

To: City Executive Board
Date: 23 January 2018
Report of: Head of Housing Services
Title of Report: Lucy Faithfull House

Summary and recommendations	
Purpose of report:	The report seeks approval in the first instance for the transfer of the freehold interest in Lucy Faithfull House to the Council's Housing Group of companies and making available the necessary loan finance for the development of the site to proceed, whilst leaving the possibility to develop the site within the HRA as a secondary option.
Key decision:	Yes
Executive Board Member:	Councillor Mike Rowley, Housing Councillor Ed Turner, Finance and Asset Management
Corporate Priority:	Meeting housing needs An efficient and effective Council
Policy Framework:	None.
Recommendations: That the City Executive Board resolves to:	
1.	Approve the disposal of the freehold interest in Lucy Faithfull House to the appropriate company within the Council's Housing Group ("OCHL") and delegate authority to the Chief Executive in consultation with the Monitoring Officer and the Head of Financial Services to approve the terms of the disposal;
2.	Recommend to Council to include a budget of £13m in the General Fund Capital Programme for the provision of a loan to OCHL for the purpose of developing the site for residential accommodation; and
3.	Recommend that if progress of the preferred option of development within OCHL is deferred for whatever reason then the option of development using the HRA as the delivery vehicle is considered.

Appendices	
Appendix 1	Risk Register
Appendix 2	Initial Equalities Impact Assessment
Appendix 3	Not for publication – financial summary
Appendix 4	Not for publication – scheme appraisal

Introduction and background

1. Lucy Faithfull House was a homeless hostel constructed on land leased by the Council in 1976. In 2016 the County Council decided to replace the hostel with equivalent provision on a number of sites across Oxford; the City Council intends to ensure continued funding for this provision as County funding is wound down. The hostel therefore closed and the building has no remaining viable use, with the accommodation being of very poor quality. The scheme has therefore been acquired by the City Council for the provision of much-needed permanent homes compliant with our affordable housing policy, and it has been decided to demolish the building prior to a redevelopment of the site.

Detail

2. At CEB on 16th October CEB authorised officers to investigate the viability of OCHL undertaking the development of the site as part of its overall development programme.
3. Feasibility work has taken place and it is believed that a development of between 40 and 55 apartments may be achievable subject to planning consent. OCHL would be required to provide 50% of the homes as affordable housing in line with Planning policy.
4. Transferring the site to OCHL for them to undertake the development would ensure that the scheme is progressed quickly and any potential surpluses are kept within Oxford.
5. Any transfer should take place once demolition works have been completed.
6. This proposal is conditional on confirmation from OCHL that it wishes to accept the transfer of Lucy Faithfull House and that it has the necessary finance available.

Financial implications

7. The Council has previously undertaken feasibility work on the site's development potential using its professional advisors and these figures have been updated of inflation to arrive at an upper funding limit of £13m to cover the purchase price and development costs which would be made available as a loan to OCHL depending upon their requirements.
8. Any loan provided would be state aid compliant and would be in line with previous loans offered to the housing company which generate a surplus in the General Fund for the Council. The completed homes would act as security on any loan made.
9. Assessing the scheme against the existing company development model criterion the results are as follows:
 - a. Payback (PYB) period is within the 40 year threshold;
 - b. The Net Present Value (NPV) is £1.1m positive so adds value to the company of this amount; and
 - c. The Internal Rate of Return (IRR) of the proposed development is 5.82%, which exceeds the minimum threshold of 4.00%.

10. The loans will be made available to the company in accordance with the state aid compliant uplifts approved in the current Business Plan. It is estimated that the state aid compliant loan will return for the Council approximately £230k over the period of the loan.
11. Please see Appendix 3 “Financial Information Summary”. This provides development plan information to evidence compliance with existing threshold limits.
12. Please see Appendix 4 “Development Scheme Appraisal”

Legal issues

13. There are no additional legal implications arising from this report.

Level of risk

14. Please see Appendix 1. Appendix 3 also provides PYB, NPV and IRR returns if costs of the development were 10% higher than estimated. The risks associated with this lies with the company as future profitability and financial performance will be negatively impacted, that may impact on the speed, cost and delivery of future projects so it is up to the company to manage these risks moving forward.

Equalities impact

15. Please see Appendix 2.

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Background Papers: None

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