

<b>DECISION-MAKER:</b>	CABINET		
<b>SUBJECT:</b>	LOCAL AUTHORITY 'NEW BUILD' SCHEME APPROVAL		
<b>DATE OF DECISION:</b>	15 FEBRUARY 2010		
<b>REPORT OF:</b>	CABINET MEMBER FOR HOUSING AND LOCAL SERVICES		
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<b>STATEMENT OF CONFIDENTIALITY</b>
N/A

## SUMMARY

Following its successful 'Phase 1' bid for £2.4m grant towards the costs of building up to 35 new Council homes in the city, the Council has now been allocated a further £970,804 of funding from the Homes and Communities Agency (HCA) to build up to 17 more new Council Homes for affordable rent.

This additional funding has been awarded under Phase 2 of the HCA's 'LA New Build Scheme'. As with Phase 1, approximately half of the total build costs are made up of HCA grant, and the remainder from the Council's own funding as explained in this Report.

As part of the 'Southampton Affordable Housing Partnership', the Council is required to facilitate 2000 new affordable homes in the city by 2012. The LA New Build scheme will make a valuable contribution to meeting this target.

## RECOMMENDATIONS:

- (i) To accept the grant sum of £ 970,804 from the Homes and Communities Agency (HCA) to build new Council homes under the LA New Build scheme on 2 sites in the city at:-
  - Leaside Way
  - Cumbrian Way ( part)
- (ii) To approve, in accordance with Financial Procedure Rules, overall capital expenditure of £1,941,608 within the Housing Revenue Account Capital Programme for 2010-2011 and 2011 – 2012 for the following additional LA New Build schemes:-

	<b>2010 - 2011</b>	<b>2011 - 2012</b>	<b>Total</b>
Leaside Way	£ 251,472	£ 251,472	£ 502,943
Cumbrian Way	£ 719,332	£ 719,332	£ 1,438,665
	<b>£ 970,804</b>	<b>£ 970,804</b>	<b>£ 1,941,608</b>

- (iii) To delegate authority to the Solicitor to the Council, following consultation with the Executive Directors of Neighbourhoods and Resources and Cabinet Member for Housing and Local Services, to undertake all necessary actions to achieve the proposals within the Report, such as entering into the Homes and Communities Agencies grant contract, all consequential contracts, and rent setting for the new homes.

## REASONS FOR REPORT RECOMMENDATIONS

1. In accordance with the Council's Financial Procedure Rules, Cabinet is required to formally accept a further HCA grant for the LA New Build scheme, and approve total expenditure of £1.9M for Phase 2 of this Scheme within the HRA Capital Programme as described above.

## CONSULTATION

2. The proposals set out in this report have been subject to expedited consultation with local residents, residents groups, Ward Councillors, Lead Councillors and spokespersons, and relevant Council officials.

## ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. The Council could decline to accept the funding allocation, but this would mean that the new homes could not be built, and neither would they contribute to meeting the Council's strategic affordable housing targets.

## DETAIL

4. In May 2009, the government announced a 'Housing Stimulus Programme' as part of the 'Building Britain's Future' initiative. The stimulus programme ultimately included a £350M bidding funding opportunity for Local Authorities to build new council homes - the 'LA New Build scheme'.
5. This LA New Build funding was split into 2 bidding Phases. Cabinet approved the Council's successful Phase 1 bid and the total expenditure for this on the 23<sup>rd</sup> of November 2009. This means that the Council is obliged to meet the HCA's build timetable for Starts on Site by May 2010, and Practical Completions by March 2011. Full planning consents have now been issued for all six Phase 1 schemes.
6. Having submitted another funding bid on the 30th October 2009, the Council has now been allocated an HCA grant of nearly £1M towards the estimated £1.9M cost of building up to 17 new homes on 2 council owned sites across the city. This is on the basis that starts on site can be achieved by June 2010, with all new homes completing a year later. This mostly overlaps with the build programme for Phase 1.
7. The proposed 2 schemes are on mostly disused council premises at:-

Site	Homes	Grant	Borrowing	Total Cost
Leaside Way (Swaythling)	4	£ 251,471	£ 251,472	£ 502,943
Cumbrian Way (Millbrook)	13	£ 719,333	£ 719,332	£ 1,438,665
<b>Totals</b>	<b>17</b>	<b>£ 970,804</b>	<b>£ 970,804</b>	<b>£ 1,941,608</b>

8. All new homes will again meet high energy efficiency and other quality standards at Level 4 of the HCAs 'Code for Sustainable Homes, and many will be family houses which achieve full 'Lifetime Homes' standards. All new homes must be let at affordable rents, and managed as any other Council stock.
9. As with Phase 1, all 3 schemes have addressed concerns raised during public and other consultations as far as practicable, and are also subject to planning consent.
10. Planning applications for each site were submitted at the end of November 2009, and outcomes should be known by February 2010. If any scheme is amended or refused under the planning process, the Council will need to substitute other schemes to ensure that the full grant allocation for 17 new homes is delivered

## **FINANCIAL/RESOURCE IMPLICATIONS**

### **Capital**

11. The provision for LA New Build scheme funding is contained within the HRA Capital Programme, which was approved by Council at its meeting on 16<sup>th</sup> September 2009, and is scheduled for updating to Council on the 17th February 2010. The amount of the HCA grant element within the funding allocation comes to £970,804. The Council must be in a position to start on site and also draw down 50% of the total grant in June 2010, and then complete the new homes and spend the remainder of the grant by April 2011. The Council will need to meet the remaining scheme costs of £970,804 from prudential borrowing arrangements as explained below.

### **Revenue**

12. As with Phase 1, financial projections were undertaken for the 2 schemes assuming the repayment of borrowing over a 30 year period at an interest rate of 5% along with other expenditure on routine and planned maintenance, and major repairs. This was offset against the income generated by setting rents at the Formula Rent as required by the HCA as part of the funding arrangements. Currently Formula Rents are on average 10.1% higher than the actual rents paid by tenants in Southampton.
13. The projections provided annual and cumulative cash flows to determine at what point in the 30 year period cumulative cash flow became positive, indicating that as a whole schemes are viable. There will be a revenue subsidy to Phase 2 of the New Build scheme in Year 1 (2011/12) of £990. This will decrease as rents are increased so that there will be a recurring annual surplus from Year 2 onwards. Deficits accumulated from the early years of the programme will be fully recovered by Year 3.
14. There are revenue implications of the appropriation of the land at Cumbrian Way into the HRA. With the appropriation there is a transfer of debt which has to be funded. Based on the recent valuation of £215,000 the annual cost to the HRA over the 30 year appraisal period is £13,986.

15. The viability of the whole programme is totally reliant on the new dwellings being outside of the HRA Subsidy System - which the HCA automatically arranges with the Communities and Local Government for all successful bids – without which the scheme is not affordable for the Council.
16. Should the scheme fail to be completed within the timescale laid down by HCA then there is a risk that all or some of the funding will need to be repaid. SCC will be committed to building the new dwellings and any shortfall in funding caused by claw back of grant would involve additional borrowing and the associated revenue costs of repayments. Terms of the funding agreement with the HCA have been negotiated with a view to minimising the risks.

### **Property**

17. The new homes at Leaside Way will be built on land contained within the HRA. There will be a need to appropriate the land at Cumbrian Way into the HRA, under delegated authority. The new homes will be owned, maintained and managed as for all other Council rented housing, but with adjustments to existing policies and procedures to reflect the different components and build methods involved.

### **Other**

18. It is necessary for the HCA acting on behalf of the Council to arrange with the CLG to automatically exclude the new homes from the Housing Revenue Account Subsidy System and Pooling arrangements under Section 80B of the Local Government & Housing Act 1989.
19. It has also been necessary for the Council to 'pre-qualify' with the HCA as an Investment Partner before funding can be accessed. The HCA provisionally approved the Council as an Investment Partner in September 2009, subject to the Council procuring a suitable organisation capable of building the new homes to the required high standards for affordable housing. The successful tendering organisation is in the process of being appointed, and once this is completed, the Council can finalise its pre-qualification with the HCA as required.

## **LEGAL IMPLICATIONS**

### **Statutory power to undertake proposals in the report:**

20. The powers to undertake the LA New Build scheme as described in this report are contained within the Housing Act 1985.

### **Other Legal Implications:**

21. The HCA require the Council to enter into a standard funding contract which governs the use and purposes of the funding allocation. The terms of this contract also govern the Council's procured organisation for delivering the new homes.

**POLICY FRAMEWORK IMPLICATIONS**

- 22. All homes built under the LA New Build scheme will positively contribute towards the Council’s affordable housing and estate regeneration strategic priorities and targets.
- 23. The Council’s Housing Strategy for 2007 – 2011 sets out ‘Developing Balanced and Sustainable Communities’ as a key priority, including the provision of new affordable homes and preventing homelessness in the city. The Medium Term and Corporate Improvement Plans also require 2000 new affordable homes to be provided in the city by 2012
- 24. There are nearly 13,500 households currently on the Council’s ‘Housing Register’, and there is a need to provide 1391 affordable homes in the city each year, as identified by the Housing Needs & Market Survey 2006.

**SUPPORTING DOCUMENTATION**

**Appendices**

	None
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**Documents In Members’ Rooms**

	None
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**Background Documents**

Title of Background Paper(s)      Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

	None	
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**Background documents available for inspection at:**

**KEY DECISION?**                      Yes

<b>WARDS/COMMUNITIES AFFECTED:</b>	Millbrook/Swaythling
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