

Request for Affordable Housing Commuted Sums grant funding for use at Wesley Road, Armley, to assist in the delivery of 28 new affordable homes

Date: 4th March 2024

Report of: Head of Regeneration

Report to: Chief Officer, Asset Management and Regeneration

Will the decision be open for call in? Yes No

Does the report contain confidential or exempt information? Yes No

Brief summary

This report requests approval to the use of up to £700,000 affordable housing commuted sums grant funding to support the delivery of 28 new affordable homes by 54North Homes for social rent and shared ownership off Wesley Road, Armley.

Recommendations

The Chief Officer, Asset Management and Regeneration is requested to approve and grant authority to;

- a) The spend of affordable housing commuted sums funding up to £700,000 to support 54North Home's proposal to deliver 28 new affordable homes for social rent and shared ownership at Wesley Road, Armley and;
- b) For the Council to enter into a grant agreement and nominations agreement with 54North Homes on the terms set out in this report.

What is this report about?

- 1 The Council has received an application from 54North Homes (a Registered Provider of affordable housing) for £700,000 affordable housing commuted sums (commuted sums) funding to support the delivery of 28 new affordable homes for social rent and shared ownership off Wesley Road in Armley. Commuted sums funding will enable this scheme to be 100% affordable, delivering 26-two storey houses and two apartments, comprised of two or three bedrooms, which will all be for affordable rent and sale.
- 2 Commuted sums is a funding stream managed by the council and is comprised of contributions which have been paid by developers through s106 legal agreements related to planning approvals in lieu of the provision of Affordable Housing units on site, as per policy H5 of the Core Strategy. Commuted sums can be deployed by the Council through grants to eligible third-party organisations to support the delivery of more affordable homes, to increase the affordability of a scheme of new supply homes or to bring empty homes back into use.
- 3 Generally, the sums collected are unrestricted and can be spent anywhere within the Council's administrative area, although in some cases these funds are restricted to be spent within the ward or area in which they were generated. In some instances, through the planning process, Ward Members have expressed a preference for the sums to be invested in a particular way or in a particular locality. Following approvals at Executive Board in September 2016 and November 2018, the Council has implemented a strategic approach to the investment of Commuted Sums which has included new build developments and acquisition opportunities, particularly where this will leverage other funding and investment in affordable housing delivery.
- 4 The delivery of a new supply of Affordable Housing in Leeds underpins the Leeds Best City Ambition to tackle poverty and inequality and improve the quality of life for everyone who calls Leeds home. This proposal adheres strongly to this ambition by delivering new affordable housing, bringing a currently derelict area of land withing an existing residential area back into use to create a vibrant community where residents are close to existing services and facilities.
- 5 The estimated total scheme costs for this project are included within Exempt Appendix 1. 54North Homes will fund the remainder of the scheme through a mixture of funds outlined in the appendix. Use of commuted sums here will make the Wesley Road scheme viable as part of an identified number of schemes to be delivered by 54North Homes. Further details of this are set out in the body of the report.
- 6 54North Homes is a member of the Leeds Affordable Housing Framework and has an existing portfolio of affordable homes across Leeds and Yorkshire. 54North Homes will be required to enter into a grant agreement and a nominations agreement to ensure that the grant funding is used for the proposed purpose and to include provisions to clawback funding if appropriate.
- 7 More detail on the risks and council security on the programme is provided within the body of the report.

What impact will this proposal have?

- 8 54North Homes is a housing association formed through a merger of Leeds & Yorkshire Housing Association and York Housing Association in December 2022 and is a subsidiary of the Karbon Homes Group. Owning and managing a portfolio of homes across Yorkshire, ranging from general needs to extra care to student homes, they place a significant focus on increasing the supply of sustainable homes. 54North Homes and Leeds and Yorkshire have a record of delivery in the city, providing over 200 new affordable homes in Leeds since 2015.

- 9 54North Homes is awaiting planning approval to deliver the proposed 100% affordable scheme comprised of 28 new build homes, which it anticipates receiving in the coming weeks pending finalisation of the Section 106 agreement. Granting of commuted sums will be subject to the scheme receiving this planning consent. The scheme proposes to deliver 22 homes which will be available for social rent, and 6 homes which will be available for shared ownership.
- 10 The site is located off Wesley Road in Armley, as shown in Appendix 1, and is allocated for housing in the Council's adopted Site Allocations Plan. 54North Homes now own the site having acquired it from the Diocese of Leeds. It is currently vacant and located within an existing residential community. The ward has a real housing need, with the Leeds Housing Register demonstrating Armley as having the 14th highest number of households in housing need in the city. The ward has significant need for one, two and three bedroom properties, with almost 40% of those on the register requiring two and three bedroom properties. Delivering a new stock of high quality, affordable homes on this site will support the sustainable regeneration of this area and contribute towards meeting Armley's housing need and supporting vibrant and mixed communities.
- 11 54North Homes has been successful in securing grant and loan funding to support the delivery of the scheme, details of which are set out in Exempt Appendix 1, however there remains an identified viability gap. This viability gap has also been compounded through rising costs of building materials and labour. The Investment Appraisal Model has been prepared based on a Red Book Valuation of the site and on the proposed tenure split over a period of 60 years, which is in line with Karbon Homes Group's approved appraisal parameters. This compares with the application of a 40 year payback period to schemes included within the Council Housing Growth programme. Use of commuted sums to support the Wesley Road scheme will contribute towards meeting the viability gap and achieving the approved target hurdle rates when considered as part of 54North Homes overall delivery portfolio. This has been approved by Karbon Home's Group Development Committee and the requirements of the Homes England Grant funding. Use of commuted sums here will therefore enable the delivery of the 100% affordable scheme with a high proportion of social rented homes in an area high housing need.
- 12 All of the homes on the site will be built using modern methods of construction (MMC) and utilise a low carbon heating solution, air source heat pumps, to improve their thermal efficiency, respond to the climate emergency and make them more affordable for tenants.
- 13 54North Homes will also be required to enter into a nomination agreement to ensure the Council will receive 100% nomination rights for first lettings and 60% on subsequent lettings. This will be administered and managed by Housing Leeds.
- 14 An Equality, Diversity, Cohesion and Integration screening has been completed and is attached at Appendix 2. This has demonstrated that there is no requirement for a full Equality Impact Assessment to be undertaken.

How does this proposal impact the three pillars of the Best City Ambition?

Health and Wellbeing

Inclusive Growth

Zero Carbon

- 15 This project will contribute towards all the three pillars of the Best City Ambition by delivering new affordable homes with a mix of tenures for rent and sale with high thermal efficiency credentials which will contribute towards meeting housing need, support the creation of sustainable and thriving communities, have reduced heating demand, address fuel poverty and reduce carbon emissions.

- 16 The proposed site is located within the Armley ward, areas of which are among the most deprived in Leeds, ranking highly in terms of unemployment, poor health and income deprivation. A location plan of the site is available in Appendix 1. Housing need is high in Armley, with over 800 households currently on the housing register, many of which require either 2 bed home or 3 bed homes. The scheme will contribute towards addressing this housing need through delivering new affordable homes, supporting those on low incomes into high quality homes. 22 of the properties will be available for social rent, greatly contributing towards meeting the need for social rented homes in the city. The remaining six will be available for shared ownership which can offer a route into home ownership for those who can access mortgages.
- 17 The delivery of new affordable housing within this area, and the mix of tenures proposed, will contribute greatly towards meeting the housing need of the city. The Best Council Plan 2020-2025 acknowledges that the provision of an adequate supply of housing of the right quality, type, tenure and affordability in the right place is a priority for the city. Alongside this, the Best City Ambition identifies that the delivery of better homes is a priority for the city and is central to tackling challenges around affordability, poverty, and inequality to improve health and wellbeing and create vibrant communities. This is also reflected in the Local Plan which sets out the housing need in the city and the importance of ensuring a sufficient housing land supply in appropriate locations alongside delivering the quality, type and affordability of homes in meeting local needs. To meet this housing need, the Leeds Affordable Housing Growth Partnership Action Plan sets an ambition to accelerate delivery towards meeting the identified city-wide housing needs of 1,230 affordable homes per year, promoting independence and creating sustainable communities to make Leeds the best place to live.
- 18 The proposal will also bring an area of land that is currently vacant and has been underused for a long period located close to the centre of Armley back into use, improving the area for new and current tenants.
- 19 The scheme has also been designed with community safety in mind, supporting the health and wellbeing of residents, including ensuring car parking areas are sufficiently overlooked and boundaries are of a height which offers security to residents.
- 20 54North Homes will also contribute towards achieving inclusive growth priorities through seeking to maximise employment and training opportunities through the project by requiring that the contractor appointed provides four apprentices during the construction period and will monitor their support of local labour. They will also require that the contractor visits local schools to educate children on health and safety and construction sites.
- 21 The proposal will also contribute towards meeting zero carbon ambitions as it will be constructed using a modern method of construction (MMC) timber frame solution which will ensure an efficient construction period and enhance the thermal performance of the home. In addition, the homes will be constructed utilising a low carbon heating solution air source heat pumps, which will reduce their cost to heat and run making them more affordable for tenants and reducing fuel poverty, supporting the general health of tenants. The proposal will also deliver electric vehicle charging points and bike storage, encouraging the use of electric vehicles and active travel.
- 22 The plans also propose to retain large groupings of existing trees on the site and replant any trees which are removed with three new trees. In addition, it will create new landscaped areas to deliver attractive greenspaces and preserve and encourage biodiversity.

What consultation and engagement has taken place?

Wards affected: Armley

Have ward members been consulted? Yes No

- 23 The decision was advertised as a Key Decision on the forward plan from 27th October 2023 with a decision not to be taken before the 27th November 2023.
- 24 Engagement has taken place regarding the scheme with ward members in Armley, including a site visit hosted by 54North Homes in 2021 which was offered to all ward members, and further email correspondence. Ward members did not raise concerns regarding the scheme. Further briefings from the Council regarding use of commuted sums to support the delivery of the scheme took place in August 2023 and the ward members were supportive.
- 25 The Executive Member for Housing was consulted in August 2023, and is supportive of the scheme.
- 26 Legal and finance have been consulted and the legal implications and risks are set out below.

What are the resource implications?

- 27 Financial support from the Council is requested from the pooled affordable housing commuted sums budget which is confirmed as legal and appropriate for this scheme. 54North Homes have requested approximately 11.17% of their total scheme costs from commuted sums funding, amounting to approximately £25,000 per property. 54North Homes have confirmed that they have secured the remaining sums required through grant and loan funding.
- 28 The quantum of commuted sums requested will ensure that 54North Homes address an identified viability gap and can deliver the scheme under the proposed tenure mix, which will maximise the number of social rented homes to be delivered on the site. This approach aligns strongly with ambitions to increase the number of social rented homes in the city. Without the spend of commuted sums, the quantum of social rented properties would reduce.
- 29 Whilst the Council recognises that 54North Homes has a record of delivery in the city, funds will be released in tranches to ensure that should the organisation not be able to deliver on the proposal or fail to conform to the conditions agreed, the grant agreement will require it to repay all or part of the agreement as appropriate.

What are the key risks and how are they being managed?

- 30 54North Homes have a record of delivery in the city, including through their previous capacity of Leeds and Yorkshire Housing, and are currently delivering 58 social rented units at Railway Street in Burmantofts and Richmond Hill ward with good progress being made on site.
- 31 The main risk of any grant funding is that the funder loses some control of the funds. If approved, 54North Homes will be obligated to enter into a grant agreement with the Council before any funding is to be released. The terms of the grant agreement will outline that:
- The funding will only be granted on the basis that 54North Homes secure planning consent for the scheme.

- The grant funding will be released in tranches with 50% of the grant available to draw down upon start on site, and the remaining 50% available to be drawn down upon practical completion.
- The grant agreement will permit 54North Homes 15 months to draw down any available grant money. The Council reserves the right to extend this long stop date,
- 54North Homes enter into a Nominations Agreement with the Council to grant nomination rights over who occupies the social rented properties,
- The Grant Agreement will also require that 54North Homes seeks the Council's consent before selling the properties and ensure that any new owner also enters into a Nominations Agreement with the Council,
- Progress monitoring will be submitted bi-annually against agreed milestones. Ultimately, if performance is unsatisfactory or does not meet the agreed milestones, the grant agreement will provide for the Council to withhold any further grant funding and request repayment of any funding already provided.

What are the legal implications?

- 32 A legal agreement will be drawn up between the Council and 54North Homes setting out the grant requirement and the nominations requirements.
- 33 The information contained within the Exempt Appendices of this report has been identified as exempt from publication because it relates to the financial or business affairs of particular parties (including the Council). This information is not publicly available from the statutory registers of information kept in respect of companies and charities. It is considered that since this information was obtained through the grant application process then it is not in the public interest to disclose this information at this time. Also, it is considered that the release of such information would or would be likely to prejudice the Council's financial interests in relation to other similar transactions. It is therefore considered that this element of the report should be treated as exempt under Access to Information Procedure Rule 10.4(3) The information is exempt if and for so long as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
- 34 The Council is permitted to award subsidies to third parties in line with the Subsidy Control Act 2022. Subsidy means where a public authority – for example central, devolved, or local government – provides support to an enterprise that gives them an economic advantage, meaning equivalent support could not have been obtained on commercial terms. This can take the form of a grant, a tax break, a loan, guarantee or equity investment on favourable terms, or the use of facilities below market price, amongst other kinds of support. The Council is required to assess any proposed financial assistance to ensure that it is consistent with the Subsidy Control Act 2022 and any application must only be granted if it is consistent with the principles in The Act. The Act also contains provision for public authorities to grant subsidies for Services of Public Economic Interest (SPEI). These are subsidies for essential services provided to the public that would otherwise not be supplied in an appropriate way or may not be supplied at all by the market. Within this, the regime also allows for exemptions for subsidies in specific cases, including for low value SPEI subsidies considered to constitute SPEI Assistance (SPEIA).
- 35 A Subsidy Control assessment has been undertaken of 54North Home's application and reviewed with Legal Services. The proposed grant will be a subsidy governed by the Act. The grant provides for the provision of affordable housing and constitutes a Service of Public Economic Interest (SPEI). These are subsidies for essential services provided to the public that

would otherwise not be supplied in an appropriate way or may not be supplied at all by the market.

36 As the amount of public subsidy received by 54North Homes over the past three financial years exceeds £725,000, the funding cannot be granted as SPEI Assistance. The request does meet Subsidy Control principles outlined in the guidance and is to be recorded on the Government's Subsidy Control Transparency Database.

37 This is a Key Decision and is subject to Call In.

Options, timescales and measuring success

What other options were considered?

38 There are currently no other proposals for this site which is currently derelict and having a negative impact on local amenity.

39 If commuted sums were not available to support this scheme, it is likely that 54North Homes would struggle to obtain the additional finance required, and the scheme would not be viable under the proposed tenure mix. Use of commuted sums is therefore addressing an identified viability gap and will support the scheme coming forwards to deliver 100% affordable housing and maximising the number of social rented units to be delivered, contributing greatly to ambitions to increase the number of social rented homes in Leeds.

How will success be measured?

40 Critical success factors will include planning consent being secured, followed by scheme implementation within the timeframes set out or within a reasonable tolerance approved by the Council. Success will include the delivery of the proposed scheme within budget, utilising commuted sums, Homes England grant funding and 54North Homes loan funding.

41 Success will be measured by 54North Homes' contractor providing the training and education opportunities set out in the application, including providing four apprentices during the construction period, monitoring their support of local labour and visits to local schools to educate children on health and safety and construction sites.

42 Success will also include the scheme being fully occupied upon completion with Leeds residents on the Housing Register, along with resident and residents' family's satisfaction levels which will be collated by 54North Homes.

What is the timetable and who will be responsible for implementation?

43 The following timescales are envisaged and will be set out in the grant agreement:

- Planning obtained – March/April 2024
- Start on site – March/April 2024
- First commuted sums Grant Drawdown – March/April 2024
- 15 month build programme
- Practical completion – June 2025
- Final commuted sums grant drawdown – June 2025

Appendices

- Appendix 1 - Location Plan of Wesley Road
- Appendix 2 – EDCI Screening
- Exempt Appendix 1 – 54North Homes Programme Finances
- Exempt Appendix 2 – Draft Heads of Terms

Background papers

- None