SHEFFIELD CITY COUNCIL
Cabinet Report

Joint Report of:	Executive Director, Place and Executive Director, Communities
Date:	19th June 2013
Subject:	Council Homes New Build Programme
Author of Report:	Simon Holmesmith 2037128

Summary: It is proposed to kick start the programme for new build Council housing, as a Phase 1, with the acquisition of 30 homes for social rent from the Sheffield Housing Company. This acquisition is to be paid for from monies identified in the Housing Revenue Account Business Plan which includes income generated from changes brought forward under the new Right to Buy programme. It is proposed that a second phase of the New Build programme is considered in tandem with these acquisitions in order to establish a project team to further develop the brief for options to deliver a further 45 new build properties on Council owned land.

Reasons for Recommendations:

To bring forward earlier, and to increase the supply of much needed social rented housing in the City, contributing to making these three neighbourhoods a great place to live by ensuring continued investment into the Council's new housing stock and supporting broader economic regeneration.

Recommendations:

It is recommended that Cabinet:

Approve the acquisition of 30 new build homes from the Sheffield Housing Company as set out in section 4 to this report as being Phase 1 of the Council's new build programme as identified in the HRA Business Plan 2012/17.

Delegate authority to the Director of Capital and Major Projects to negotiate and agree terms for the individual purchases of these 30 homes in consultation with the Director of Commissioning and to instruct the Director of Legal and Governance Services to complete the necessary legal documentation in respect of the acquisition of those properties.

Background Papers:
Cabinet Report of 16/1/2013 – Housing Revenue Account Business Plan 2012-17 Update Report

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Category of Report: **Part 1 Open; Part 2 Closed**

Part 2 not for publication because it contains exempt information under Paragraph 3of Schedule 12A of the Local Government Act 1972 (as amended).

Statutory and Council Policy Checklist

Financial Implications
YES Cleared by: Paul Schofield
Legal Implications
YES Cleared by: David Sellars
Equality of Opportunity Implications
YES Cleared by: Ian Oldershaw
Tackling Health Inequalities Implications
YES
Human rights Implications
NO:
Environmental and Sustainability implications
YES
Economic impact
YES
Community safety implications
NO
Human resources implications
NO
Property implications
YES
Area(s) affected
Parson Cross, Norfolk Park and Shirecliffe
Relevant Cabinet Portfolio Leader
Cllr Harry Harpham
Relevant Scrutiny and Policy Development Committee if decision called in
Safer and Stronger Communities
Is the item a matter which is reserved for approval by the City Council?
YES
Press release
YES

COUNCIL HOMES NEW BUILD PROGRAMME Part 1 – OPEN

1.0 SUMMARY

1.1 A new build programme of 75 new Council homes was identified in the Housing Revenue Account Business Plan 2012-17 Update Report and approved by Cabinet in January 2013. It is proposed to kick start the programme for new build Council housing, as a Phase 1, with the acquisition of 30 homes for social rent from the Sheffield Housing Company (SHC). This acquisition is to be paid for from monies already identified in the Housing Revenue Account (HRA) Business Plan combined with income generated from changes brought forward under the new Right to Buy programme. The total cost of these acquisitions is set out in part 2 to this report. It is proposed that a second phase of the New Build programme is considered in tandem with these acquisitions in order to establish a project team to further develop the brief for options to deliver the remaining 45 new build properties on Council owned land. This will be the subject of a further report to Cabinet.

1.2 The new build homes to be acquired are a mix of 2 and 3 bedroom properties which include 9 built to mobility standards of which 5 will be to full wheelchair standard. All these properties have been developed using the Council's own Planning and Phase Briefs which sets a high commitment to quality and sustainability having achieved Code for Sustainable Homes level 3 and having been awarded a 'Very Good' certificate by the British Research Establishment (BRE) under its BREEAM Communities framework; one of the first housing schemes in the country to achieve this. The Council has sought to play a significant role in the design of these properties and the layout of the schemes as a whole.

2.0 WHAT DOES THIS MEAN FOR SHEFFIELD PEOPLE

2.1 A new build programme of 75 new Council homes over the next 3 years, the first 30 of which are proposed to be delivered by acquisitions from the SHC, will provide both new and existing tenants with a greater choice and availability of new homes which will be designed to a high quality, will be sustainable, capable of responding to changing life styles and needs and ultimately be cheaper to run. The properties will be available in the Norfolk Park, Parson Cross and Shirecliffe areas of the City within the first phase of acquisitions and will be for social rent. Work will continue to examine other areas of high housing need within the City in order that new properties can continue to be matched to specific demand within the subsequent phase of development.

2.2 This new build programme will also promote and help to support the

SHC in the use of local labour in the construction of the new homes as well as providing an opportunity for apprenticeship schemes and supporting local training initiatives. It will also represent a considerable boost to the local and regional economy.

3.0 OUTCOME AND SUSTAINABILITY

3.1 The outcome of the first phase of this new build programme will be the provision of 30 new homes composed of 20 x 2 bedroom and 10 x 3 bedroom properties spread across the mixed tenure development sites being developed by the SHC at Norfolk Park (4 homes), Falstaff (14 homes)and Shirecliffe (12 homes). This includes 9 houses built to mobility standard of which 5 will be to full wheelchair specification. All properties are being built to Lifetime Homes standards; this makes the properties more able to cater for the tenant's changing needs. They are also to Level 3, Code for Sustainable Homes which means that they should be cheaper and more efficient to run, including the provision of rainwater recycling and photovoltaic panels to produce on site 'green' electricity. All these many attributes including how the broader schemes have been developed and laid out has also contributed to the award of the BRE 'Very Good' certificate.

3.2 The second phase of this programme will build on the lessons the Council has learnt from helping to develop the SHC schemes particularly in terms of sustainability, design quality and the use of the BREEAM framework. Work is currently being undertaken to develop the brief for the deliver of the remaining 45 homes. In addition, with the Council itself in the position to potentially let a series of building contracts, it will be well placed to continue to support a significant level of local training places and apprenticeships as well as requirements for local labour and the promotion of local supply chains. These are all areas which the SHC is also at present promoting and thus the purchase of properties from the SHC will clearly help to support such initiatives.

3.3 Providing new council housing will allow the Housing Revenue Account to retain, and subsequently invest any additional Right to Buy receipts generated as a result of the Government's 'reinvigoration' of the Right to Buy scheme. It will also provide an additional rental stream to the Council over the long term, and help to deliver additional New Homes Bonus (as a result of completing new homes in the City) which can be reinvested elsewhere through the Council's Local Growth Fund initiative to promote local neighbourhood regeneration and additional new homes across the tenures.

4.0 THE PROPOSAL

4.1 The report to Cabinet in January 2013 on the updating of the HRA Business Plan contained within it a commitment to a new build programme of 75 new Council homes starting in 2013/14. This was to represent around £9.5M additional activity over a 3 year period. Some of this cost will be met from the capital receipts gained from the new Right to Buy programme and under the terms of the agreement signed up to by the Council, this should equate to up to 30% of the costs of providing new affordable housing. The proposal to acquire some new build properties, as described in section 4(5) of the HRA Business Plan is being proposed as a phase 1. It is considered that the acquisition of new build properties from the Sheffield Housing Company is an efficient way to deliver some initial outcomes required under the programme described in the HRA Business Plan; that is the provision of a new build programme of 75 new Council homes. By using the monies generated from the Right to Buy receipts for additional social housing – a commitment which the Council has already signed up for, this enables the HRA funds to be stretched further than would otherwise be the case. This advantages the HRA by purchasing high quality new properties at a discount, the latter which is described further in Part 2 to this report, which can then be let at social rents and which increase the Council's housing portfolio.

Purchasing properties from the SHC has a number of advantages both in terms of the quality of the product and value for money. The quality as identified in 3.1 above has been described in the Council's own development brief and in the BREEAM framework which is concerned with the sustainability of the totality of the development as enshrined in various legal agreements with the SHC. In addition the properties represent good value to the HRA. The construction price for the properties (which makes up the majority of the sales price) has been subject to the initial tender evaluation in picking a partner for the SHC to begin with. This was undertaken by the Council's own Capital Delivery Service. These prices were further reviewed by the Council's Strategic Partnership Board at land transfer on the basis of a further tender exercise by the partner which was audited by Gleeds, an external cost consultancy. Current valuations of work in progress are being made by Hall and Partners, a quantity surveying firm retained by the SHC who are checking this against the agreed contract sum. In addition this delivery mechanism for Phase1 minimises the cost of delivery from an internal Council point of view relative to the resources already expended which are not a direct charge to the HRA.

4.2 As part of the first phase of delivery, negotiations have been held with the SHC to acquire 30 properties across the three sites which they are currently developing with a mix as described in section 3.1. This will represent a bulk purchase, deemed to be linked transactions and thus the full value of the total of all the transactions should be taken account of when considering the appropriate approvals route. In addition, because this is a linked transaction, Stamp Duty Land Tax

(SDLT) is likely to be charged on the total at a higher rate rather than on individual transactions. However it is considered that the level of discount offered by the SHC more than compensates for this higher rate – the detail of such discount and the proposed purchase is further described in Part 2 (Closed) of this report.

4.3 The three SHC schemes are already of mixed tenure with a range of properties for market sale, some now utilising the Government's new 'Help to Buy' and other 'shared equity' products in addition to properties being developed for Great Places Housing Association for affordable rent.

Work is currently being undertaken to develop a brief for the delivery of the remaining 45 homes which will explore a number of options to be presented to a future Member Task and Finish Group.

5.0 LEGAL IMPLICATIONS

5.1 The Council has the power to provide housing accommodation by virtue of Part II of the Housing Act 1985. This includes a specific power to acquire houses under section 9 of that Act. Such accommodation must then be accounted for within the Housing Revenue Account.

Once the properties are let as Council housing on secure tenancies they will be subject to the statutory Right to Buy (RTB) which potentially has implications of financial loss for the Council as the tenant will potentially be entitled to buy the property at a discounted price.

However, the Cost Floor rule means that the discount must not reduce the purchase price below specified costs incurred by the Council in respect of the property, in the 15 years prior to the date of disposal. These costs include the purchase cost and any other major repair and refurbishment costs.

If the right is exercised in the first 15 years, these costs would include the purchase cost, meaning that the purchase price could not be lower than the price paid by the Council.

In subsequent years, the cost floor would only be applicable if the Council had undertaken any major repair and refurbishment works at the Property. If not, the discount due to a tenant buying under RTB would not be reduced to take account of the costs incurred. However, it may be possible for the Council to reach an agreement with the Secretary of State as regards the capital receipt for such sales.

6.0 FINANCIAL IMPLICATIONS

6.1 The financial implications, both capital and revenue, of this proposal are described in detail in the closed Part 2 of this report. The spend profile itself may vary to some degree based on the delivery of the build programme by the SHC but should broadly be within the parameters suggested.

The HRA Business Plan agreed by Cabinet on 16th January 2013 approved a new build programme of 75 houses and this project will deliver 40% of that target and the revenue implications have been included in that plan.

This transaction will commit the Council to certain capital expenditure over the next two years which is the subject of a separate Capital Approval submission. The project will be funded by contributions from the Housing Revenue Account using future receipts from council house sales under the "Right to Buy" scheme and a balancing amount of HRA Resources/Prudential Borrowing.

The Council has a 50% shareholding in the SHC and will be entitled to a dividend if the directors think the financial performance warrants a distribution. This project will help contribute to the successful financial performance of the company.

The project represents value for money compared to other options such as refurbishment. By using an experienced building company this will also reduce the risk of cost over runs if the Council were to build the homes from scratch.

7.0 PROPERTY IMPLICATIONS

7.1 Whilst the price of purchase has been agreed with the SHC on the basis of a single deal, it is proposed to acquire these properties individually by buying them on a long lease from the SHC, similarly to any other house purchaser acquiring an interest in land. Estate service charges will remain payable on the properties on Norfolk Park and on Falstaff to cover the maintenance of open spaces and some communal areas. There are no service charges on the Shirecliffe scheme. Charges for conveyancing carried out by the Council will also be expected to be covered as a project cost.

8.0 ALTERNATIVE OPTIONS CONSIDERED

8.1 The first is that the Council itself should undertake to design and build all of the 75 homes proposed in the programme. Such a significant new build programme invariably takes a considerable time to set up with the need to identify parcels of land, complete project and design briefs, appoint design teams, undertake public consultation, achieve planning permission, specify and tender the project and oversee construction. All this requires considerable project management resources which are already under pressure within the Council. Leading a new build development from start to finish also carries a higher financial risk compared to acquisitions. At this point it is still expected to be able to deliver the full programme within the 3 year timescale described in the HRA Business Plan however it should be remembered that starting from scratch will make this less easy to complete.

There are considerable advantages over time to the Council designing and building its own homes as it would have greater control over the specification and type of property to be delivered and would have an opportunity to consider a wider geographical area for its development sites; hence the need to run these two phases in tandem.

Another way of designing and building Council homes is to commission a third party to undertake the development work and to run the build programme. This would reduce the risk to the Council in terms of design responsibility, timescale and to an extent the budget for delivery. One mechanism to help with this could be to exploit the Homes and Communities Agency Developer Framework, however this would still require a tender package and the associated site investigation, design work and land due diligence. It is suggested this could be further examined for phase 2, being one of a number of options to be considered in the future, but as it stands this would not deliver any early new build properties.

8.2 The second option considered was to purchase properties 'off the shelf' from private developers who either are already on site or have properties built but not sold. This did represent a quick option for delivery however it was rejected as this would limit housing choice, the quality could not be assured in the same way as that provided by the SHC with the Council's own involvement, the space standards would be lower and no mobility or wheelchair housing is immediately available. The ability to secure a financial discount across a number of developers would in all likelihood be less than that secured through the SHC although in the latter's case this is being provided across three sites increasing the geographical spread of properties.

In addition the build costs themselves will not have been scrutinised in the same way as those of the SHC. The Council under the 'off the shelf' option will be buying straight from the market and will be paying an open market value for the properties with no recourse to the knowledge of how that purchase price will have been built up. In the case of the Housing Company, the build cost elements were subject to an initial tender process, they were then further checked by the Council's in-house quantity surveying service. The cost plan then went through a further tender check undertaken by Gleeds, an external cost consultant firm and build costs continue to be monitored by the company itself using a further firm of cost consultants Hall and Partners.

9.0 REASONS FOR RECOMMENDATIONS

9.1 To bring forward earlier the provision of new Council housing, in the form of Phase 1 acquisitions to increase the supply of much need social rented housing in the City. This is contributing to making these three neighbourhoods a great place to live by ensuring continued investment into Sheffield's Council new housing stock and building on previously derelict land.

9.2 In relation to the first phase, to capitalise on the significant work which the Council has already done in working with the Sheffield Housing Company to generate high quality and sustainable properties which are good value for money and which by design can respond to tenant's changing and particular housing needs.

9.3 The completion of new homes will generate additional New Homes Bonus money which the Council can direct as further investment to promote house building and neighbourhood regeneration, as well as being a mechanism to recycle the money received under the Right to Buy scheme and the agreement which the Council has previously signed up to.

10.0 REASONS FOR EXEMPTION (if a Closed report)

10.1 Part 2 of this report is presented as an exempt item because it contains exempt information under paragraph 3of Schedule 12A of the Local Government Act 1972 (as amended). The reasons for its exemption are that it contains information relating to the financial and business affairs of both Sheffield City Council and the Sheffield Housing Company.

11.0 RECOMMENDATIONS

11.1 It is recommended that Cabinet:

Approve the acquisition of 30 new build homes from the Sheffield Housing Company as set out in section 4 to this report as being Phase 1 of the Council's new build programme as identified in the HRA Business Plan 2012/17.

11.2 Delegate authority to the Director of Capital and Major Projects to negotiate and agree terms for the individual purchases of these 30 homes in consultation with the Director of Commissioning and to instruct the Director of Legal and Governance Services to complete the necessary legal documentation in respect of the acquisition of those properties.