£192k
SSA SM28: GARAGES REAR OF 28-30 HIGHLAND AVENUE	0.14	8	Eastbrook	12months Oct 2009 – May 2010	125k	£1077 k	£215k	£1292k	£775k	£517k
SSA SM22: 135 BROMHALL ROAD DEPOT AND SURGERY	0.09	4	Mayesbrook	12months Oct 2009 – Sept 2010	125k	£538k	£107k	£646k	£387k	£259k

[1] Hectares
[2] **50 u/ha, reductions made for constrained sites**

Phase 2 Council Housing

	Site area [3]	Capacity [4]	Ward	Delivery (months)	Financial summary					
					Land value	Build cost	On-costs	Total	HCA Grant	LBBD Net Financial Position
SSA SM30: GARAGES IN FRONT OF 58-61 ALFRED'S GARDENS	0.09	5	Gascoigne	12months Feb 2010 – Feb 2011	£75k	£647k	£129k	£777k	£466k	£311k
SSA SM20: MAPLESTEAD ROAD CAR PARK	0.26	10	Eastbury	12months Feb 2010 – Feb 2011	£300k	£1.29m	£254k	£1.545k	£914k	£631k
SSA SM31: THORNHILL GARDENS GARAGES	0.12	6	Longbridge	12months Feb 2010 – Feb 2011	£200k	£786k	£157k	£ 944k	£575k	£369k
SSA SM25: BEAMWAY GARAGES	0.09	5	Village	12months Feb 2010 – Feb 2011	£140k	£647k	£129k	£777k	£466k	£311k

[3] Hectares
[4] **50 u/ha, reductions made for constrained sites**

THAMES VIEW SITES

	Site area[5]	Capacity[6]	Ward	Delivery (months)	Financial summary					
					Land value	Build cost	On-costs	Total	HCA Grant	LBBD Net Financial Position
Alderman Avenue Garages	**0.32**	8	Thames	12months Feb 2010 – Feb 2011	£330k	£1.229k	£245k	£1,.475k	£843k	£632k
Charlton Crescent Garages 1	**0.12**	4	Thames	12months Feb 2010 – Feb 2011	£150k	£732k	£146k	£879k	£521k	£358k
Charlton Crescent Garages 2	**0.21**	6	Thames	12months Feb 2010 – Feb 2011	£225k	£966k	£193k	£1.159k	£652k	£507k
Chelmer Crescent Garages	**0.31**	9	Thames	12months Feb 2010 – Feb 2011	£500k	£1.228k	£244k	£1.474k	£840k	£634k
Curzon Crescent Garages	**0.52**	7	Thames	12months Feb 2010 – Feb 2011	£300k	£1.268k	£253k	£1.522k	£821k	£701k
Roycraft Avenue	**0.24**	6	Thames	12months Feb 2010 – Feb 2011	£300k	£867k	£173K	£1.041k	£597k	£444k

[5] Hectares
[6] **50 u/ha, reductions made for constrained sites**

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