

Officer Executive Decision

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To: **Executive Director of Communities and People**
Head of Finance
Head of Law & Governance

Date: **1 March 2022**

Report of: **Housing Development**

Title of Report: **Purchase of completed development sites at Elsfield Hall, Cumberlege Close and Between Towns Road.**

Summary and recommendations

Purpose of report: As per the decision taken under the Officer Executive Decision delegations dated 11 November 2019, the Executive Director of Communities and People is now asked to approve an increased transfer by purchase of the land and affordable housing at Elsfield Hall, Cumberlege Close and Between Towns Road from Oxford City Housing (Development) Limited (OCH(D)L) to the Council's Housing Revenue Account (HRA)

Decision required:

1. To authorise the transfer by purchase of the land and affordable housing at Elsfield Hall, Cumberlege Close and Between Towns Road from Oxford City Housing (Development) Limited to the Council's Housing Revenue Account for a consideration of £25,430,800 in total.

Appendices

Appendix 1. Schedule of accommodation - Cumberlege Close, Between Towns Road and Elsfield Hall

Appendix 2. Dashboard of financial performance – Combined Cumberlege Close and Elsfield Hall Above Dashboard

Appendix 3. Dashboard of financial performance – Between Towns Road Above Dashboard

Details

1. As part of Oxford City Council's CEB decisions on 9 February 2017 and 29 May 2019 to confirm the future strategic direction for the Council's group of housing companies it was agreed that the Council would purchase and manage the social rented and shared ownership units from OCH(D)L as they were developed. It was also agreed that delegated authority would be given to the Assistant Chief Executive in consultation with the Head of Finance and the Head of Law and Governance to approve and facilitate such purchases. The Assistant Chief Executive has further delegated the authority for this decision to the Director of Housing. Following a senior management restructure the responsibilities of the Assistant Chief Executive with regards to housing have been passed to the Executive Director for Communities and People.
2. An Officer Executive Decision dated 11 November 2019 authorised the transfer by purchase of the land and affordable housing at Elsfield Hall, Cumberlege Close and Between Towns Road from OCH(D)L to the Council's Housing Revenue Account for a consideration of £16,825,000 in total, to include 56 affordable homes (33 rented and 23 shared ownership homes). The three sites were dealt with as a single entity in this report to reflect that they are being built under a single construction contract to achieve economies of scale.
3. Given increased HRA borrowing potential, officers examined the opportunity of delivering additional affordable units for the Council by the HRA purchasing some of the market sale units on sites. The HRA being a regulated entity also had the ability to draw down Growth Deal grant and give a greater confidence to delivery of the Growth Deal commitments. Therefore on 9 February 2021 OCH(D)L Board agreed to deliver these three sites comprising of 73 homes as 100% affordable (41 rented and 32 shared ownership homes) - for tenure changes refer to Appendix 1.
4. Viability appraisals have been carried out for the transfer of the 73 affordable homes to the HRA and on a purchase price of £25,430,800 in total, broken down as follows:
 - a. Cumberlege Close and Elsfield Hall - £13,427,300; these two sites are joint in terms of planning and viability and an Officer Executive Decision dated 6 July 2021 authorised the transfer as follows:
 - i. Cumberlege Close - £4,560,000 – already completed and transferred in October 2021.
 - ii. Elsfield Hall - £8,867,300 – anticipated completion July 2022.
 - b. Between Towns Road - £12,003,500 – anticipated completion October 2022.

It is important to note that the developments will complete at different times and payment for the affordable homes will be staggered accordingly. The dashboards of financial performances are attached at Appendix 2 and Appendix 3.

The intention of this report is to regularise the above financials ahead of the next handovers.

5. The authority has set a number of criteria when measuring the financial viability of schemes being purchased from the OCH(D)L as follows :
 - **Internal Rate of Return** – a measure which equates the Net Present Value of future cash flows to the authority to zero. If the IRR is equal to or better than the return required by the authority then the project is worth doing. The IRR for the HRA given that it is buying social housing is 3% and given the returns on these schemes is 4.18% and 5.70%, they are worth being undertaken.
 - **Net Present Value** – the present value of future cash inflows and outflows at a given discount rate. The NPV for these schemes is £1.9m and £5.4m and positive therefore worth doing.
 - **Payback** – The parameter for payback is 70 years or under. The payback in these cases is 41 and 30 years and meets the criteria.
6. In summary, viability appraisals have been carried out for the transfer of the land and these homes to the HRA at a purchase price of £25,430,800 show the schemes pay back in 30 and 41 years with an IRR of 4.18% and 5.70% and a positive NPV of £1.9m and £5.4m, well within parameters set for the HRA in conjunction with Finance. The purchase prices are both approximately 83% of the expected open market value of the homes and are supported by £1.52m and £1.46m of Oxfordshire Growth Deal Affordable Housing grant and £722,000 and £320,000 of Section 106 top-up grant.

Financial implications

7. Once each development completes the Council's HRA account will purchase the land and housing units to be funded partly from Oxfordshire Growth Deal Affordable Housing grant and from prudential borrowing. Anticipated completions are as set out in point 4.
8. The financial implications of purchasing back at this level are already understood in the context of the business plans because these were the prices used at October 2021 Business Plan Refresh.

Legal issues

9. The legal issues have been set out in the body of the report.

Level of risk

10. The significant risk is that the HRA may pay too much for these 73 homes considering their income streams – this has been removed by carrying out a detailed viability analysis using the HRA Business Plan appraisal software, Abovo, which has demonstrated a financial performance within required parameters.

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