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|------------------------------------|--------------------------------|--|-----------------------------------|
| <b>Item No</b>                     | <b>Classification:</b><br>Open | <b>Date:</b><br>December 15<br>2009                      | <b>Meeting name:</b><br>Executive |
| <b>Report title:</b>               |                                | Local Authority New Build Projects                       |                                   |
| <b>Ward(s) or groups affected:</b> |                                | Nunhead, Livesey   |                                   |
| <b>From:</b>                       |                                | Strategic Director of Regeneration and<br>Neighbourhoods |                                   |

### **Recommendations**

That the Executive

1. Notes the successful bids for the development of two local authority new build projects.
2. Agrees that authority to make financial arrangements for the project, including prudential borrowing should it be necessary, is delegated to the Finance Director.

### **Background Information**

3. £100 million was announced as part of the budget to fund local authority new build, to be split broadly 50:50 between grant and cover for prudential borrowing which would be raised by local authorities and serviced from rental income from the properties built. Further funding was subsequently announced as part of the Building Britain's Future package.
4. The outcome of round one bid was announced on September 9 confirming allocations made to 49 Local Authorities. This will allow councils to deliver over 2,000 new homes, building on their own land. Homes will be for social rent, built to high environmental standards.
5. A second bid round closed on October 30 to allow the remaining funding of nearly £200m to be allocated. The council has not submitted bids, because no suitable sites were identified that could be delivered by the Challenge Fund programme.
6. The available funding, delivered through the Homes and Communities Agency ('HCA'), makes available Social Housing Grant ('SHG') and provides capital cover for the consequential prudential borrowing serviced by rental income from the properties. The money is broadly split 50:50 between the two elements.
7. The HCA model to fund development consists of the local authorities contributing land at nil value the HCA provides grant, and the local authority borrows prudentially against the future rental stream from the properties.

### **Southwark Bids**

8. Two bids were submitted in August 2009 to the HCA for funding to enable the development of two new build council homes projects. Details of the bids and the applicable criteria are attached at Appendix One.

## Key Issues for Consideration

9. The HCA announced on September 9 2009 that the council's bids had been successful. The allocation for the Brayards estate project was £558,707, for which the total scheme costs are estimated as £1,279,450 and for Lindley Estate Project the allocation was £946,832, for which the estimated total scheme costs are £2,161,439. The Total Public Subsidy/HCA allocation equated to 44% of the Total Scheme Costs (works and on costs), the prudential borrowing 56% of the Total Scheme Costs.
10. As part of the bid process, the council was required to provide target dates for the following milestones.
  - Submit Planning: Jan 2010
  - Start on Site: March 2010
  - Completion: March 2011
11. A second bid round closed on October 30 to allow the remaining funding of nearly £200m to be allocated. The council has not submitted bids, because no suitable sites were identified that could be delivered by the Challenge Fund programme.

## Financial implications

12. The total capital cost to the council is estimated at:

|                |                   |
|----------------|-------------------|
| Brayards Road  | £2,161,439        |
| Lindley Estate | <u>£1,279,450</u> |
| Total:         | £3,440,898        |

13. The actual scheme costs will be identified once the schemes have been through the procurement process.
14. Challenge Fund grant has been awarded towards the costs as follows:

|                |                                   |
|----------------|-----------------------------------|
| Brayards Road  | £946,832                          |
| Lindley Estate | <u>£558,707</u>                   |
| Total          | £1,505,539 (covers 44% of costs). |
15. The balance of funding (£1,935,350 56%) is expected by HCA to be met by our Prudential Borrowing, with the resultant debt charges being met from the new-build rents. HM Treasury has approved a package for Challenge Fund new-build bids incorporating HCA grant aid at around half of construction costs and 'cover', i.e permission, for local authority unsupported Prudential Borrowing for the balance.
16. The estimated net revenue surplus of the schemes -rent income less management and maintenance costs- at only £19,600 p.a. - would not cover borrowing costs.
17. The HCA bidders' guidance and bidding mechanism assumed that the Local Authority match funding would be raised by Prudential Borrowing. The council has advised the HCA that it would make better financial sense to fund the contribution by other means.

## RESOURCE IMPLICATIONS

18. The projected resources required to deliver the two schemes are summarised as follows:

### Brayards Estate

|                              |                  |
|------------------------------|------------------|
| <b>Overall Scheme Costs:</b> | <b>1,279,450</b> |
| Social Housing Grant         | 558,707          |
| Prudential Borrowing element | 720,743          |

### Lindley Estate

|                              |                  |
|------------------------------|------------------|
| <b>Overall Scheme Costs:</b> | <b>2,161,439</b> |
| Social Housing Grant         | 946,832          |
| Prudential Borrowing element | 1,214,607        |

19. Although there will not be a direct cost to the housing investment programme to support the HCA grant for council new build, the revenue required to fund prudential borrowing will result in an on-going reduction in the revenue contribution to the capital programme, and a diversion of resources from Southwark's Decent Homes programme.

### Investment implications (inv/ii/rjb)

20. The report considers the option of funding the proposed works from available Housing Investment Programme resources. There is currently no provision within the HIP for funding the capital construction costs of the proposed new build developments, which paragraph 18 indicates will fall in 2010/11. All known resources for the 2010/11 programme are fully allocated, and the allocation of £1,935,350 for this new build development would only be possible by the withdrawal of funding from other priority areas within the programme. In practice this would impact directly on the Decent Homes budget.

### Policy Implications

21. The development of these two projects will assist in increasing the supply of good quality affordable housing, one of the key objectives of the 2009-2016 Housing Strategy and will increase the supply of larger family accommodation.
22. The developments will contribute to the meeting of the Mayor's and GLA's affordable housing target for Southwark 2008/09- 2010/11.
23. The new homes developed will be to decent homes standards and will therefore increase the social rented stock that meets the Decent Homes standard.

### Community Impact Statement

24. The proposal will provide new high quality affordable housing for residents in housing need on the council's housing register.
25. Over fifty percent of the units proposed will be 3 bedrooms or more, and these size of units are those in least supply and will therefore assist in meeting the housing needs of those requiring larger accommodation.

## Consultation

26. Consultation will be held with residents of all the estates and they will have input into the design process. A consultation strategy is being devised to ensure residents are consulted at appropriate times during both the design and construction phases.

## SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

### Finance Director

27. This report seeks approval to proceed with a project encompassing two new build housing schemes, with a total cost of £3,440,889. Of this, £1,505,539 will be met by Challenge Fund grant from the Homes and Communities and Agency (HCA), on condition that the remainder of £1,935,350 is met by the council from its own resources.
28. The HCA has promoted that councils accessing these funds could meet their contribution towards a scheme from prudential borrowing, and that HM Treasury has allowed for prudential borrowing within their public sector borrowing forecasts. However, Treasury's allowance in their forecasts conveys no financial support for the council. Prudential borrowing does not represent best value in the use of resources for the council, because of the costs of borrowing and debt repayment. The council has therefore written to the Communities and Local Government (CLG) to advise that it intends to use resources ordinarily available to the housing investment programme in lieu of borrowing to meet our share of the cost of the scheme.

### Strategic Director for Communities, Law & Governance

29. It is noted from the Supplementary Advice provided by the Finance Director that Prudential borrowing does not represent best value in the use of resources for the council, because of the costs of borrowing and debt repayment and that the council has advised CLG that it intends to use resources ordinarily available to the housing investment programme in lieu of borrowing to meet the council's share of the cost of the scheme.
30. If the Finance Director decides that prudential borrowing should be necessary, then it should be noted that Section 1 of The Local Government Act 2003 enables the council to borrow for normal treasury management purposes, subject to controls on borrowing in Sections, 2,6 and 13 of the Act. Section 3 of the Act imposes a duty for the council to determine and keep under review the amount they can afford to borrow, in accordance with the Prudential Code being produced by the Chartered Institute of Public Finance and Accountancy(CIPFA) which will lay down the practical rules for deciding whether borrowing is affordable. Section 4 of the Act imposes borrowing limits in this regard

## BACKGROUND DOCUMENTS

| Background papers | Held at       | Contact                |
|-------------------|---------------|------------------------|
| Bid Documents     | 160 Tooley St | Tim Bostridge<br>51222 |

## APPENDICES

| No. | Title |
|-----|-------|
| N/A |       |

## AUDIT TRAIL

|   |   |                          |
|---|---|--------------------------|
| <b>Lead Officer</b>   | Richard Rawes, Strategic Director Regeneration & Neighbourhoods |                          |
| <b>Report Author</b>  | Tim Bostridge, Principal Project Officer (Development)          |                          |
| <b>Version</b>  | Final   |                          |
| <b>Dated</b>  | December 3 2009   |                          |
| <b>Key decision?</b>  | No  |                          |
| <b>CONSULTATION WITH OTHER OFFICERS/DIRECTORATES/EXECUTIVE MEMBER</b> |   |                          |
| <b>Officer title</b>  | <b>Comments sought</b>  | <b>Comments included</b> |
| Strategic Director of Communities, Law & Governance                   | Yes   | Yes                      |
| Finance Director  | Yes   | Yes                      |
| Departmental Finance Manager  | Yes   | Yes                      |
| <b>Executive Member</b>   | <b>Yes</b>  | <b>No</b>                |
| Date final report sent to Constitutional Support                      | December 4 2009   |                          |

## **APPENDIX ONE**

1. The two schemes are

- Lympstone Nursery & Garages, Lindley Estate, Peckham Hill Street, SE15 1BJ
- Brayards Estate, Firbank Road SE15

### **LYMPSTONE NURSERY & GARAGES, LINDLEY ESTATE, PECKHAM HILL STREET, SE15 1BJ**

#### **Current Usage**

2. The site consists of the Lindley House garages and the Lympstone Day nursery, which is closed. There are 18 garages, of which the majority are empty and hard standing. There is a redundant concrete sunken play area to the centre of the hard standing area.

#### **Scheme Detail**

A development of 16 new homes is proposed, breaking down as follows:

- 4 one bed flats (located on the second floor)
- 6 two bed flats (located on the third floor)
- 6 three bed maisonettes including two accessible homes (located on the ground and first floors)

3. The indicative designs show the new homes in two blocks, with amenity space.

### **BRAYARDS ESTATE, FIRBANK ROAD SE15**

#### **Scheme Detail**

4. The sites are an existing small garage site and a redundant caged play area. 8 new houses are proposed, breaking down as follows:

- 6 three bed houses
- 1 three bed accessible house
- 1 three/four bed accessible house

5. The houses are spread over the two sites.

6. The detailed bidding requirements are as follows:

- Aim of funding is to unlock local authority land and property unlikely to be suitable for others to develop. For example small infill sites on estates, ex garage sites.
- Expectation that this will not change schemes already due to proceed via an RSL for example or be part of existing regeneration programmes.
- Requirement that Local Authorities do not include any land cost within funding bids and schemes will be new build.
- Funding available for social rent only and be let on secure tenancies
- Rents will need to be Formula rents noting these will be premium properties and need to maximise loan supportable.

- The units will be within the HRA but outside the subsidy system. An application will have to be made to the HCA to exclude properties from the subsidy system. For this Secretary of States approval would be required.
- The funding for the projects to be a combination of Challenge Fund grant and Prudential Borrowing by the local authority.
- The schemes should start on site in 09/10 and achieve completion prior to March 31 2011.

7. The criteria used by the HCA for assessing bids fell into a number of categories as follows:

#### **Value for Money**

- Grant required (per unit & per person) compared to similar bids
- Level of Prudential borrowing

#### **Deliverability**

- Planning status / timescales to planning
- Expected start on site and completion

#### **Local / regional strategic fit**

- In line with published policies, e.g. UDP, London Plan

#### **Quality standards**

- Must meet HCA Design & Quality standards
- Minimum Housing Quality indicators score, bids that exceed will be advantaged
- Homes which exceed Code level 3 for Sustainable homes will be advantaged in the assessment process

#### **Other considerations when bidding**

- Fiscal stimulus package – intended to generate economic activity; e.g. construction & others types of employment opportunity.
- Provide local labour in construction / apprenticeships.
- Strongly encouraged to build into contractual arrangements and demonstrate how they might be delivered.
- Completion of a pre-qualification questionnaire

#### **All Local Authorities will be required to sign a grant agreement which will include;**

- Details of what is to be built, agreed standards, dates etc
- Conditions precedent for claiming grant (at start of site & practical completion)
- The securing of all homes constructed as affordable rented housing in the long term, although
  - Residents of the homes would be able to apply for the Right to Buy.

- In the event of RTBs grant including an uplift would have to be returned to the HCA