

Committee : Cabinet	Date: 2nd December 2009	Classification: Unrestricted	Report No: (CAB 085/090)	Agenda Item:
Report of: Aman Dalvi - Corporate Director Development & Renewal Originating officer(s) Jackie Odunoye –Service Head Strategy, Regeneration & Sustainability	Author/s: Alison Thomas Private Sector and Affordable Housing Manager Laura Howard Affordable Housing Development Team	Title: Council House Building Building Britain’s Future Round Two Wards Affected: St Katharine’s & Wapping; Bethnal Green Nth; Bethnal Green South; St Dunstan’s; East India and Lansbury; Blackwall and Cubitt Town; Bow West and Bow East.		

1 INTRODUCTION

- 1.1 Cabinet considered Round One of the Homes and Communities Agency ‘Building Britain’s Future’ programme of Council House Building on 4th November. Round One funding of £1,720,000 has been confirmed and will deliver 17 new homes. Members noted that officers were preparing a second bid under Round Two.
- 1.2 The bid for Round Two of the funding was submitted on 30th October 2009 for £8,744,500 grant to fund 88 new homes to house 464 people. The total cost of the scheme will be £ 16,557,500.
- 1.3 This report provides details of the bid, and the schemes proposed.
- 1.4 Subject to confirmation of funding from the HCA, the report seeks approval of a Capital Estimate and Prudential Borrowing for funds required to deliver the new homes, and authorisation to proceed with contracts necessary to progress the development.
- 1.5 Round One and Two together will deliver over 100 new Council owned family homes for rent.

2 RECOMMENDATIONS

- 2.1 Cabinet is recommended to –
- 2.2 Note the details of the recent Round Two bid for HCA funding set out in Appendix 1 of the report (“the Round Two Bid”).

- 2.3 Subject to approval of the bid by the HCA, Cabinet is recommended to -
- 2.4 Authorise the Corporate Director of Development & Renewal in consultation with the Assistant Chief Executive (Legal) and the Corporate Director Resources to finalise negotiations and enter into a grant funding agreement with the HCA.
- 2.5 Approve the inclusion of the scheme within the capital programme and to adopt a Capital Estimate for the sum of £16,557,500 for the delivery of 88 new homes.
- 2.6 Approve prudential borrowing of £7,813,000 as part funding for the scheme.
- 2.7 Authorise the Corporate Director of Development and Renewal to approve the use of S106 commuted sums as part finance for Round One homes, and if necessary to maintain financial viability to designate S106 commuted sums to part fund Round Two.
- 2.8 Authorise the Corporate Director of Development & Renewal after consultation with the Assistant Chief Executive (Legal) and the Corporate Director of Resources to invite and evaluate tenders for contracts required to carry out the development the subject of the Bid and where appropriate award contracts to suitable tenderers.
- 2.9 Approve the use of the council owned plots of land listed in Appendix 1 for development of new Council homes
- 2.10 Authorise the Corporate Director of Development & Renewal to approve the use of alternative Council owned sites should site constraints prevent the use of any of the sites identifies in Appendix 1

3 BACKGROUND

- 3.1 Full details of the Homes and Communities Agency's 'Building Britain's Future' programme were provided to members in the November report titled 'Council bid to commence House Building'. The HCA has allocated funds for Local Authorities to build new Council homes.
- 3.2 Local Authorities are expected to identify and contribute development land at nil cost, and borrow 50% of the development costs through 'prudential borrowing' serviced by the rental income. The remaining 50% of the cost will be grant funded. This Council's bid seeks grant at 53%, however the HCA may seek to negotiate a lower level of grant as part of their assessment of bids.
- 3.3 The reform of Council Housing Finance, which takes immediate effect for council house building, means that the new properties will not be part of the HRA subsidy system and therefore the Council can retain all rents to repay borrowing. Further,

the Council can retain 100% of right to buy receipts instead of the requirement to “pool” 75% to central government.

3.4 Due to Tower Hamlets particular housing need, the bid has prioritised larger family homes for rent, on infill sites on existing estates.

4 BID CRITERIA

4.1 The conditions set out for the funding were:

- Homes developed must be affordable for rent
- The Council must make land available at nil value

4.2 Bids will be assessed against criteria identified the NAHP Prospectus:

- Value for Money, assessed by comparison of grant required (excluding borrowing) which will be compared to the grant awarded to existing delivery partners
- Deliverability - Round Two schemes must achieve practical completion by March 2012.
- Design and Quality - New homes must meet the HCA's Design and Quality Standards. They must also achieve a minimum of the HCA's Code for Sustainable Homes Level 3 which provides for a high level of energy efficiency, as well as building for life criteria.
- Local labour and apprenticeships - The Council has demonstrated how these are achieved and its experience of potential construction partners.
- Strategic fit - Submissions should meet local, regional, and national strategic priorities, e.g. family housing.

5 LINKS TO TOWER HAMLETS STRATEGIC OBJECTIVES

5.1 Tower Hamlets has a pressing and well documented requirement for more large family accommodation for social rent. The Council currently has some twenty thousand households registered on the Common Housing Register, a number of whom are known to be experiencing acute overcrowded conditions.

5.2 The bid for new homes is primarily for three and four bedroomed family houses with gardens, with some units designed to wheelchair accessible standards.

6 LBTH APPROACH TO THE BID

- 6.1 LBTH Major Projects Development Team initially undertook a desk top exercise to identify small infill sites on LBTH estates managed by TH Homes.
- 6.2 They then carried out site visits with internal staff and consultants to identify sites offering the best opportunity for delivery within the HCA timescale.
- 6.3 Initial plans and build cost estimates were commissioned from Paul Johnston Architects and Stephen Davey Architects with Cox Drew Neale and Calford Seaden acting as cost consultants. In order to meet time constraints for the preparation of the bid, these consultants were appointed under Director's Action.
- 6.4 Officers carried out financial viability appraisals for each scheme based on financial assumptions agreed with Corporate Finance colleagues, including rent levels, inflation, interest rates and borrowing terms, management and maintenance costs, and allowances for future major repairs etc

7 BID ASSUMPTIONS:

- 7.1 The Council's bid for funding under Round Two has been based on detailed design and cost assessments undertaken by architects and employer's agents. Officers have carried out financial viability appraisals based on the projected scheme costs, together with ongoing management and maintenance costs

8 BID SUMMARY HIGHLIGHTS:

Round One: (funding confirmed)

17 new homes	£
Prudential Borrowing	1,352,000
Home and Communities Agency Grant	1,720,000
Section 106 Contribution (Affordable Housing)	449,000
	<hr/>
	3,521,000

Total Scheme costs average	£ 207 k per unit
Prudential borrowing at average	£ 80 k per unit
S106 contribution at average	£ 26 k per unit
Grant average	£ 101 k per unit
Value of LBTH land contribution	
Total £720,000	£ 42 k per unit

Round Two: (bid made, funding unconfirmed)

88 new homes	£
Prudential Borrowing	7,813,000
Home and Communities Agency Grant	8,744,500
Section 106 Contribution (Affordable Housing)	0
	<hr/>
	16,557,500
	<hr/>
Total Scheme costs average	£ 188 k per unit
Prudential borrowing at average	£ 89 k per unit
S106 contribution at average	£ 0 k per unit
Grant average	£ 99 k per unit
Value of LBTH land contribution at £8,020,000	£ 91 k per unit

9 DELIVERABILITY

9.1 Bids will be prioritised on their ability to deliver completed homes by March 2012. In order to achieve an early start on site a level of pre-contract work is required. This will involve site investigations, further design work and agreement on procurement methods.

9.2 The Affordable Housing Development Team will project manage delivery of the new homes. A project team is proposed to include representatives from Tower Hamlets Homes who will be managing the completed properties, Corporate Finance, Planning and Legal, in order to control scheme development and risk.

9.3 Options for the procurement of professional consultants and building contractors are being explored with the Council's Head of Procurement and contract lawyers to establish the best approach, taking into account the programme requirements.

10 ONE TOWER HAMLETS IMPLICATIONS

10.1 Delivering more affordable family housing will help reduce overcrowding and homelessness within the borough, and improve the social and economic well-being of families who benefit from the new homes.

- 10.2 A long term beneficial impact will be the improvement to estates which are blighted by poorly used small sites which are often the focus of anti-social behaviour.
- 10.3 Delivery of this programme will contribute to the Council's duties to positively promote, race, gender, and disability equality in carrying out its functions.
- 10.4 The Council's brief requires that all homes will be designed to lifetime homes standards, and that larger family homes will have separate kitchen and living rooms to appeal to a wider cross section of our community.

11 COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 11.1 The report 'Building Britain's Future – Council Bid to commence House Building' was considered by Cabinet on 4 November 2009. This updated Members on the successful bid for funding that was submitted under round 1 of the scheme and which secured HCA funding of £1.7 million towards the building of 17 new affordable properties for rent.
- 11.2 The bid for Round Two of the funding was submitted on 30th October 2009 for £8,744,500 of grant to part-fund 88 new homes to house 464 people. Total project costs are estimated at £16,557,500 with the remaining funding being provided by way of prudential borrowing.
- 11.3 The report seeks approval for the scheme to be incorporated into the Housing Investment Programme and that a capital estimate be adopted for the sum of £16,557,500.
- 11.4 The detailed analysis is shown in Appendix 1, but in summary the proposed scheme is estimated to cost £16,557,500, and will be financed as follows:

	£
Prudential Borrowing	7,813,000
Home and Communities Agency Support	<u>8,744,500</u>
	<u><u>16,557,500</u></u>

- 11.5 This equates to a cost of approximately £188,000 per unit, or £35,700 per bedspace. No land cost is factored into the calculation; the sites identified already being within the Authority's ownership.
- 11.6 The authority is empowered to borrow to fund capital schemes providing borrowing is affordable, sustainable and prudent. In essence this means that the costs of borrowing need to be matched by income or savings in current costs. For

this scheme this means that over the life of the property and on an annual basis the costs of managing and maintaining these properties together with the costs of prudential borrowing will need to be met by rental income. The on-going revenue cost of prudential borrowing for this scheme is estimated at approximately £450,000 per annum, fixed at current interest rates. Although in the early years of the project the borrowing costs, together with the assumed costs of management and maintenance will exceed the rents collected from the properties, this is usual for schemes of this nature, and over the full life of the scheme the rental income generated will exceed expenditure. On this basis prudential borrowing is affordable for this scheme. There is sufficient borrowing approval in the limits approved by Council in March to enable Cabinet to approve this borrowing.

11.7 Specialist software was used to enable cash flow forecasts for the project to be calculated. These indicate that the scheme will have a negative cash flow in each of the first 13 years of the project with the largest funding gap of approximately £105,000 arising in year two. From year fourteen onwards the scheme will generate a positive annual cash flow. The funding gap in those early years will be bridged from identified compensatory savings within the Housing Revenue Account. If agreed, the saving requirements will be factored into the 2011/12 and 2012/13 HRA budget process. Members will be aware that a funding gap is projected for the HRA in these years and this approval will increase the savings target required from other HRA budgets in order to manage it.

11.8 Members are also asked to formally approve the use of Section 106 commuted sums as part finance for the Round One homes (recommendation 2.7). The Cabinet report approved by Members on 4 November 2009 identified a financing requirement of £448,995 from this source. Resources are available within the Affordable Housing element of the section 106 account to finance this contribution.

11.9 Although at this stage no Section 106 resources are required to finance the Round Two scheme, members are asked to authorise the Corporate Director (Development and Renewal) to approve the use of Section 106 resources if necessary where appropriate planning contribution receipts can be identified which have been agreed through Development Committee

11.10 All the project management and support costs associated with the programme must be contained within the on-cost provision that is identified for the project. No additional resources are available to fund these costs – any excess expenditure would only be able to be funded if savings can be identified elsewhere within the Development and Renewal Directorate.

12 CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

12.1 The proposed development is concerned with the construction of 88 new homes. This falls within the Council's functions, as it is specifically empowered by

section 9 of the Housing Act 1985 to provide housing accommodation by erecting flats and houses.

12.2 Such development may additionally be supported by the Council's well-being power. The Council is empowered under section 2 of the Local Government Act 2000 to do anything which it considers is likely to promote the social, economic or environmental well being of Tower Hamlets, provided the action is not otherwise prohibited by statute. The power may be exercised in relation to, or for the benefit of: (a) the whole or any part of Tower Hamlets; or (b) all or any persons resident in Tower Hamlets. In exercising the power, regard must be had to the sustainable community strategy (the Community Plan). The report identifies the ways that the development supports the themes in the Community Plan under the heading One Tower Hamlets.

12.3 Cabinet is empowered to delegate executive functions to an officer pursuant to section 14(3) of the Local Government Act 2000.

12.4 Procurement for the development contracts will need to be carried out in accordance with the Council's Procurement Procedures and, where relevant, the Public Contract Regulations 2006. In the case of works the relevant threshold for application of the regulations is £3.5m and in the case of related consultancy contracts the threshold is £140k.

12.5 It is proposed that the Council borrows to fund the project. The Council is empowered by section 1 of the Local Government Act 2003 to borrow money for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs. The report describes in paragraph **Error! Reference source not found.** the nature of borrowing proposed in this case.

13 ANTI POVERTY IMPLICATIONS

13.1 The employment of local labour on the construction sites will bring much needed opportunities to contribute to the economic prosperity of local people.

13.2 The development of more energy efficient homes will also help alleviate fuel poverty and improve the overall health and well-being of families who will live in the new homes. Specifically, reduction in overcrowding and improved access to better living space will enhance learning opportunities for families with children.

14 SUSTAINABLE ACTION FOR GREENER ENVIRONMENT

14.1 The Council will be seeking to maximize the environmental performance and energy efficiency of new homes.

15 RISK MANAGEMENT IMPLICATIONS

15.1 A risk register will be developed and updated by the project team to assist with the management of risk to the Council in pursuing this project. The five main categories of risk identified are:

- programme / timetable risks;
- planning risks
- resident consultation
- project management
- delivery and financial risks

16 APPENDICES

Appendix 1: Summary of Bids

**Appendix 1
Summary of Round Two Bids**

Scheme Name	No. of Units	unit mix					Scheme Costs			Income		
		1 bed	2 bed	3 bed	4 bed	5 bed	Works	On-costs	Total Costs	Grant	Prudential borrowing	Total Income
St Dunstons	8	6	2				1,175,000	307,096	1,482,096	859,226	622,870	1,482,096
Wapping Lane	5			5			1,095,030	264,468	1,359,498	873,186	486,312	1,359,498
St Mathias	10		9	1			1,427,100	379,349	1,806,449	839,451	966,997	1,806,448
Stifford	4				4		885,560	237,858	1,123,418	674,972	448,445	1,123,417
Will Crooks	6		6				1,115,940	287,330	1,403,270	832,920	570,350	1,403,270
Cleveland	8	4	1		3		1,112,360	252,668	1,365,028	683,651	681,376	1,365,027
Cranbrook	26	7	16		3		3,050,765	675,648	3,726,413	1,807,152	1,919,262	3,726,414
St Stephens B, Shetland Rd	9		1		8		1,439,617	319,258	1,758,875	835,663	923,212	1,758,875
St Stephens C, Stafford Rd	4		1		3		742,162	172,839	915,001	513,029	401,973	915,002
Osier	3				3		507,862	125,780	633,642	324,986	308,656	633,642
Teesdale 1A	2		1	1			284,327	80,464	364,791	176,734	188,057	364,791
Teesdale 1B	3		1		2		495,640	123,264	618,904	323,523	295,381	618,904
TOTALS	88	7	28	21	28	4	13,331,363	3,226,022	16,557,385	8,744,493	7,812,891	16,557,384

Note: all sums quoted in body of report rounded to nearest £500