

To: City Executive Board

Date: 10th July 2013

Report of: Head of Housing and Regeneration and
Major Projects Service Manager

Title of Report: BARTON – ACQUISITION OF AFFORDABLE HOUSING

Summary and Recommendations

Purpose of report: To seek approval to the purchase of the affordable (social rented) housing from Barton Oxford LLP that is to be developed as part of the Barton Development. Also approval to enter into related Management of Homes, and Allocations and Lettings Agreements with Barton Oxford LLP as part of the overall transaction.

Key decision: Yes

Executive Lead Members: Councillor Ed Turner and
Councillor Scott Seamons

Report approved by: David Edwards, Executive Director, Housing and
Regeneration.

Finance: Nigel Kennedy

Legal: Lindsay Cane

Policy Framework:

- Meeting housing needs
- Strong and active communities
- A cleaner, greener Oxford
- Housing Strategy / HRA Business Plan
- Asset Management Plan
- Regeneration framework

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

1. Note the contents of this Report and progress in discussions with Barton Oxford LLP.
2. Grant delegated authority to the Executive Director, Regeneration and Housing in consultation with the Head of Finance to authorise the Council's entry into required legal documentation with Barton Oxford LLP to give effect to this matter, the terms to be consistent with the contents of the Not For Publication Confidential Appendix in relation to:
 - a) Approve entering into an Agreement to purchase the Affordable Housing (circa 354 no.) noting the intention that the Agreement be novated to the successful / nominated house builders for each phase of development;
 - b) The entering into of a Management of Homes Agreement;
 - c) The entering into of an Allocations and Lettings Agreement.
3. Note that in order to maintain flexibility going forward the Council may, at its discretion at a point in the future, procure a partner (such as a Registered provider) for up to 25% of the total affordable units.
4. Note that Officers will present update and monitoring reports on a regular basis to both the Corporate Asset and Capital Board and CEB as the project unfolds.

Appendices

1. Indicative Phasing and Dwelling Mix
2. Risk Register
3. Not for Publication Confidential Appendix

Background

1. Members will recall that in October 2011 the Council entered into a 50:50 Limited Liability Joint Venture partnership with Grosvenor Developments Limited (Barton Oxford LLP) to facilitate the development of the Council's strategic housing site at Barton. Since that time good progress has been made in advancing the development. An Area Action Plan has been adopted, and the LLP submitted a planning application in June 2013. The scheme is likely to deliver up to 885 residential units, of which at least 40% (354) will be social rented in perpetuity (save for Right to Buy – see below).
2. The LLP in due course will offer serviced residential development plots on a phase-by-phase basis to the market for purchase by house builders. The traditional approach would have been for individual house builders to partner with a Registered Provider, which would purchase and manage the provided affordable housing.
3. The LLP considered that there would be distinct benefit in having a single owner of the affordable housing across the entire site, in order to provide consistency of management, accountability, etc. For the reasons set out below, Officers felt that there would be advantages in the Council considering the acquisition and management of this affordable housing to be provided on the site.
4. The LLP agreed to progress on this basis, but it is an 'arm's length' transaction. The Council has gone through a formal pre-qualification process and submitted a "bid" to the LLP based on formal tender documentation. The house builders forum established by the LLP has generally supported this approach. (The LLP has held a pre-qualification competition which has led to the establishment of a house builders forum. This is a range of appropriate house builders interested in purchasing phases of the development as they are released to the market.)
5. The Housing Revenue Account (HRA) self-financing regime came into effect on 1st April 2012. This has created an opportunity to fund capital investment for the delivery and management of affordable housing. This is against the backdrop of borrowing, in Oxford's case £198.5m, to buy itself out of the previous housing regime. The Council's HRA 30 year Business Plan was formally adopted on 8th February 2012 and updated as part of the 2013/14 budget process approved by Council. The Business Plan has funding for up to £60m investment in the development of new affordable homes in the initial 8 year period.
6. The Business Plan has been independently reviewed by PWC, and has been found to be prudent, having taken a robust view on the likely impact of Right-to-Buy receipts, likely borrowing levels, and increased arrears issues following government welfare reform, etc. It is against this backdrop that this Report sets out how the Council intends to procure, own and manage the affordable housing in partnership with Barton Oxford LLP.

7. The proposal will additionally allow the Council to broaden its asset base to advantage, spreading overheads, mitigating against loss of stock through Right to Buy, etc.

Report

8. The Council's policy is to increase the stock of affordable homes as far as possible, the principal constraints being the available land supply within the City and the funding opportunities for Registered Providers. It has been estimated that circa 2,000 new affordable homes are needed every year in Oxford. The Council and Registered Providers are the only suppliers of the new affordable homes.
9. The Council will acquire approximately 354 properties on a phase-by-phase basis over the life of the development. The indicative phasing and dwelling mix is attached as Appendix 1. The exact mix of the affordable element remains to be settled, and this will be agreed as the detailed layouts and intentions are confirmed on a phase-by-phase basis.
10. The Council will be required to enter into an appropriate management of Homes Agreement with the LLP to ensure proper resourcing, the meeting of agreed management standards etc. Also an Allocation and Letting Agreement that will set out the proposed/agreed approach in those respects. More detail is contained within the Confidential appendix.
11. The affordable housing at Barton can be provided in one of two ways; either by the Council becoming the nominated Registered Provider and acquiring and managing the affordable housing as is proposed by this Report, or by the "market" through the involvement of one or more Registered Providers in tandem with the house builders' buying phases. The advantages and disadvantages of those options are as detailed below.

Advantages of direct Council provision

- The proposal meets the Council's aspiration to increase the amount of social rented housing in its housing stock and therefore meets one of the Council's Key Objectives within its Corporate Plan.
- Creation of new Council stock allows the City Council to decant and to manage the existing stock more efficiently. This includes encouraging tenants to downsize, particularly in the face of reductions in benefits.
- Right-to-Buy elsewhere in Oxford will continue to result in overall affordable stock loss, which will need to be replaced. This option gives the opportunity for that to happen.

- The Council has very little development land available from which it could otherwise develop social housing, and it would be extremely challenging for the Council to acquire land at acceptable prices in the open market.
- Rents and tenant security are becoming increasingly fluid in the Registered Provider sector. The Council's ownership gives significant additional comfort that social rented housing will be retained, where Registered Providers are to some extent moving to affordable rents (up to 80% market rent).
- The Council will retain a long term interest in the control of lettings policy and will provide high quality management.
- RPs are increasingly becoming stock traders, either through active management, or merger and acquisition, all within a climate where increasing financial leverage is very much less stable than previously experienced by the RP market.
- The Council's involvement gives comfort of greater likelihood of affordable homes being provided as quickly as possible. High quality management of those social dwellings is a cornerstone of ensuring that the development at Barton is exemplar.
- Increasing the overall housing stock by approximately 5%, will enable the Council's Direct Services function, which maintain that stock, to spread their organisational overheads across a larger annual turnover etc.

Advantages of providing through another Registered Provider

- The Council does not need to undertake development, which is potentially displacing RP activity and could avoid the management and cost risks.
- Most of the Council's affordable housing objectives can be delivered by RPs in terms of housing numbers (albeit possibly over a longer timeframe) and the Council could reserve its capacity/resources for sectors other than housing.
- The covenants / agreement already in place helps safeguard the Council's social rent policies.
- Registered Provider stock is outside the Right-to-Buy regime and this safeguards affordable homes stock.
- A Registered Provider delivery route would ensure that affordable homes were delivered without direct risk to the Council (although this would mean the Council is likely to provide significantly less Council homes over the period in seeking to source alternative sites).

Financial implications

12. The HRA BP is annually reviewed so that estimated assumptions are updated with more relevant and known data. The factors within the HRA BP that impact on the resources available are numerous, wide ranging, external and internal and are inter-dependent. Significant scenario planning is needed to obtain optimum financial outcome, whilst still achieving the Council's HRA objectives.
13. The HRA BP financial strategy has planned capacity for £60m available for funding non-HCA grant supported new build properties over the initial 9 years. The funding is phased so any Barton new build capital spend would need to align with this profile.
14. It is important to note that many of the assumptions identified from the above list are relatively fluid and will be subject to regular change and review. Aligned to these financial assumptions is the risk register identifying both the probability and impact of these HRA risks occurring and how these are to be managed to bring them down to acceptable levels. The proposals allow for the Council to introduce a partner for up to 25% of the affordable housing stock, if the Council decides at a later date not to fund the full acquisition. This provides the Council with a hedge against full exposure to the transaction in the event that its financial circumstances etc change going forward and is considered a prudent approach.
15. It is recommended that progress of applying the £60m is reported quarterly to CEB, and the Corporate Assets and Capital Board.

Legal implications

16. The legal power for the Council to acquire land and property for housing purposes is contained within Section 9 of the Housing Act 1985.
17. Secure qualifying tenants will have the Right to Buy on these new build properties, subject to the normal eligibility criteria. Cost floor restrictions would apply in the first 10 years (S131, Housing Act 1985) but it is likely that even the value of maximum discounted sales will exceed the cost floor. Whilst the Council continues to offer secure (or introductory initially) tenancies this position will not change.
18. Wheelchair accessible properties to be constructed will be designated as disabled adapted properties, and as such will sit outside of the provisions of Right to Buy.

Sustainability/Climate Change Implications

19. The properties to be acquired will be constructed to level 4 of the Code for Sustainable Homes and will comply with the Building for Life Gold Standard and Lifetime Homes requirements.

Equalities

20. 5% of all the new homes to be constructed at Barton will be fully wheelchair accessible. There are no other direct implications arising out of this report at the present time.

Risk Implications

21. A risk assessment has been undertaken and the Risk Register is attached as Appendix 2 to this report. In order to mitigate risk the Council will retain the ability at its absolute discretion, to procure an investment partner for up to 25% of the total affordable units.

Conclusion

22. The investment in new Council Homes at Barton would be a substantial commitment; however the current HRA Business Plan assumptions show that the Authority has the financial capacity to deliver, based on known pressures and risks. The Council could not provide the scale of homes elsewhere outside of the Council's administrative boundary or on land owned by the City at this time. Acquiring land elsewhere would be more expensive as values would not be tied to social affordable rents. Risk is mitigated by the Council having the discretion to procure a partner for up to 25% of the affordable units.

Name and contact details of author:

Jane Winfield, 252551
Regeneration and Major Projects
Service Manager
jwinfield@oxford.gov.uk

James Carden, 252358
Housing Assets Strategy Manager
jcarden@oxford.gov.uk

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BARTON, OXFORD Indicative Phasing Schedule

Phase	Build Year	1 bed apartments	2 bed apartments	2 bed houses	3 bed houses	4 bed houses	5 bed houses	Total	Units per phase	Build Year	Units per annum	Cumulative Total
1	2015	4	2	4	4			14	189	2015	14	14
1	2016	10	40	16	37	8		111		2016	111	125
1	2017	14	22	12	16			64		2017	120	245
2	2017			6	20	18	12	56	56	2017		
3	2018	14	50					64	90	2018	130	375
3	2018		26					26		2018		
4	2018	2	5	4	27	2		40	160	2018	120	495
4	2019	2	5	4	38	5		54		2019		
4	2019		2	8	40	12	4	66		2019		
5	2020			9	30	14	1	54	106	2020	106	601
5	2020			2	35	14	1	52		2020		
6	2021	8	24	5	19	8	4	68	116	2021	116	717
6	2021	0	0	6	32	10	0	48		2021		
7	2022			5	80	5	6	96	168	2022	96	813
7	2023			6	46	16	4	72		2023	72	885
Total		54	176	87	424	112	32	885				
%		6.1%	19.9%	9.8%	47.9%	12.7%	3.6%	100.0%				

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CEB Report Risk Register – Barton – Acquisition of Affordable Housing

No.	Risk Description Link to Corporate Objectives	Gross Risk		Cause of Risk	Mitigation	Net Risk		Further Management of Risk: Transfer/Accept/Reduce/Avoid	Monitoring Effectiveness					Current Risk
Risk Score		Impact Score: 1 = Insignificant; 2 = Minor; 3 = Moderate; 4 = Major; 5 = Catastrophic						Probability Score: 1 = Rare; 2 = Unlikely; 3 = Possible; 4 = Likely; 5 = Almost Certain						
145	CEB-001-CA Scheme does not proceed / there is delay to the programme	1 4	P 3	Viability/deliverability of the scheme is called into question by economic and /or market challenges	The site is attractive because of its location in Oxford. The Barton Oxford LLP continues to receive high quality professional advice and market intelligence supplemented by feedback from the House builders Forum (M)	1 3	P 2	Reduce						
	CEB-002-CA Failure/insolvency of Barton Oxford LLP	3	3	Viability/deliverability of the scheme is called into question by economic and /or market challenges	Working capital is provided to the Project by Grosvenor Developments, the Council's LLP partner. This is a significant organisation with a proven track record of delivery and substantial financial strength). (H)	2	2	Accept						
	CEB-003-CA Failure/insolvency of individual phase nominated house builders	3	3	Economic/market conditions lead to the administration or insolvency of the nominated house builders	Houses to be built in Oxford will be attractive to the market. Plots sold down to the market by the LLP will be serviced, and as a consequence, significantly de-risked. Significant due diligence will be undertaken on the credit	3	2	Reduce						

				worthiness of the house builder purchasers by the LLP with which the Council will be involved as the nominated "registered provider". House builders have been pre-qualified on financial strength. (M)												
CEB-004-CA	This transaction with the LLP does not complete	2	3	Unable to agree satisfactory detailed Heads of Terms and conditions with the Barton Oxford LLP.	There is a good working relationship with the Barton Oxford LLP. Draft Heads of Terms for the acquisition are now well advanced, in addition the Council has been through a pre-qualification and formal offer submission process, which are all broadly acceptable to the LLP. (H)	2	2	Accept								
CEB-005-CA 146	This transaction with the LLP does not complete	2	2	Unable to obtain formal CEB approval	Continued dialogue with Members and key stakeholders. (H)	2	2	Reduce								
CEB-006-CA	Council's inability to fund	2	2	Change in Council's financial solvency, other pressures and priorities lead to a re-allocation of capital resources.	The Council will retain the ability to allocate up to 25% of the total affordable units to a junior investment partner. (M)	2	2	Reduce								
CEB-007-CA	Number of properties are depleted through Right to Buy	3	2	Secure tenants exercise their Right to Buy	Whilst the Council continues to offer secure (or introductory initially) tenancies the position will not change. Cost floor provisions ensure new build properties are not sold below 'cost' in the first 10 years. (L)	3	2	Accept								

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