

To: Cabinet, 9 September 2020
Council, 5 October 2020

Report of: Head of Housing Services

Title of Report: Land acquisition, Project Approvals and budget for the development of homes in the Housing Revenue Account

Summary and recommendations	
Purpose of report:	The report seeks project approval, delegations, and budget, to enable spending from the Housing Revenue Account (HRA), on land purchases, build contracts and other necessary agreements and associated development costs for the purpose of delivering affordable housing.
Key decision:	Yes
Cabinet Member:	Councillor Mike Rowley, Cabinet Member for Affordable Housing Councillor Ed Turner, Cabinet Member for Finance and Asset Management
Corporate Priority:	Deliver more affordable housing
Policy Framework:	Housing and Homelessness Strategy 2018 to 2021
Recommendations: That Cabinet resolves to:	
<ol style="list-style-type: none"> 1. Give project approval to the proposals, to purchase land; enter into build contracts and any other necessary agreements or contracts and incur associated development cost spends, as set out in this report, and within the allocated HRA capital budgets and business plan, for the purpose of delivering more affordable housing in Oxford; 2. Recommend to Council that it approves a revision to the HRA capital budget in 2020/21 of £31.647m, in order for the schemes listed in this report (paras 11 to 40) to be added into the capital programme funded predominantly from additional borrowing; 3. Recommend to Council that it approves a revision to the HRA base (revenue) budget from 2021/22 on, for £235k to be added, for the creation of the Affordable Supply Programme and Enabling Team to manage and co-ordinate the various work streams to deliver the programmes; 4. Delegate authority to the Director of Housing, in consultation with the Cabinet Member for Affordable Housing; the Head of Financial 	

Services/Section 151 Officer; and the Council’s Monitoring Officer, to enter into agreements for the purchase of land, and any other necessary agreements or contracts and/or spend within the identified budget, for the provision of additional affordable housing; and

5. **Delegate authority** to the Chief Executive, in consultation with the Cabinet Members for Finance and Asset Management, and Affordable Housing, to approve any property or development purchases over £500,000 for affordable housing, within this project approval and budget envelope.

Appendices

Appendix 1	Site Plan – Northfield Hostel and Lanham Way sites
Appendix 2	Risk Register
Appendix 3	Equality Impact Assessment
Appendix 4	<i>Not for publication – exempt appendix under Schedule 12 A (b) to the Local Government Act 1972 - Northfield Hostel and Lanham Way site valuations report</i>

Introduction and background

1. The Council continues to develop a programme of affordable housing supply through multiple work streams, including the direct delivery of units through Oxford City Homes Ltd (OCHL); acquisitions; joint ventures, such as Barton Park; regeneration schemes; and helping to enable delivery from Registered Provider partners, community-led organisations, and others.
2. The current OCHL business plan (2019 to 2029) sets out the ambition of delivering over 2,200 new homes of mixed tenures over this period, including 354 new homes for Social Rent at Barton Park. This plan is presently being refreshed by OCHL. The Housing Revenue Account (HRA) business plan currently expects to buy over 1,000 of these new homes from the company, with nearly 800 of these being at Social Rent, having to balance this with the demand for investment in existing stock, including responding to the climate emergency.
3. Officers continue to review opportunities to bring forward the development of further affordable homes to increase the supply available to help meet Oxford’s housing needs.
4. Officers must also keep under continual review the best mechanism by which to deliver affordable housing schemes, ensuring that these schemes are brought forward as expeditiously as possible, ensuring best value, and that the best opportunity to deliver quality schemes for affordable housing is exploited. Additional sites involving purchase from a private developer will, by default, be purchased directly by the HRA, but where such sites are being developed by the Council, the viability of development through OCHL will always be considered as a preferred option.

5. In some circumstances, delivering schemes directly through the HRA, rather than in partnership between OCHL and the HRA, will better meet these objectives. The HRA has a significant stock holding with associated rental income streams, with a relatively low level of debt per property, when compared to OCHL which is only just developing a small stock holding. As such, the HRA is able to support development requiring a longer financial payback period, and is less sensitive to short to medium term financial risks than OCHL, which is a commercial vehicle.
6. Developments are financially appraised on a scheme by scheme basis, and need to be viable and sustainable to move forward in the development process. Many schemes will require additional subsidy to fund costs, in addition to using borrowing and cross-subsidy from market units (sale or rent) where suitable. Strategic issues that impact on scheme financial modelling include Government policy; prudential borrowing rules; and Public Works Loan Board (PWLB) rates, all of which have seen considerable change in recent years. On a site basis, there are also multiple influences on costs including the cost of the land; site and ground conditions; build costs; planning requirements; and valuations (most noticeably impacting on a reduced ability to cross-subsidise from market sale or rent in lower value areas, and risks associated with this and any delay in sales).
7. This development programme continues to support a significant share of the Oxfordshire Housing and Growth Deal (OGD) programme by delivering affordable homes, using OGD grant, within that programme.
8. This report identifies some opportunities that the Council could use for the purpose of further driving the delivery of more additional affordable homes. This report is in addition to proposals brought forward to 22 January 2020 Cabinet in relation to the use of Retained Right to Buy Receipts (RRTBRs) and Recycled Capital Grant Funds (RCGF) to increase the provision of more affordable housing. This is reflected in revisions to the HRA business plan, with additional budget provisions as set out in this report. At present, the use of RRTBRs and RCGF are considered committed (for 2020/21 and 2021/22), however, where 'qualifying expenditure' for that purpose is incurred through the discharge of activity in this report, officers may switch this scheme to use RRTBR subsidy, rather than Housing and Growth Deal, in order to ensure that RRTBR spend is achieved within the strict 3 year spend limits imposed by the Government.

Proposals for Spend

9. There are a number of schemes being developed that could help to further drive the delivery of the affordable housing programme. These are identified below, although many are at an early stage of the development process and are likely to see some change and refinement as this work is taken forward, not least to ensure viable schemes with planning consent can be developed.
10. This report also proposes some delegations for officers to be able to bring forward other potential schemes, within HRA financial parameters, that are not yet known – in particular in order to engage with market opportunities that may present themselves, with time limitations in which the Council would need to make an offer to purchase, for example.

Northfield Hostel Site

11. This site is owned by Oxfordshire County Council. The site was formerly a hostel facility providing residential accommodation for boarding students attending the 'specialist' Northfield School on a different site nearby. In 2014 the hostel facility was closed by Oxfordshire County Council, and this site has been fenced off and unused since that time. Northfield School itself is due to be redeveloped to provide a new school facility – planning consent has been given and the development process is currently underway.
12. The site lies adjacent to the southern bypass at Littlemore, and is accessed from Sandy Lane West, and Bampton Close. Appendix 1 provides a site location plan. The whole site comprises 0.7ha/1.73 acres, including the small sports area, which could provide in excess of 40 new homes in a flatted housing scheme.
13. Oxfordshire County Council has declared the hostel site to be surplus to its requirements, and the planning policy allocation for the site indicates the site can be developed for housing, assuming that it is no longer required as a hostel.
14. Officers have been in negotiation over the possible purchase of this site for some time, and now have further clarity in relation to the 'heads of terms' under which a sale might be achieved. Oxfordshire County Council is presently only prepared to sell 1.25 acres of the site (excluding the sports area), in an agreed 'off-market' sale with Oxford City Council only. This is set out in the proposed 'heads of terms', with approval for the sale proposed in a report to County Cabinet in August 2020. Oxfordshire County Council intends to make an application for outline planning consent for the whole site, developing at least 47 new homes. The proposed 'heads of terms' state that Oxford City Council will then make a detailed planning application for the part of the site that Oxford City Council proposes to purchase, and develop as the affordable housing scheme. This site could then be included in the scope of the Oxfordshire Housing and Growth Deal, and delivered within the relevant timing constraints.
15. The sale to Oxford City Council is informed by a jointly appointed 'market valuation' of the site – see Appendix 4 for further information. Both authorities believe that this has provided sufficient rigour to the valuation process, outside of any market testing exercise.
16. This (Oxford City) planning application is anticipated for late 2020, and is expected to propose to deliver at least 30 new affordable homes in a flatted scheme, of which at least 12 would be at Social Rent (more if financial viability work supports this).
17. Overall, the development of c.30 homes is expected to be achieved within a financial envelope of £9-£9.5m, including land purchase, development and on-costs. This is using assumed build costs and densities, with decisions yet to be made on the 'route to market'. The option of using OCHL as the site developer, if this is the most viable approach for the Council, is to be fully explored. Detailed design and due diligence work will need to continue, and will impact on cost. If higher densities can be achieved, then an expected rise in build costs would be expected, but this will also achieve improved rental returns once the completed units are let. The financial appraisal will be kept under review and managed within existing and agreed financial parameters, and the HRA business plan and capital budget provision. Further financial appraisals undertaken, as site feasibility work continues, show that the scheme is viable at higher densities and build costs, of c. £11m for 40 units (with a minimum of 20 homes – 50% - at Social Rent) and c. £13.5m for 50 units (with a minimum of 26 homes – 52% - at Social Rent).

18. It is proposed that Oxford City Council will enter into agreement with Oxfordshire County Council, to purchase this land, as set out in Appendix 4, and to undertake feasibility work in order to progress the delivery of this site through the planning and design stages; procuring professional services; and engaging a contractor, through the procurement process, to enter into a build contract to deliver new affordable homes, within the overall cost envelope of up to **£13.5m** for 50 new homes. A further Cabinet report will be necessary in relation to any direct HRA build costs. This report proposes to secure delegations and authorities for the land deal only – and in doing so, to ensure that the HRA has sufficient funding to complete the full development process, based on indicative cost forecasts, and therefore also proposes a revision to the HRA capital programme to allow for this forecast spend.

Lanham Way Site

19. This site is also owned by Oxfordshire County Council, and officers have agreed the terms for sale to Oxford City Council should this Cabinet report be approved.

20. Lanham Way is a small site in a residential area of Littlemore. Lanham Way is not an adopted highway, but this site can be accessed off Medhurst Way (off Sandford Road). It comprises approx. 0.33ha / 0.81 acres. The site is a former Oxfordshire County Council maintenance depot. Appendix 1 provides a location plan.

21. An external joint valuation has been undertaken and reported at Appendix 4. The adjacent Medhurst Way residential development undertaken approx. 15 years ago is a high density mostly flatted scheme. The Lanham Way valuation assumes this level of density could be continued in the development of the Lanham Way site, to achieve 22 units, however this is considered an ambitious assumption mindful of specific site constraints and size, and joint work has been undertaken to adjust this for a reduced density accordingly.

22. Whilst the potential of the site for residential use is clear, achievable density is untested, and detailed discussions with the Planning Authority with regard to this has not commenced. As such it is recommended that this site should only be acquired on a 'subject to planning' basis.

23. If approval is given for this acquisition, the Council would procure the necessary design, feasibility, and due diligence work for Lanham Way to enable feasibility to be fully tested, and a planning application then prepared.

24. The proposal with Oxfordshire County Council is based on a development of 16 units. Should a density of 16 units or more not be achievable (through the planning application process, or due to increased site costs being identified that impact on the viability), a renegotiation on the value of the land to be purchased is expected. At present, a viability assessment and financial analysis suggests that the site could be delivered to build 16 affordable homes, of which at least 8 would be at Social Rent (more if financial viability work supports this).

25. Overall, the development is expected to be achieved within the financial envelope of up to £5.6m, including land purchase, development and all on-costs, to build 16 new homes. This is using assumed build costs and densities, with decisions yet to be made on the 'route to market'. The financial appraisal will be kept under review and managed within existing and agreed financial parameters, and the HRA business plan and capital budget provision. Officers recognise that a smaller scheme,

possibly of 12 new homes, may only be achievable at this location, and this option has also been appraised.

26. The proposal is that Oxford City Council enters into agreement with Oxfordshire County Council, to purchase this land (conditionally), as set out in Appendix 4, and to undertake feasibility work in order to progress the delivery of this site through the planning and design stages; procure professional services; and engage a contractor, through the procurement process, to enter into a build contract to deliver new affordable homes, within the overall cost envelope of up to **£6m** for 16 new homes.
27. As with the Northfield site, a further Cabinet report will be necessary in relation to any direct HRA build costs. This report proposes to secure delegations and authorities for the land deal only – and in doing so, to ensure that the HRA has sufficient funding to complete the full development process, based on indicative cost forecasts, and therefore also proposes a revision to the HRA capital programme to allow for this forecast spend. . The option of using OCHL as the site developer, if this is the most viable approach for the Council, is also to be fully explored.

Develop identified small sites on Thomson Terrace, Tucker Road and Juniper Drive

28. These three small sites are Council owned, and had been identified within the OCHL and HRA business plans, to be taken forward within the housing company, with the affordable housing to be purchased back by the HRA.
29. However, further design and cost work has altered the financial viability appraisal, and the sites, as proposed – for affordable rented housing – no longer meet the financial parameters required by OCHL. The parameters within the HRA are wider, for the reasons set out above at paragraph 5, and it is therefore proposed to continue to bring them forward, directly within the HRA, as affordable housing schemes using Housing and Growth Deal funding.
30. The site mixes proposed are:
- a. Thomson Terrace, Littlemore – 3 new (two-bed) affordable rented houses
 - b. Tucker Road, Blackbird Leys – 3 new (two-bed) affordable rented houses
 - c. Juniper Drive, Blackbird Leys – 2 new affordable rented homes – expected to be one bungalow (two-bed) and one house (three-bed)
31. All of these new homes will be affordable housing to rent. At present, financial appraisals indicate that 4 can be delivered at Council/ Social Rent, with the remaining 4 delivered at Affordable Rent (capped at Local Housing Allowance (LHA) rates). Given that detailed design and planning approval stages have yet to complete, there remain some unknowns with regard to costs, and these may increase. The proposal for approval is therefore that at least 3 of the 8 homes are delivered at the Social Rent tenure, with the remainder at Affordable Rent (capped at LHA rates), but that the proportion of Social Rent units is increased as far as scheme viability will allow, and ideally to at least 4 homes at Social Rent (50%) and 4 at Affordable Rent.
32. The proposal is that these three sites are developed by Oxford Direct Services Ltd (ODS), with ODS taking these through design stages to planning (Stage 1) and then into construction (Stage 2). ODS have carried out some initial work, at risk, for all

sites. Financial appraisals show that each of the schemes is viable within an indicative construction cost estimate, but there are significant risks to that, given that the proposals have yet to receive planning consent, and that these are physically restricted sites in terms of size. To reduce the risk it has been agreed to use a two stage approach, with a design stage and construction stage. Stage 1 will be to secure a planning permission, which will allow ODS to provide the Council with a fixed price for the construction work (Stage 2)

33. The overall financial envelope currently proposed for the development is **£2.6m**. The proposal is that Oxford City Council enters into agreement with ODS to undertake feasibility work in order to progress the delivery of this site through the planning, as set out above, and to then enter into a build contract to deliver new homes, within the financial envelope of up to the £2.6m of funding allocated.

Unidentified Site Opportunities

34. A further budget provision has also been provisionally costed in the HRA capital budget refresh, for two sites/ schemes yet to be identified. There are a number of land and development opportunities currently being explored, on non-Council owned sites, and these could be suitable for OCHL to take forward in partnership with the HRA. However, the financial appraisal on some possible sites, may suggest that it would be best brought forward as a 100% affordable housing scheme in the HRA instead, or that the sites are purchased on completion of development of the properties from a private developer, with the Council not taking a 'developer' role in the project.
35. For the purposes of setting an indicative budget envelope for these two schemes, a scheme with the overall cost (land, development and associated on-costs) of £5m has been assumed, for a scheme that would start to deliver a rental return on c.20 Social Rent homes two years after the start on site of the construction phase. A further scheme with the overall cost (land, development and associated on-costs) of £4m has also been assumed, for a scheme that would start to deliver a rental return on a scheme of c. 12 homes (with 50% at Social Rent) two years after the start on site of the construction phase.
36. This report proposes project approval, budget and spend delegations, as set out, to enable Oxford City Council to enter into agreements to purchase land; undertake feasibility work; procure professional services; and engage a contractor, through the procurement process, to enter into a contract (including agreements to purchase property off-plan) and any other necessary agreements or contracts in order to progress the delivery of new affordable homes, within the overall **£9m** financial envelope allocated, for approximately 32 new affordable homes.

Bracegirdle Road, Mortimer Drive and Broad Oak

37. In addition to the schemes identified above, it is proposed to deliver the 8 unit scheme across three sites (at Bracegirdle Road, Mortimer Drive and Broad Oak), which has already been given project approval and allocated HRA capital budget, all at Social Rent, rather than through Social Rent (3 units) and Affordable Rent (5 units) tenures as previously indicated. Due to the increased cost of this scheme, undertaking it at 100% Social Rent does not meet the usual HRA parameters applied as part of the development financial appraisal process. However, the

Council has previously indicated that this scheme will be for Social Rent, including through the Housing and Growth Deal grant process.

38. In the specific case of this small scheme, it is considered important that the units are at Social Rent as a key objective of this initiative was to provide suitable homes within existing estates that down-sizing Council tenants may wish to move into. As such tenants would be moving from homes already at Social Rent, it is important that these properties are also offered at Social Rent as part of the incentive package, and this would free up larger family accommodation for reletting. Due to the number of units involved, the HRA parameters can still be achieved when considering this scheme as part of the whole programme, and it is therefore recommended. The cost of this tenure change to the HRA is **£545k**.

Funding to support additional Council resource to deliver this activity

39. Additional revenue funding (**£500k**) for undertaking feasibility work (which can then be capitalised if the scheme is successfully brought forward in the HRA) was set out in the finance report to Cabinet in August 2020.
40. The creation of a small Affordable Housing Supply Programme and Enabling Team, consisting of 4 officers (1 funded from GF and 3 from HRA) permanently will be vital manage the affordable housing delivery programme (**£235k**)

Financial implications

41. This report seeks the required delegations to further develop the programme of affordable housing supply. The decision to proceed with any purchase or development will be supported by a financial model outlining short, medium and long term impacts on Council finance, and will require a neutral or positive impact in order to proceed. The total capital costs are estimated at £31.1m, but this is off-set with an expected £4.82m of grant subsidy (Housing and Growth Deal funding and s.106 top-up grant proposed). The scheme is also estimated to generate capital receipts from shared ownership of around £1.2m with the balance of £25m to be financed from borrowing. The costs per scheme are set out in Table 1 below. Table 2 shows the profiled spend by year.

Table 1:

HRA Scheme Name	Total units	Social Rent	Affordable Rent	Shared Ownership (SO)	Total Scheme Cost £'000	Grant £'000	Sales (SO) £'000	Net Borrowing £'000
Northfield Hostel (potential)	50	26	14	10	£13,500	(£2,240)	(£800)	£10,460
Lanham Way (potential)	16	8	4	4	£5,969	(£700)	(£430)	£4,839
Tucker /Thompson /Juniper	8	4	4	0	£2,607	(£380)	0	£2,227
Unallocated Site 1	20	20	0	0	£5,026	(£1,500)	0	£3,526
<i>Unallocated Site 2</i>	<i>12 (tbc)</i>	<i>6 (tbc)</i>	<i>6 (tbc)</i>	<i>0 (tbc)</i>	<i>£4,000</i>	<i>tbc</i>	<i>0</i>	<i>£4,000</i>
<i>Bracegirdle/ Mortimer/ Broad Oak – Additional Funding for 100% Social Rent</i>								£545
Total	106	64	28	14	31,647	(4,820)	(1,230)	25,597

Table 2:

HRA Capital Programme Profile	2020-21 £'000	2021-22 £'000	2022-23 £'000	2023-24 £'000	Total
Northfield Hostel	2,300	5,600	5,600		13,500
Lanham Way	1,050	2,000	2,460	459	5,969
Tucker/Thomson/Juniper		2,607			2,607
Unallocated site 1	1,899	3,127			5,026
Unallocated site 2	4,000				4,000
<i>Bracegirdle/ Mortimer/ Broad Oak – Additional Funding for 100% Social Rent</i>	545				545
Total	9,794	13,334	8,060	459	31,647

42. In the event that the Council secures an opportunity for the purchase of a site/ multiple unit development, then the purchase price is likely to exceed general delegations (up to £500k). For this reason, this report recommends a further delegation to the Chief Executive, to provide for this circumstance and to allow the Council to move rapidly to enter into agreement should it wish to.

43. The new team is funded from carry forwards for 2020/21, the permanent increase in the base will allow the team to be recruited to, in order to achieve the ambitious programme delivery going forward.

Legal issues

44. The activity, as set out in this report, relates to activity within the Housing Revenue Account and for the purpose of developing homes as (Council) affordable housing.

45. Any procurement of goods and services for the purpose of developing homes will be in accordance with the Council's constitution and procurement procedures

complying with The Public Contracts Regulations 2015 for such, including ensuring that best value is achieved.

46. The Council has the powers to purchase land for the development of Affordable Housing by virtue of Sections 1 to 7 of the Localism Act 2011.

Level of risk

47. A Risk Register is provided at Appendix 2. This report also seeks to help mitigate an outstanding risk - of not spending RRTBRs or RCGF within the three year deadline from the time of receipt, and thereby being required to return the funds to Government with interest applied from the time of receipt – should that be required.

Equalities impact

48. An Equalities Impact Assessment is provided at Appendix 3. There are no adverse impacts in undertaking this activity, with the potential to improve provision for persons in housing need.

Conclusion

49. That the Council agrees to spending as set out in this report to further support the delivery of more affordable housing to help persons on the housing register to secure much needed permanent homes.

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Background Papers:	None