

Report to: Housing Scrutiny Committee
 Executive Board
 Housing Advisory Board

Monday 31st October 2005
 Monday 7th November 2005
 Friday 18th November 2005

**ROSE HILL REDEVELOPMENT
 MAJOR PROJECT APPROVAL**

Report of:	<i>Business Managers: Neighbourhood Renewal Housing Services</i>	WARDS AFFECTED Rose Hill & Iffley
Report Author:	<i>Steve Northey, Housing Development Manager Tel no. 01865 252717 Email: snorthey@oxford.gov.uk</i>	
Lead Member Responsible:	<i>Housing Portfolio Holder</i>	
Overview and Scrutiny Committee Responsibility:	<i>Housing Overview and Scrutiny Committee</i>	
Key Decision:	<i>Yes, Project over £200,000</i>	

SUMMARY AND RECOMMENDATIONS

Executive Board in November 2004 approved in principle the redevelopment of the Orlit properties, Stephenfield House and Alice and Margaret House as a mixed development of housing for sale and social housing. Oxford Citizens Housing Association (OCHA) was appointed as the development partner to take the scheme forward to the Major Project Approval stage for formal approval of the details of the project and the partnership framework.

This report seeks Major Project Approval for a redevelopment scheme of 254 dwellings and proposes the addition of 44 Nowell Road and the garage site at Rivermead Road to the scheme.

The redevelopment scheme meets the Council's Vision of providing more affordable housing.

There are no staffing implications arising from this report.

Financial implications are set out in the body of the report and in the Confidential Appendix.

The Executive Board is ASKED to:

- i) grant Major Project Approval under section 5.04 of the Contract Regulations for the development of 254 dwellings as a mix of housing

for sale and affordable housing.

ii) approve the addition of 44 Nowell Road and the garage site at Rivermead Road to the scheme

iii) approve the procurement of the scheme as set out in the report; instruct officers to proceed to a conclusion on the selection of the Developer partner for the scheme and delegate authority to the Strategic Director (Housing, Health and Communities) to enter a Development Agreement with OCHA and the Developer partner.

iv) approve in principle the disposal of the land owned by the Council as set out in section 6 of the report

iv) approve grant funding from the Council of up to £1,000,000 for the affordable housing

v) approve the use of the capital receipt from the sale of 44 Nowell Road towards funding Decent homes.

vi) approve the additional capital budget sums set out in section 7 of the report

vi) authorise the Strategic Director (Health, Housing & Communities) to use Compulsory Purchase Powers, if necessary, to progress the acquisition of key owner occupied properties

1. BACKGROUND

1.1 In November 2004, Executive Board gave approval in principle to the redevelopment of:

- 97 Council owned Orlit properties and rehousing of 73 secure tenants
- the site of Stephenfield House
- Alice and Margaret House which is a sheltered housing scheme owned by Oxford Citizens Housing Association and the rehousing of 20 tenants

1.2 The redevelopment scheme was to be a mixed development of housing for sale and affordable housing so that the receipts from the sale units would be the principal source for funding the affordable units.

1.3 OCHA were also confirmed as the development partner of the scheme to take it forward to Major Project Approval

2. SCHEME OBJECTIVES

2.1 The objectives for the redevelopment scheme are as follows:

- Rehousing the existing tenants is the primary objective of the scheme
- Redevelop the Orlit properties as a mixed development at higher density
- Rationalise the supply and improve the quality of sheltered housing in Rose Hill

3. REDEVELOPMENT PROPOSALS

Scheme principles:

3.1 Executive Board has adopted the following principles for the scheme:

- Existing tenants to be rehoused first on a like for like basis by OCHA
- Tenants wishing to stay with the Council to be offered alternative accommodation
- Rehousing moves to be kept to a minimum
- Development to be mixed sale and affordable housing at a higher density than existing
- Tenants to be involved in the design and execution of their new homes.

Rehousing requirement

3.2 Officers have updated the housing needs and aspirations survey of the remaining 72 Orlit households and 53 have indicated that they wish to be rehoused in the new scheme as OCHA tenants. 19 households have chosen to remain as Council tenants and have applied to transfer to other Council property.

3.3 OCHA have 15 tenants who will transfer from Alice and Margaret House to a new sheltered housing scheme.

Housing Proposals

3.4 Additional land has become available since Board considered the option appraisal report in November 2004 and this combined with changes to the mix of dwellings for existing residents has allowed an increase in units. Overall, the scheme will increase by 17 units from 237 to 254. 113 units will be for private sale and 141 units (56%) will be affordable housing.

3.5 The mix of rented units reflects the rehousing needs of the existing tenants and also the Council's need to meet priority housing needs. The mix is as follows:

Rented housing

26 x 1 & 2 bed sheltered housing flats

14 x 2bed / 4 person houses

50 x 3bed / 5 person houses

10 x 4 bed 6 person houses

100 units

Shared ownership

14 x 1 bed / 2 person flats
19 x 2 bed / 3 person flats
7 x 2bed / 4 person houses
1 x 3bed / 5 person house
41 units

- 3.6 The Council will have nomination rights in perpetuity to the affordable houses on the basis of 100% initial lettings and 75% of relets. After the existing tenants have been rehoused, there will be 32 additional rented units which can be used to meet priority housing need.

Additional land

- 3.8 It is proposed to add the following sites to the scheme:

44-46, Nowell Road

- 3.9 44 Nowell Road is a rebuilt HRA property which is occupied on a secure tenancy while 46 Nowell Road was purchased under Right to Buy in 1975. The owner of No.46 wishes to sell to OCHA and by including these two plots in Phase 1 of the redevelopment, an additional 10 dwellings can be produced.
- 3.10 The Council will transfer 44 Nowell Road to OCHA at market value and approval is sought to use the receipt to fund Decent homes.
- Rivermead Road Garage Site
- 3.11 This garage site was approved for redevelopment by Executive Board in May 2004. Outline planning consent has been granted and this will provide 7 x 3bed houses for rent.
- 3.12 The garages are vacant and becoming vandalised and in order to reduce the nuisance to local residents, South East Area Committee on 1st August 2004 approved the funding for the clearance of the site on the condition that the repayment of the money was made a condition of Development Agreement for the Rose Hill scheme.

Design principles and standards

- 3.13 The rented houses will be constructed to Lifetime homes standard. When the scheme is tendered there will be an option to build the houses using modern methods of construction, which would include timber frame construction. All affordable housing units will achieve an Eco homes 'Very Good ' rating.

Planning Consent

- 3.14 Outline planning consents for the Orlit/Alice & Margaret redevelopments and the Rivermead Road garage redevelopment were granted on 28th June 2005.
- 3.15 Strategic Development Control Committee approved the following financial contributions, totalling £480k:

- £253k for community programmes on Rose Hill
- £100k for improvements to community facilities on Rose Hill
- £70k for improvements to the Rose Hill sports pavilion
- £6k for public art
- £40k to the County Council for education and libraries improvements
- £11k to the County Council for cycle/pedestrian improvements

3.16 There is a S106 Agreement between the County Council and the Council. Under this Agreement, the Council is obliged to pay the cycle/pedestrian and education and libraries contributions and these payments have to be made at different stages during the development. The developer will be required to pay equivalent sums to the Council under the Development Agreement to cover this expenditure.

3.17 The other payments listed above will be made by the developer to the Council through the Development Agreement. This is because the Developer will not have a legal interest in the private sale land and a S106 Agreement cannot be used. It is likely that the trigger for these payments will be the commencement of development

Phasing of Development

3.18 One of the scheme principles is to keep the number of moves which tenants need to make to a minimum and the phasing of the development has been organised so that tenants only move once their new home is ready for occupation. The exception is in the first phase where there are 3 households who will need to be temporarily decanted to allow works to start.

3.19 The sites for redevelopment will be released in phases as required by the programme agreed with the developer and the affordable housing programme is expected to be completed in three and a half years from start on site. The priority is to rehouse existing residents and this will be completed within two and a half years from start on site.

3.20 The Council will be under a strict contractual obligation to release vacant sites for development to meet the developer's timetable and this will involve financial penalties on the Council if it is not kept to. Officers will therefore only recommend to the Strategic Director to enter into the Development Agreement once they are satisfied that the steps which can be taken to ensure possession of the sites will reduce the Council's risk to manageable levels.

3.21 It is vital that the Council works with the tenants to achieve this but it may be necessary to take legal action in some cases where rehousing and possession cannot be achieved through co-operation. There will be similar obligation on OCHA over the release of the site of Alice and Margaret House for development .

3.22 In order to minimise the financial risks, it will be important that the Council is able to demonstrate that suitable alternative accommodation

has been offered to the tenants in advance of any legal proceedings taking place and that they are instituted in time to meet the developer's timetable. An allowance has been made in the Financial Appraisal for the Council's costs in taking legal proceedings.

- 3.23 The Council will require the consent of the Secretary of State for the redevelopment scheme as the first step in the process of serving notices of possession and officers will begin work on this once Project Approval has been granted.
- 3.24 In order to prevent additional Right to Buy purchases, the Council will use Demolition Notices under the Housing Act 2004. These Notices suspend the Council's statutory obligation to transfer property under Right to Buy. In order for the process to be successfully concluded demolition needs to be carried out by the landowner but the Council will use the Developer as its agent to physically carry out the work.

Project Funding

- 3.25 OCHA have carried out a financial appraisal which assumes start on site in September 2006 and a 5 year construction programme for the whole project. A summary of the appraisal is set out in the Confidential Appendix is based on the following assumptions:
- i) cross subsidy from the sale of 113 units for sale is the main funding source
 - ii) the Council and OCHA will make land available at nil costs to keep as much revenue within the scheme as possible. The exception is the sale of 44 Nowell Road where a capital receipt will be taken.
 - iii) OCHA's contribution is based on private borrowing serviced by rent income from their own housing stock
- 3.26 The estimate of cross subsidy funding from sales is based on current market values for land as shown in the Confidential Appendix. The tenders will determine actual expectations of developers at the point of sale of these units and this estimate is likely to vary. Officers have therefore not updated the land values to 2007/08, which is when sales are expected to start, to simulate any rise in the housing market. The level of cross subsidy is therefore at less risk of falling below the estimate.
- 3.27 There is £1m in grant funding earmarked in the Council's current 5 year Capital Programme for this scheme and OCHA will bid to the Housing Corporation for Social Housing Grant funding under the 2006/08 Approved Development Programme. Funding allocations will be announced in February 2006
- 3.28 The scheme set out in the report is at pre tender stage and some adjustments may need to be made as a result of the tender process where bidders are able to demonstrate ways of improving the quality or

value for money of the project. Any changes will be reported to Executive Board and revised Major Project Approval sought.

- 3.29 There is a risk that the Housing Corporation bid will not be successful. However, the chances of receiving a funding allocation are thought to be good because OCHA are development partners of Catalyst Housing Group's and are bidding as part of their programme, which is amongst the largest in the country. The Rose Hill bid has also been formally accepted into the Corporation's forward allocation pool.
- 3.30 Should funding not be forthcoming, measures will need to be taken at the time to adjust the balance between sale and affordable units. and the details will need to be agreed in the light of the affordable housing planning policy. Executive Board will be asked for an amended project approval but approval in now sought in principle to vary the scheme so that it can proceed on the current development programme.

4. OTHER MEANS OF ACHIEVING THE OBJECTIVES

Refurbishment to Decent Homes standard

- 4.1 To bring the Orlit properties up to Decent Homes standard will cost £2.738m but works will still need to be carried out to make the structure of the houses sound. It is estimated that the cost would be in the region of £7m for the 97 Orlit properties at current prices. (Members are asked to note that these estimates are from November 2004 and have not been uplifted for build cost inflation)
- 4.2 Refurbishing the stock would also mean that the opportunity to develop a new sheltered housing in partnership with OCHA would be lost because the Council's land is essential for siting the new project.

Open market disposal

- 4.3 The Confidential Appendix gives details of the value of the Council owned sites in the scheme. It is assumed that the developer would be required to provide 50% social housing and would demolish the houses as part of the redevelopment.
- 4.4 This option would mean the opportunity to develop new sheltered housing through OCHA would be lost because the Council's land is essential for siting the new sheltered housing block as would the opportunity to redevelop the site of Alice and Margaret House.

5. PROCUREMENT

RSL Partner

- 5.1 Executive Board is asked to note that OCHA were confirmed as the Council's RSL partner for this scheme in November 2004.

Developer Procurement

- 5.2 The developer is being selected jointly by the Council and OCHA under EU procurement rules. 13 pre qualification questionnaires were

submitted to OCHA following the advertisement in the OJEC and these are being assessed jointly by OCHA and Council officers to produce a shortlist. This will then form the Invitation to Tender list.

- 5.3 The developer selection process and other matters relating to the procurement of the scheme will be managed by a Procurement Board. This will consist of representatives from the Council, OCHA and the current Council and OCHA tenants.

Procurement Model

- 5.4 There are a range of different ways in which this scheme could be procured and Appendix 1 sets out three options which contain the most common features in this kind of procurement. It is recommended that OCC and OCHA jointly appoint the Developer and that the scheme is procured through a Development Agreement between all three parties as set out in Option 1.
- 5.5 The housing will be built by the Developer under a building licence and the land for private sale housing will only be transferred once the units are complete. This means Stamp Duty, at 4% of the value of the property, is only paid once when the completed private sale units are transferred. With the other two options, land for private housing is transferred prior to works starting and again when units are sold. Stamp Duty is therefore payable twice. Although the Developer pays this, and not the Council, the tax burden on the Developer should be minimised because it is an extra cost in determining their level of profit and adversely affects the value for money of the scheme.
- 5.6 The affordable housing is not subject to Stamp Duty and the land may need to be transferred before works start in order for OCHA to be able to draw down the Social Housing Grant.
- 5.7 The option of transferring all of land to OCHA, as in Option 3, is not available because OCHA would be in breach of its charitable status by acquiring the land for the private sale housing, as well as incurring costs of double Stamp Duty.
- 5.8 Development Companies set up by scheme partners as in Option 2 are commonly used to avoid problems with charitable status but they are relatively expensive to set up.
- 5.9 The risks of development costs exceeding agreed budgets or the necessary levels of cross subsidy not being achieved will be borne by the Developer. There will be an overage arrangement if costs fall below agreed levels or higher than expected returns are made from the private sale units but there will be no risk to the Council from any negative changes in these factors. The basis for sharing the overage will agree as part of the Developer selection process.

6. RISK ASSESSMENT SUMMARY

- 6.1 The risks of carrying out the scheme can be divided into two. The procurement and technical risks which are summarised below and the financial risks which are set out in the Confidential Appendix.

Risk	Impact	Control Response
Unforeseen construction costs for affordable housing	High	<ul style="list-style-type: none"> • Risk assessment workshop with technical team consultants • Budget provision made for risk items
Housing Corporation grant may not be allocated	Medium	<ul style="list-style-type: none"> • Bidding in partnership with Catalyst Housing group • Scheme in HC forward allocation pool • Revise tenure split to increase cross subsidy
Vacant possession of Orlit houses not achieved	High	<ul style="list-style-type: none"> • Ensure suitable alternative accommodation available • Programme possession action into timetable
Owner occupied properties not acquired	High	<ul style="list-style-type: none"> • Option agreements signed with OCHA • Use CPO proceedings

7. LAND DISPOSAL

Disposal of Council Land

- 7.1 With cross subsidy from private property sales as the main source of scheme funding, it is proposed to transfer the land on terms which maximise the amount of revenue in the scheme. The exact boundaries of the land to be transferred for the private sale and for the affordable housing will not be fixed until after the scheme has been tendered and a developer selected.
- 7.2 Approval is therefore sought in principle to dispose of the Council's land for affordable housing freehold at nil cost with vacant possession and to dispose of the Council's land for private sale housing freehold at market value with vacant possession. As set out in section 5.5 of the report, the value of the private sale land will be realised when the individual properties are sold and the land receipts will be recycled to contribute towards the costs of constructing the affordable.
- 7.3 Local authorities are able to dispose of land for affordable housing at less than market value to Registered Social Landlords under a General Consent from the Secretary of State (The General Consent under Section 25 of the Local Government Act 1988 for the Disposal of Land to Registered Social Landlords). Specific consent from the Secretary of State however is required under section 32 of the Housing Act 1985 for the disposal of the private sale land and the Council will therefore seek disposal consent for the whole scheme.

44 Nowell Road

- 7.4 The disposal of 44 Nowell Road to OCHA will allow 10 more private sale units to be built and approval is sought to dispose of this property freehold with vacant possession at market value. Details of the site valuations are given in the Confidential Appendix.

Purchase of Owner Occupied Property

- 7.5 There are 44 privately owned Orlit properties in the redevelopment area but with limited scheme finance, only 6 houses will be purchased. These are located on plots where larger sites can be assembled and a higher density of development achieved
- 7.6 OCHA have entered into Option Agreements with the individual owners concerned to purchase their houses by autumn 2006. OCHA will only acquire property if they have planning consent and a signed Development Agreement between the parties.
- 7.7 There is a risk that individual owners could withdraw from the sale to OCHA and this would put the scheme at risk if contractual obligations could not be met. As a precaution therefore, Executive Board is asked to approve in principle the use of Compulsory Purchase powers to secure the necessary land transfers.

8. BUDGET

- 8.1 To date the Council has not made specific budget provision for any pre contract spending in relation to this scheme. OCHA are working with their Employers Agent and architects to prepare the scheme for tender and any costs falling to the Council are being covered from existing, non-scheme specific budgets in Neighbourhood Renewal and Housing Services.

- 8.2 There are some actions which need to be taken before contracts are signed as follows:

- demolition of vacant house and garages on Phase 1 and five other void Orlit pairs £180k
 - homeloss on transfers/ temporary decant costs from Phase 1 £30k
 - early appointment of Tenant Liaison Worker Officer prior to contract to ease workload on Estate Managers £20k
 - Tenant Development Group /publicity costs £6k
- **Total** £236k

- 8.3 Executive Board is asked to approve this expenditure as an addition to the capital programme and to require that repayment of any

expenditure is made a condition of the Development Agreement so that the expenditure is wholly externally funded.

9. PROGRAMME

Executive Board approval	November 2005
Invitation to Tender	November 2005
Tenders returned	January 2006
Developer selected	February 2006
Development Agreement signed	April 2006
Start on site	September 2006

10. CONSULTATION

- 10.1 There have been no comments received as a result of the report being placed on the Forward Plan at the time of writing this report.
- 10.2 A Tenants Development Group has been set up to act as a sounding board for all tenants issues and will nominate tenant representatives for the Project Team which will also include Council and OCHA representatives

11. FINANCIAL IMPLICATIONS

- 11.1 Redevelopment of the Orlit properties takes a group of properties with very high repair liabilities out of the Decent Homes programme, saving £2.738m as noted in paragraph 4.1. The loss of rental income arising from this redevelopment has already been taken account of in HRA long term financial projections.
- 11.2 The Council, in disposing of land, must ensure that a proper value is achieved by the disposal. Details are provided in the Confidential Appendix of alternative disposal routes eg an open market sale.
- 11.3 Cross subsidy from the sale of 113 units for sale is the major funding source to enable this large scale development of affordable housing. Ongoing involvement of Council officers throughout the procurement process and the negotiation of the Development Agreement will ensure that the value of our land contribution to the scheme is optimised and that financial risks are controlled.
- 11.4 The financial appraisal will be updated when tenders have been received and regularly thereafter to take account of changes in assumptions,.
- 11.5 Capital budget implications are as noted in section 8.3

12. STAFFING IMPLICATIONS

- 12.1 The Neighbourhood Renewal Business Unit will be responsible for facilitating the Rose Hill redevelopment and Legal Services will carry out

the transfer of the affordable housing land to OCHA. These tasks will be carried out within existing staff resources.

12.2 The transfer of the completed private houses and flats to the individual owners will be carried out by Legal Services, in-house resources permitting. If there is insufficient capacity to carry out the work at that time, then there may be a need for Legal Services to put the work out to external solicitors and an allowance for the costs of this has been included in the Financial Appraisal.

THIS REPORT HAS BEEN SEEN AND APPROVED BY COUNCILLOR TURNER, PORTFOLIO HOLDER FOR HOUSING AND PLANNING; VAL JOHNSON, NEIGHBOURHOOD RENEWAL MANAGER; PENNY GARDNER, FINANCIAL AND ASSET MANAGEMENT MANAGER AND JEREMY THOMAS, LEGAL AND DEMOCRATIC SERVICES MANAGER

Background papers: None

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APPENDIX PROCUREMENT OPTIONS:

Option 1 Tri-partite Agreement

- 1.1 OCC and OCHA enter in to a Development Agreement to procure the affordable housing, including the payment of any Council housing grant funding, and jointly tender the scheme and appoint a Developer.
- 1.2 OCC, OCHA and the Developer enter into a tripartite agreement which sets out the details for S106 payments, construction of the units, risk and profit sharing, and transfer arrangements for the completed units.
- 1.3 Developer constructs the housing under a building licence as the land in each development phase is vacated. On completion, the Developer then calls on the Council to convey the unit to the individual private owner or to OCHA in the case of an affordable housing unit.
- 1.4 OCC and OCHA will have step in rights so that the scheme can continue if the Developer either fails in performance or suffers financial breakdown.
- 1.5 The level of profit for the Developer will be agreed on the basis of a level of construction costs and of sales values being within certain limits. The Developer will bear the risk of losses, either because sales values for the private dwellings have not been achieved or because construction costs have risen. In this situation, if there is any final profit above agreed levels, then this will be the Developer's reward for risk bearing.
- 1.6 If receipts from sales are higher than planned, either because of rising values or reduced construction costs, then there will be an overage arrangement to share the sums between the Developer, and the Council and OCHA as landowners: each landowners' share being in proportion to their respective land contribution to the overall scheme.

Option 2 Use of Special Purpose Vehicle

- 2.1 OCHA enters into a development agreement with the Council to carry out the scheme (both social housing and private sale elements). OCHA selects a Developer and then sets up a Development Company with the Developer to undertake the development.
- 2.2 The Council will have a Development Agreement to transfer the land to the Development Company at nil cost on condition that:
- 2.3 OCHA pays an agreed capital sum to the Development Company, including the £1m social housing grant, and acquires the affordable housing land. OCHA will procure the affordable housing with the Developer as contractor.
- 2.4 The Development Company procures the Developer to build the private housing and sells the completed units.
- 2.5 The Council will have the same overage arrangements with the development Company as in Option 1 above

Option 3 Direct land transfer

- 3.1 OCHA enters into a Development Agreement with the Council. OCHA appoints a Developer and enters into an agreement with the Developer to build out both the social housing and the private sale housing on the same financial basis as in Option 1 above.
- 3.2 The land is then either:
 - i) transferred to the Developer at nil cost and then to the future owners (OCHA or private purchasers) on completion of the building works; or
 - ii) transferred to OCHA at nil cost and the Developer will build under licence with final land transfers by OCHA on completion of works.
- 3.3 The Council will have the same overage arrangements with the development Company as in Option 1 above