

**To:** City Executive Board

**Date:** 1 July 2009 **Item No:**

**Report of:** Head of Oxford City Homes

**Title of Report:** Project Approval – New Build

### **Summary and Recommendations**

**Purpose of report:** To outline proposals for the Council to build new homes on two existing sites within the City and to detail possible funding arrangements.

**Key decision?** Yes

**Executive lead members:** Councillors Ed Turner and Joe McManners

**Report approved by:**

**Finance:** Sarah Fogden

**Legal:** Lindsay Cane and Jeremy King

**Policy Framework:** More housing, better housing for all.

**Recommendation(s):** The City Executive Board is recommended to:-

1. Grant Project Approval to the project described in this report.
2. Approve the submission of a pre-qualification application to become an approved investment partner through the National Affordable Housing Programme (NAHP).
3. Approve the appointment of a Registered Social Landlord (RSL) as a mentor to oversee the process and financial / risk assessments, including value for money.
4. Approve the assessment of the options for borrowing / developing and submission of a bid to receive Government funding (part) for new build

projects on two sites – Cardinal House and Lambourn Road, all in consultation with the City Executive Board Members for Finance and Oxford City Homes.

5. Approve the commencement of the OJEU procurement process to appoint a contractor to carry out the building works and, due to the tight timescales, the convening of a special meeting of the City Executive Board during November or December 2009 to agree which tender should be accepted.

6. Approve the submission of a Form 80b application to the Secretary of State to remove the new developments from the HRA subsidy system, should it be necessary to do so.

7. Charge any rental surpluses and losses on the new-build properties to the HRA.

### **Background –**

1. In the 2009 Budget, the Chancellor announced the “Challenge Fund” a £100m (£50m grant and £50m prudential borrowing) for local authorities to deliver up to 900 new council homes. The funding will be delivered through the Homes and Communities Agency (HCA) and they want to see a simple model that can deliver quickly: Local authorities contributing their land at nil value and borrowing prudentially against the future rental stream and the HCA providing grant funding. More details on the funding and a financial appraisal can be seen in the Financial Implications section of this report. The Council administration has made it clear that it wishes for the Council to use every opportunity to consider the viability of new build council housing, adding to the stock and improving the long-term sustainability of the Housing Revenue Account (HRA). This has been discussed with tenants’ representatives through the Housing Advisory Panel and they have endorsed this approach.
2. It is clear that the HCA are keen to use this programme to demonstrate the effectiveness of local authority led development and to create a level playingfield with other RSLs in the future.
3. The programme needs to deliver quickly. The HCA expect a significant proportion of the homes that are grant funded will achieve start on site in 2009-2010 and that all homes funded through this initiative will be completed by the end of 2010-2011.
4. Under the scheme, there are two opportunities to bid for funding. The deadline for bids in round one is Friday 31 July 2009 and the deadline for round two is Friday 30 October 2009. Bidders in round one will be those local authorities in a position to move quickly in

achieving planning approval and progressing through the procurement process.

5. As the Council are not an approved investment partner through the National Affordable Housing Programme (NAHP), it needs to complete a Pre Qualification Questionnaire (PQQ) which will be submitted at an early stage. This PQQ seeks information on the organisation and its financial/commercial good standing, together with its technical expertise, means of procurement, design, equality, diversity, community cohesion, innovation and other criteria such as the use of local labour (including apprenticeships).
6. There are two City Council HRA sites that are currently able to be developed in a relatively short time. They are the site containing Cardinal House in Littlemore and Lambourn Road in Rose Hill, the site of recently demolished defective bungalows.
7. Cardinal House site – this scheme is in the current programme for remodelling of the sheltered block and because of that, a number of flats have been vacated already. At the time of writing this report a total of 17 tenants out of 36 still need to be decanted but officers are confident that suitable alternative accommodation will be found and that all will be re-housed by Christmas 2009. Some feasibility work has already been undertaken by consultants on the remodelling of the block and the possible redevelopment of the site to incorporate new build. See proposals, paragraph 8 for more details of what can be achieved on this site.
8. Lambourn Road site – this site has been the subject of previous reports due to the structural defects found on non-traditionally built bungalows and most have now been demolished. Only one bungalow remains to be decanted, it was sold under Right to Buy legislation, but officers are actively seeking alternative accommodation for the owner occupier and it is anticipated that suitable accommodation will be found. If necessary a Compulsory Purchase Order (CPO) will be served and provision has been made for this. One other owner occupied bungalow still stands but this is outside of the development area and will not affect this project. Feasibility work has also been undertaken by consultants on this site and again more details are described in the proposals section, paragraph 9. A local lettings plan will be considered for the block of one and two bedroom flats to pre-empt management issues that may arise through a concentration of vulnerable tenants.
9. There are on-going discussions with Planning Officers on both schemes and the Housing Advisory Panel will be consulted on the proposals at their meeting on 23 June 2009.

## **Proposals -**

10. As the Council has already appointed a consultant who has produced feasibility studies and costings for both sites and initial consultation has been held with Planning Officers, it is proposed that a bid will be submitted in round one by the 30 July 2009 deadline. Owing to the tight deadlines to submit bids and achieve completion of the scheme by 31 March 2011, it is important that critical approvals in the procurement process are given without delay and it is proposed to convene a meeting of the City Executive Board on 18 December 2010 to consider the tenders submitted.
11. It is proposed to remodel the sheltered accommodation at Cardinal House and to fund this from the HRA as originally proposed. In addition, new sheltered units will be built on site. Discussions have already been held with the Planning team and the Council's consultants and it is agreed that an additional 20 homes can be provided. A site layout plan showing the proposal is attached (Appendix 2). As Eastern House does not meet current standards and is not needed for sheltered accommodation, it is proposed that residents will be re-housed in the new units at Cardinal House and that Eastern House will either be re-designated as general needs accommodation, or sold. A report on the proposals for Eastern House will be presented to the Board at a later date.
12. Lambourn Road has also been the subject of a feasibility study and discussions with the Planning team and consultants. The general feeling in Rose Hill is that they would like to see bungalows included within the development. This does restrict the number of homes that can be built due to the larger ground floor area needed, however by using a chalet type design, a bedroom could be incorporated in the roof-space. A total of 38 homes could be provided and the proposed site layout plan is attached (Appendix 1).
13. It is proposed to appoint an RSL mentor, at an estimated fee of between £4K and £5k, who will "watch over" and advise on the bidding process. This will facilitate a smoother path and avoid possible pitfalls. Their experience will aid the procurement and bidding processes to enable an informed value for money assessment.

## **Financial Implications -**

14. The financial Appraisal for each scheme is attached (Appendix 3), it is indicative only and shows the level of cost and mix of funds anticipated.

15. Each scheme has used an Interest rate at present of 6%. Neither scheme is particularly sensitive to interest rate change. Each has a contingency of 5% on build costs.
16. The funding mix is calculated on the basis that the Grant is pitched at a reasonable level and Prudential Borrowing at a level that can be repaid over a 30 year period using surplus rental income.
17. Land in each case is assumed at Nil value, although a submission of indicative land value will be given to the HCA so that the real investment by the Council is shown.
18. The value of funding direct from the Council are amounts currently budgeted. In the case of Lambourn Road, £500k is from General Fund and although included within the capital budget is yet to be found. Cardinal House funding is from the Sheltered housing remodelling budget using Cardinal own budget and Eastern House. This remodelling budget does depend on other sheltered sites being sold.
19. Initial funding of set up fees is from existing feasibility monies for Tower and Maisonette blocks. As the grant is payable in two tranches, start on site at 60% and balance on completion, prudential borrowing and own funds are required in year 2010/11. Prudential borrowing at this level can be accommodated within the existing Council approvals.
20. Lambourn Road is a financially viable scheme in that Loan repayment can be achieved after only 22 years. Sensitivity to cost over run is reasonable as an increase of £500k will extend pay back period to 35 years.
21. Cardinal House is more problematic. Costs are higher because of the sheltered / common area and remodelling being carried out. Grant is only available for the new increased number of units. It has been assumed that if HCA approve the grant, the whole development would be taken outside HRA subsidy. If this is not the case, borrowing at the level shown could not be supported. Rental values have been included at existing levels until we have the new dwellings valued. Rent levels have to be at target rent and it is believed that this will make an improved cash flow and become viable.
22. It is important to note that rental income from the new homes built through this programme will be outside the current HRA subsidy system. This effectively means that the income will go towards servicing the prudential borrowing (from the Public Sector Loans Board or the open market depending on the best terms available). It also means that the Council retains the full receipt from any RTB sale in the future.

23. Any rental surpluses and any losses will be charged to the HRA. Likewise, any construction and overrun costs will be charged to the HRA. Rent loss due to the decanting of tenants from Cardinal House is accounted for in the financial appraisal attached.
24. Grant payments will be made under standard National Affordable Housing Programme (NAHP) terms. For schemes which start on site in 2009-2010, the start on site tranche will be 60% with the completion tranche in 2010-2011 being the balance of 40%. If the Council fails to deliver, it is expected that the second tranche will be apportioned to the completed number of units, although at the time of writing the report, this has not been confirmed.

### **Legal Implications -**

25. The HCA expect that local authority bids for the grant will be for social rented housing and that proposals will be for development on local authority owned land e.g. infill sites which are potentially unattractive for other providers to own and manage.
26. Under this initiative, it is not necessary for the Council to set up a Special Purpose Vehicle (SPV) but it may be that any further new build projects will have to be progressed through the SPV route.
27. Because local authorities must offer secure tenancies for permanent rented properties, tenants will enjoy, as part of their tenancy conditions, a statutory right to buy with agreed Right to Buy (RTB) discounts.
28. The HCA's contract with local authorities will be a standard agreement, taking into account the status of local authorities and the fact that they are required to comply with a range of statutory obligations in their role as landlords. The Council must enter an agreement before the grant can be drawn down.
29. Under section 80b of the Local Government and Housing Act 1989 (as inserted by Section 313 of the Housing and Regeneration Act) provides for agreements between the Secretary of State and a local authority which would have the effect of excluding either a local authority's whole housing stock or specified properties (including future properties) from the operation of the HRA subsidy system. In order to remove the new units from the HRA subsidy system, a formal application (Form 80b) may have to be made to the Secretary of State. It may well be that, by awarding a Social Housing Grant (SHG) to a local authority the exemption from subsidy is automatic and submission of Form 80b rendered unnecessary. Confirmation of this is awaited from the HCA.
30. Present indications show that all tenants will be decanted from Cardinal House before Christmas 2009, all are actively pursuing the

bidding process through Choice Based Lettings and none have indicated a reluctance to move. However, if a tenant refuses to do so, as a last resort, the Council may have to serve notice upon them and start the legal process in order to meet the timescale. If, at a late stage, a tenant refuses to move this could delay the start on site but should not affect the final completion date as allowances have been made in the programme for this eventuality.

31. Due to the fact that the overall project sum is expected to be £12,000,000, (£5,500,000 Lambourn Road and £6,500,000 Cardinal House), it will be procured under OJEU rules by the Council's Procurement Team.

### **Climate Change/Environmental Impact -**

32. The HCA want to use this opportunity to create schemes which showcase high levels of environmental performance. Homes built under this programme will be required to achieve Code for Sustainable Homes Level 3. However they are encouraging bidders to aim higher and will want to fund high quality, value for money schemes of Code Level 4 and above. The Council will therefore be aiming to achieve Code Level 4.
33. The Code for Sustainable Homes has been developed to enable a step change in sustainable building practice for new homes and is a single national standard that builds on the requirements of the 2006 Building regulations.
34. The Code measures the sustainability of a home against design categories, rating the "whole home" as a complete package. The design categories included within the Code are –  

Energy/CO<sup>2</sup>, pollution, water, health and well being, materials, management, surface water run off, ecology, waste.
35. The Code uses a rating system and introduces minimum standards for energy and water efficiency at each level of Code and uses a simple points system. The more points achieved, the higher the Code level reached.

### **Equalities Impact –**

36. It is intended that the new build homes will be for general purpose needs at Lambourn Road and for sheltered units at Cardinal House. They will be built to lifetime standards making them suitable for wheelchair users. They will be offered to those on the waiting list through the Choice based Lettings scheme.

## **Level of Risk –**

37. The Risk Register is attached (Appendix 4).
38. There is a risk of losing an element of grant funding if the scheme is not completed by 31 March 2011 but it is understood that a proportion will be paid based upon the number of completions. This reduces the financial risk but it is very important that no undue delays are experienced at any stage in the process so that the Council can take full advantage of the grant available.
39. The risk of cost overruns on construction highlights the need to have a tight procurement process and specification. The use of the proposed RSL mentor will help mitigate this risk but ultimately any costs over and above the grant and agreed borrowing will have to be funded from the HRA. A Liquidated Damages Clause in the contract will also help to mitigate the losses as will close monitoring as the work proceeds and an early completion bonus.
40. As mentioned in Legal Implications (paragraph 30) above, there is a risk of tenants refusing to decant from Cardinal House but that will be lessened by serving notice and starting the legal process in good time. It is also expected that enough properties become vacant elsewhere to facilitate the moves and this will be regularly monitored.

## **Timescale -**

41. An indication of the timescale for critical milestones is as follows:-

30 June 2009 - Apply for approval as an investment partner.  
31 July 2009 - Deadline for grant bid (round one).  
3 August 2009 - Place OJEU advert  
Sept. 2009 - Successful bids announced.  
30 Sept 2009 - Send out tender documents.  
10 Nov 2009 - Tender documents returned.  
Nov/Dec 2009 - Special session of City Executive Board.  
18 Dec 2009 - Award contract.  
January 2010 - Project starts on site.  
31 March 2011 - Deadline to complete project.

Please note that the dates above are deadlines, the aim is to bring these forward as far as possible to facilitate an early start on site.

## **Recommendations –**

42. The City Executive Board is recommended to:-

1. Grant Project Approval to the project described in this report.



2. Approve the submission of a pre-qualification application to become an approved investment partner through the National Affordable Housing Programme (NAHP).
3. Approve the appointment of a Registered Social Landlord (RSL) as a mentor to oversee the process and financial / risk assessments, including value for money.
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7. Charge any rental surpluses and losses on the new-build properties to the HRA.

#### **Appendices –**

43. Appendix 1 - Proposed site layout Lambourn Road.
44. Appendix 2 - Proposed site layout Cardinal House.
45. Appendix 3 – Financial Appraisal
46. Appendix 4 – Risk Register

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**List of background papers:** HCA Guidance

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