

Growth Committee

13 October 2016

HRA Sites Affordable Housing Development Feasibility Study

Reference from Housing Sub-Committee - 13 September 2016

Purpose

To report the recommendation of the Housing Sub-Committee in relation to the findings of the HRA Sites Affordable Housing Development Feasibility Study and to seek approval to enter into discussions with Registered Providers and private developers to dispose of the sites in the study and, if successful, to dispose of the sites to enable the development of homes on the sites.

Recommendations of the Housing Sub-Committee

The Housing Sub-Committee recommends the Growth Committee to **resolve** that:

1. the seven of the sites appraised in the feasibility and viability study are disposed of to Registered Providers (RP) or private developers using a mix of approaches as set out in Option 1 (ref para 14 of the report) and Option 2 (ref para 15 of the report) to enable RBK to develop homes on the sites:
 - Option 1 - to sell sites to Registered Providers (Housing Associations) on the condition that they provide 100% affordable housing.
 - Option 2 - to dispose of the sites to Registered Providers or private developers to develop out the sites for a mix of affordable and private use with the private homes cross-subsidising the affordable ones.
2. the Committee agrees that all disposals of sites to a Registered Provider should be:
 - a. for housing - with affordable housing use in perpetuity, where provided, and the Head of Property, in consultation with the Head of Housing, to be authorised to agree the terms of the disposal; and
 - b. through a competitive tendering process.

Key Points

- A. The Housing Sub-Committee considered [a report](#) at its meeting on 13 September from which it agreed to refer recommendations to the Growth Committee which has the remit for 'Asset Management'.
- B. With housing development land being finite in supply, increasingly innovative solutions are being sought in order to create new affordable housing development projects. The Affordable Housing Strategy for 2015-2017 has identified new opportunities to create affordable housing sites, typically by exploring prospects for infill development or for redeveloping existing buildings and land more intensively. The strategy was agreed by the Residents, Health and Care Services Committee (RH&CS) in September 2014.
- C. The report identified HRA sites with potential for redevelopment where affordable homes can be created and recommended that each site is assessed in more detail with the most appropriate method of development taken forward. The report included a proposal to dispose of a number of garage blocks no longer considered

to be fit for purpose and the receipt of these sales contributing towards capital funding to develop the sites.

- D. The RBK Housing Development Team (HDT) appointed Tibbalds Planning & Urban Design on 21 October 2015 to assess the sites in more detail. The detailed assessment was through feasibility and viability appraisals on the sites. The overall objective of the appraisals was to inform RBK how many homes can be accommodated on the sites and how much it will cost to build. The final report was completed on May 2016. In summary, the report concluded that seven RBK HRA sites could generate approximately 75 homes at an estimated overall cost of £11M.
- E. The main source of capital funding which RBK has for housing development projects are one-for-one (1-4-1) Right To Buy (RTB) receipts. To date, RBK has retained £5.1m of one-for-one receipts. These receipts can be used to fund a maximum of 30% of the development cost of new social housing units.
- F. Retained receipts are time limited, and fall due for repayment to DCLG if not used within 3 years of the end of the quarter in which the receipt was received. Interest must be paid on returned receipts at a rate of 4% above base rate. As 1-4-1 receipts can be used to fund only 30% of development costs, an additional 70% of capital must be sourced. GLA funding cannot be used on any development scheme if 1-4-1 receipts are used.
- G. In order to progress development of these sites, RBK will need to identify 70% of the capital funding (approx. £7.7M) and, assuming all units built will be affordable/ social rent, this could utilise approx. £3.3M of 1-4-1 RTB receipts. If sites are disposed of, RBK can grant 1-4-1 receipts to RPs or private developers towards their development of units to be let at affordable/social rent.
- H. Three capital funding options to progress the development of the sites are set out in paragraphs 14 - 16 of the report of which the two recommended options are:
- **Option 1 - Sell sites to Registered Providers (Housing Associations)** on the condition that they provide 100% affordable housing (ref **para. 14** of the report)
 - **Option 2 - Disposal of the sites to Registered Providers or private developers** to develop out the sites for a mix of affordable and private use with the private homes cross-subsidising the affordable ones. (ref **para. 15** of the report)
- I. Feasibility studies are the key stage in the housing development process. The overall finding of the HRA sites affordable housing development feasibility and viability study is contained in **Annex 1** of the report and summarised in the table in **para. 9** of the report below. On 15 July 2016, a Registered Provider formally expressed its interest in all of the sites identified in the study. More expressions of interest are expected and will be reported to the Sub-Committee as late material.
- J. The process for disposing of sites can take up to eighteen months, depending on the conditions of sale. The housing development process, once ownership of the site is confirmed and funding is in place, can take at least two years.
- K. The recommendations are being referred to the Growth Committee which holds the remit for Asset Management.

Context

1. The Council's Core Strategy has a target of 2000 new affordable homes to be created between 2012/13 and 2026/27. By the end of financial year, the Council achieved delivery of about 280 new homes towards this target.
2. The Council's Housing Strategy 2015 - 2020 seeks to deliver a minimum of 133 new affordable housing units every year up to 2027. Kingston has struggled to deliver its required affordable housing completions each year and is currently well below the levels that we actually need.
3. At present, our only significant sources of affordable housing have been through Registered Provider Partners and off the back of successful S106 negotiations.
4. Currently only 11% of total housing in the borough is social or affordable housing. The London average is 24%. Housing is considered to be 'affordable' if it costs for rent / mortgage and other service charges / council tax no more than 35% of net income (although in the current climate, for London, this figure can creep up to just over 40%). The average income of 60% of residents in Kingston is less than £36,000. On this basis only a one or two bedroom unit shared by 2 working adults is truly affordable in the borough although this is variable dependant on location within the borough.
5. The Council is on average losing 1% of its own stock to Right to Buy every year which equates to approximately 40 homes.
6. The development of new affordable rented housing in the borough would generate a financial benefit for the General Fund as the Council's nomination rights will enable homeless households to be moved out of costly temporary accommodation and into permanent housing. As at the end of September, temporary accommodation costs are currently in the region of around £10k per annum per household.
7. RBK does not have a specific capital budget for new build developments, conversions or extensions and this rules out Option 3 (below) as a viable method for securing capital funds to develop the sites. The main source of capital funding which RBK has for housing development projects are one-for-one (1-4-1) Right To Buy (RTB) receipts. To date, RBK has retained £5.1m of one-for-one receipts. These receipts can be used to fund a maximum of 30% of the development cost of new social housing units.

HRA Sites Affordable Housing Development Feasibility Study

8. RBK Housing Development Team (HDT) appointed Tibbalds Planning & Urban Design on 21 October 2015 to assess in more detail the HRA sites with potential for redevelopment where affordable homes can be created. The detailed assessment was through feasibility and viability appraisals on the sites. The overall objective of the appraisals was to inform RBK how many homes can be accommodated on the sites and how much it will cost to build. The final report was completed on May 2016.
9. In summary, the report concluded that seven RBK HRA sites could generate approximately 75 homes at an estimated overall cost of £11M. The overall finding of the HRA sites affordable housing development feasibility & viability study is contained in **Annex 1** and summarised in the table below:

Project & Site Name	Current Description of Site	Potential Development Option	Potential Number of Homes	Total Estimated Cost (Exc Interest & Profit)	Ward
Garages at York Way, Chessington, KT9 2JU	Surrounded by open space on a medium sized estate	20 x 2B4P Flats	20	£2,887,693	Chessington South
Garages 9 - 30 Cumberland House, Kingston, KT2 7LH	Located on estate adjacent to sub-station and children's play area.	10 x 1B2P & 10 x 2B4P	20	£2,689,093	Coombe Hill
Garages 58-64 Marshall House off Rodney Road, KT3 5AD	Adjoining hard surface areas	3 x 1B2P & 6 x 2B4P	9	£1,313,784	St James
Garages 16-21 Downfield House, Sheephouse Way Estate, KT3 5PR	Adjacent to disused drying area	8 x 2B4P	8	£1,282,574	Old Malden
Garages at Selby Close, Chessington, KT9 2LH	Located near private residential homes	3 x 1B2P Flats & 6 x 2B4P Flats	9	£1,270,224	Chessington South
Garages at Wessex Close, Kingston, KT1 3RQ	Located on medium sized estate.	1 x 2B3P, 1 X 3B4P Flats, 1 X 2B3P, 2 x 2B4P Maisonettes	5	£746,740	Coombe Hill
Garages 25-29 & 30-35 Kent Way, KT6 7SU	In two locations on estate	2 x 2B4P & 2 x 3B5P	4	£638,643	Tolworth and Hook Rise
TOTAL			75	£10,828,751	

10. The overall objective of the feasibility and appraisals was to inform RBK how many homes can be accommodated on the sites and how much it will cost to build while meeting the relevant planning standards and guidelines wherever possible.
11. The methodology for the production of the final development options for each site encompassed the following tasks:
 - (a) ***Planning Review:*** A comprehensive review of both local and regional planning policy was carried out. This review established requirements for affordable housing provision, housing density, types and tenure mixes, parking, and the public realm, along with other site-specific implications (such as ecological designations and conservation areas, etc.). This planning review also addressed any relevant planning history issues of each site.
 - (b) ***Design Review:*** A design review of each site was carried out, which includes both a review of local and regional design guidelines and information gathered from individual site visits. The design guideline review allowed an understanding of local and regional requirements for residential design (e.g. residential unit size, privacy issues, detailing, etc.). The individual site visits

afforded a greater understanding of each specific site, including relationship to neighbouring properties, prevailing streetscape, prevailing building heights, etc.

- (c) *Production of Constraints and Opportunities Plans:* Tibbalds produced detailed constraints and opportunities plans for each of the sites. These plans set out the physical constraints (e.g. electrical substations, tree protection orders, etc.), policy constraints (e.g. neighbourhood policy areas), and opportunities for the development to respond to the prevailing streetscape (e.g. frontages, residential design, etc.)
- (d) *Development of Initial Options:* Having undertaken the above, up to three development options for each of the sites were formulated. These options were devised in line with the constraints and opportunities plans and looked to suitably utilise opportunities to deliver high quality residential units within each site. These options were then presented to the RBK Housing Development Team.
- (e) *Further Development of Preferred Options:* The designated preferred options were further developed including producing 3D modelling of each of the preferred options to provide a greater level of detail. These preferred options were then presented to RBK Planning, Design, and Highways Officers for comments.
- (f) *Final Developed Options:* In response to the feedback from the meeting with RBK Planning, Design, and Highways Officers the options were then further consolidated and developed in the production of the final feasibility study report. The final report included a bespoke investment model which examined each scheme as if built out by the Council and held as an investment. The income was estimated and then from this Gross Income, the costs of construction were deducted. The net revenue constitutes an effective return to the Council. The key components of the model were revenue, development costs, revenue costs, capital costs, and financial costs. The model provided a Net Present Value of each scheme; indicating whether a positive or negative return would be achieved over the proposed cash-flow period and identifying when the cash-flow would turn positive.

12. The study concludes that, should RBK decide to proceed with the options detailed below (ref paras 14- 16 and **Annex 1**), further analysis and due diligence will be required with regard to the following issues:

- Residential Occupants: The proposed development at Elm Road encompasses six bungalows, three of which are currently tenanted;
- Sites within Controlled Parking Zones;
- Parking Usage; Disabled Parking; Garage tenants;
- Unit Mix: Site Red-Lines;
- Restrictive Covenants.

13. The Registered Providers (RPs) have been kept informed of the progress of the feasibility study through the Housing Development Team Registered Providers Forum since June 2015. The RPs have regularly expressed an interest in developing affordable housing on HRA land. The feasibility study final report was made available to the partner RPs on 22 June 2016 and they will feedback their initial expressions of interest per site in relation to the information contained in the

report by 30 July 2016. Three RPs have formally expressed an interest in the sites identified in the study.

Proposal and Options

14. **Option 1 - Sell sites to Registered Providers (Housing Associations)** on the condition that they provide 100% affordable housing.

Method - Develop in partnership with a Registered Provider.

Pros

- i. Can utilise RTB 141 receipts on new homes at affordable/social rent.
- ii. Sites would provide 100% affordable housing
- iii. Lower capital outlay.
- iv. Borough would gain affordable rented housing with nomination rights.
- v. The RP would take on the majority of the risk associated with any construction project.
- vi. Council will receive a capital receipt to support HRA capital priorities
- vii. More flexibility in disposing of sites in smaller batches to RPs.

Cons

- i. No further revenue to HRA.
- ii. Council would not immediately gain experience of the housing development process and the management of a new build programme.
- iii. Council would lose a capital asset.
- iv. Site may be less financially viable and/or attractive to RP.
- v. Restricting sites to RPs may not represent best value.
- vi. Rented affordable housing could be charged at up to 80% of market rent.

15. **Option 2 - Disposal of the sites to Registered Providers or private developers** to develop out the sites for a mix of affordable and private use with the private homes cross-subsidising the affordable ones.

Method - Extend a tender to any housing developer partner to develop out all the sites for a mix of affordable and private use with the private homes cross-subsidising the affordable ones.

Pros

- i. New affordable homes remain under council ownership.
- ii. Further revenue to the HRA.
- iii. No capital outlay
- iv. The housing development partner would take on all the risk associated with the construction project.
- v. Can utilise RTB 1 - 4 - 1 receipts on the new affordable homes are at affordable/social rent.
- vi. Packaging all the sites together may make them more attractive to the market.
- vii. RBK can set minimum amount of affordable housing required.

Cons

- i. Less chance of utilising 141 receipts as RPs may build other tenures of affordable housing to make project more financially viable.
- ii. Sites would not provide 100% affordable housing.
- iii. Council would not immediately gain experience of the housing development process and the management of a new build programme.

iv. Council capital assets will reduce.

16. **Option 3 - RBK taking responsibility for 70% of the funding and creating an internal self-funded New Build Programme** and assuming all units will be affordable/social rent, can therefore utilise 141 RTB receipts.

Method - Develop sites in-house by commissioning design and cost consultants as required while directing the skills and expertise of Council officers to new council home building.

Pros

- i. Will utilise RTB 1-4-1 receipts assuming all homes are at affordable/social rent.
- ii. New affordable homes remain under council ownership.
- iii. Further revenue to the HRA.
- iv. Potentially rebalance stock lost through RTB.
- v. Council would gain experience of the housing development process and the management of a new build programme.

Cons

- i. High capital outlay which Council cannot presently afford to fund.
- ii. Council will have to identify at least 70% of build cost.
- iii. Council would be responsible for all the risk associated with any construction project.

Consultations

17. A consultation was carried out on all the residents renting in the identified sites. The results of these were reported to the RH&CS in September 2014.

Timescale

18. Their recommendation for Growth Committee (which has the remit for Asset Management) will be referred to that Committee's meeting on 13 October 2016.
19. The process for disposing of sites can take up to eighteen months, depending on the conditions of sale.
20. The housing development process, once ownership of the site is confirmed and funding is in place, can take at least two years. The housing development process involves:
- the preparation of a project programme and risk assessment.
 - undertaking a feasibility and viability appraisal. This assesses how many homes can fit on the site, and how much it will cost to build. The process involves assessing total development costs and undertaking financial viability appraisals to assess unit and tenure mix, cost breakdowns and funding sources.
 - If homes can be built on the site, an architect will prepare plans, reports and everything else needed for a planning application.
 - Once the plans are finalised, a planning application to the local planning authority is submitted.
 - Residents and businesses around the site are then consulted and are invited to comment on the planning application.
 - If planning permission is granted, a building contractor is appointed to build the homes.

Resource Implications

21. The RBK Housing Development Team (HDT) sold 11 of the 26 surplus garage sites at auction between October 2015 and April 2016 generating £1,826,000 in capital receipts. RBK Finance informed HDT that the capital receipt cannot be ringfenced for the development of the identified sites as originally agreed. This was due in part to revised HRA capital forecasts following the announcement in the July 2015 budgets that social landlords will be required to reduce rents by 1% a year for four years.
22. As a result RBK does not have a specific capital budget for new build developments, conversions or extensions and this rules out Option 3 as a viable method for securing capital funds to develop the sites.
23. The redevelopment of the garage sites will result of in a loss of rental income. The overall revenue impact would be approximately £72,000 per annum, although in practice this is much lower, as only 26 of the 101 garages are currently let.

Legal Implications

24. All garage tenants signed leases with a one week notice period to terminate the contract. RBK will where possible ensure all garage tenants will be offered a suitable alternative to their current garage, however, we will be enforcing the one week notice period if necessary as a last resort.
25. Statutory requirements as to the keeping of an HRA are contained in the Local Government and Housing Act 1989. The provisions include a duty, under section 76 of the Act, to budget to prevent a debit balance on the HRA and to implement and review the budget.

Risk Assessment

26. If the sites should be retained rather redeveloped, the Council would retain responsibility for rates, management costs, general repair and maintenance costs, and restoration costs where the sites are in a state of some disrepair.
27. Paragraph 12 above sets out issues for further analysis and due diligence.

Equalities Impact Assessment

28. There are no specific equalities implications arising from these proposals. The proposal will help provide affordable housing to meet the local needs of the community and, in particular, priority housing need, including homeless households amongst whom disadvantaged groups are disproportionately represented. Capital receipts from disposals will assist in this provision as a potential funding source.

Road Network Implications

29. The road network implications of disposal and /or re -developing sites will be taken into consideration in determining any planning application.

Environmental Implications

30. The environmental implications of disposal and/or re-developing sites will be taken into consideration in determining any planning application.

Background papers – held by the author of the report - Andrew Ochia, HRA Housing Development Senior Professional, 0208 547 5647 email: andrew.ochia@kingston.gov.uk

- Kingston HRA Sites Feasibility Study - Revised Final Report May 2016
- HRA Affordable Housing Strategic Development Plan 2015-17
- Report to the Residents, Health and Care Services Committee - September 2014