

Request for use of affordable housing commuted sums grant funding for use at Leonora House, Railway Street, Burmantofts and Richmond Hill to assist in the delivery of a 100% affordable scheme of 58 new homes for social rent

Date: 13th 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 for the use of up to £670,000 grant funding from the Council's affordable housing commuted sums budget to support the delivery of a 100% affordable scheme by 54North Homes of 58 new homes for social rent at Leonora House, Railway Street, Burmantofts and Richmond Hill.

Recommendations

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

- a) The spend of affordable housing commuted sums grant funding up to £670,000 to support the delivery of a 100% affordable scheme by 54North Homes of 58 new homes for social rent at Leonora House, Railway Street, Burmantofts and Richmond Hill and;
- b) The Council to enter into a grant agreement and nominations agreement with 54North Homes for the new homes, on the terms set out in this report.

What is this report about?

- 1 This report seeks approval for the use of up to £670,000 affordable housing commuted sums (commuted sums) grant funding from Leeds City Council's (LCC) pooled budget to support the delivery of a 100% affordable scheme by 54North Homes of 58 new homes for social rent at Leonora House, Railway Street in the Burmantofts and Richmond Hill ward (see site plan attached at Appendix 1). The scheme will deliver 28 no. 1 bedroom, 25 no. 2 bedroom and 5 no. 3 bedroom apartments.
- 2 Delegated approval was confirmed in May 2018 for marketing of the site, together with a council owned site at St. Cecilia Street, on a restricted basis to Registered Providers and members of Leeds Affordable Housing Framework for affordable housing. The sale of the site and the terms of that sale were approved in April 2020. At that time the principle of the use of commuted sums of up to £670,000 to support affordable housing delivery at the Railway Street site was established, although no specific decision was taken to authorise this expenditure. Therefore, that approval is now sought.
- 3 The scheme is located on a brownfield site to the south of Railway Street which previously housed the Yorkshire Rider Sports and Social Club building prior to its demolition in 2020. To the west of the site is an Energy Centre, which forms part of the Leeds Pipe District Heating Network and to the east is an area of public open space. The railway viaduct lies to the north and the Saxton Gardens estate to the south.
- 4 The site, previously referred to as the former Yorkshire Rider Club site, was previously owned by the Council and was identified at Executive Board in July 2017 and November 2018, alongside St Cecilia Street and a number of other council owned sites, as an opportunity for residential development with an enhanced level of affordable housing. To support the delivery of these schemes, Executive Board established the intention to utilise commuted sums to facilitate the ambition to deliver new affordable housing in and around the city-centre. The November 2018 Executive Board report established the primary delivery route for this as being through Registered Providers, although there would also be opportunities for council direct delivery.
- 5 Marketing of the site at Railway Street, packaged with a site at St. Cecilia Street, commenced 17th September 2019 with offers invited by a closing date of 22nd November 2019. This date was later extended to Thursday 19th December 2019. Bids were invited for schemes offering 100% affordable housing and parties were made aware that funding would be made available by the Council through Right to Buy monies and/or Commuted Sums to support this. The brief made it clear that offers would be evaluated based on the affordable housing tenure mix, the level of funding required, compliance with planning policy and the financial offer for the land (based on Market Value). Bidders were made aware that preference would be given to Social Rent tenure.
- 6 54North Homes, previously Leeds & Yorkshire Housing Association at point of bid, prior to merging with York Housing Association in December 2022, was successful in their bid to acquire the Railway Street site and secured planning consent in April 2023. LCC disposed of the site to 54North Homes in May 2023 which delivered a capital receipt as set out in the Exempt Appendix.
- 7 54North Homes have requested the use of commuted sums in accordance with the principle established by Executive Board, to address an identified viability gap to ensure that the scheme can be delivered to create a 100% affordable scheme. 54North Homes will fund the remainder of the scheme through a funding package as outlined in Exempt Appendix 1.
- 8 Commuted sums is a funding stream managed by the council, comprised of contributions 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 as affordable housing.

- 9 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. The Council has a strategic approach to the investment of Commuted Sums which includes new build developments and acquisition opportunities, particularly where this will leverage other funding and investment in affordable housing delivery.
- 10 The delivery of new supply high-quality 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 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 to meet local needs. To meet this housing need, the Leeds Affordable Housing Growth Partnership Action Plan 2022-2025 (LAHGPA) sets an ambition to deliver 1,230 affordable homes per year. To achieve this, the LAHGPA sets out an affordable housing pipeline that targets delivery of c.750 new affordable homes per annum over that period. This is being achieved via a combination of RP programmes, Council Housing Growth and Section 106 delivery.
- 11 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. 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 to ensure that the grant funding is used for the proposed purpose and to include provisions to clawback funding if appropriate.

What impact will this proposal have?

- 12 The use of commuted sums at Leonora House, Railway Street, will meet an identified viability gap to support the delivery of the 100% affordable scheme by 54North Homes and directly contribute towards achieving ambitions to deliver new affordable homes that are of the right quality, type and affordability. All of the homes will be available for social rent, which is the most affordable tenure. As outlined in the LAHGPA, the delivery of new social rented homes plays a fundamental role in addressing housing need and in supporting those most in need in our communities. The scheme will also align with the ambition outlined in the November 2018 Executive Board report to deliver new affordable housing in and around the city-centre, on a site identified as appropriate for residential development with an enhanced level of affordable housing.
- 13 The scheme, which 54North Homes secured planning consent for in April 2023, will deliver 28 no. 1-bedroom, 25 no. 2-bedroom and 5 n. 3-bedroom apartments. Whilst this mix is not in line with Policy H4 of the Core Strategy, the scheme received planning consent due to the wider benefits associated with the 100% affordable housing provision.
- 14 Due to the time constraints required by other funding sources, the scheme started on site in spring 2023 and good progress is being made. 54North Homes have a forecasted 15 month build programme. The scheme has proceeded at risk without formal approval of the use of commuted

sums given the Executive Board approach set out in 2018 and availability of commuted sums set out in the marketing particulars, as supported by the Council's internal programme governance. This formal request for commuted sums has been submitted following confirmation of Brownfield Housing Fund support in 2023 and once positive discussions have progressed in relation to an energy solution as required by the planning conditions. Granting of commuted sums will enable the scheme to proceed and be let as social rented homes, as planned.

- 15 The Burmantofts and Richmond Hill ward has an acute housing need, with the Leeds Housing Register demonstrating the ward as having the 9th highest number of households in housing need in the city, with significant need for one, two and three bedroom properties. Delivering new stock of high quality, affordable homes on this site will directly contribute towards addressing the city-wide need for new affordable housing, contributing towards meeting the identified need in the ward.
- 16 Although there are no specific designations associated with the part of the site formerly occupied by the social club building, the land immediately surrounding this to the south and east is designated through the Aire Valley Leeds Area Action Plan as part of a wider area of green space. The application received consent in line with Policy H2 of the Core Strategy as it is within a sustainable location and delivers a 100% affordable housing provision which presents a clear wider planning benefit and proposes improvements to the wider area of green space.
- 17 54North Homes has been successful in securing grant and loan funding, details of which are set out in Exempt Appendix 1, however there remains an identified viability gap. This viability gap has 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 and shows viability challenges even with an extended appraisal period when compared to the Council's own standard housing development approach. Use of commuted sums to support the Leonora House scheme at Railway Street will contribute towards meeting the viability gap and achieving the approved target hurdle rates when considered as part of 54North Homes overall delivery portfolio and the wider benefits of the 100% social rented scheme. This has been approved by Karbon Home's Group Development Committee and the requirements of the Homes England Grant funding.
- 18 Use of commuted sums here will therefore address this viability gap to enable the delivery of the scheme to deliver 100% affordable homes available at social rent in an area of housing need.
- 19 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.

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

Health and Wellbeing

Inclusive Growth

Zero Carbon

- 20 This scheme will contribute towards all three pillars of the Best City Ambition by delivering new affordable homes for social rent with high thermal efficiency credentials, have reduced heating demand, reduce carbon emissions and address fuel poverty, alongside contributing towards meeting housing need and supporting sustainable and thriving communities.
- 21 The site is located within the Burmantofts and Richmond Hill ward which is among the most deprived in the city ranking highly in terms of unemployment, deprivation, poor health and income.

Areas of this ward are in the top 1% most deprived nationally by Index of Multiple Deprivation. Delivery of the scheme here will ensure that a brownfield site is brought forwards, contributing towards supporting vibrant and mixed communities and the sustainable regeneration of this site and the wider area. It will also contribute towards meeting housing need in the ward, which has over 1,200 households on the Leeds Housing Register. All the properties will be available for social rent, the most affordable tenure which will directly contribute towards addressing those most in need.

- 22 The Leeds Health and Wellbeing Strategy identifies that the 'quality, suitability and affordability of a person's home can make a big difference to their health and wellbeing'. The scheme will support the health and wellbeing of residents as the new homes will be built to a high quality, with energy high thermal efficiency to reduce heating demands and provide private outdoor spaces for the ground floor flats and a communal garden to the west of the building for residents of apartments on the upper floors. Access to the adjoining greenspace will also be available to residents through two security gates located to the south of the site. All new homes will adhere to Nationally Described Space Standards and be built as accessible and adaptable dwellings to meet M4(2) of Part M of the Building Regulations, greatly exceeding the 30% required by policy. One home will be built to meet the requirements of wheelchair users under M4(3), in line with the 2% required by policy.
- 23 The proposal aligns with Leeds Inclusive Growth Strategy 2023-2030 (LIGS) ambitions, particularly in 'connecting and strengthening our communities' by building homes of the right type and quality in the right places and increasing the number of affordable homes. It also directly addresses ambitions to tackle 'poverty and inequality to improve people's lives' by delivering homes that support peoples' health and wellbeing to ensure that the circumstances in which people are born, grow, live and work, do not unfairly put their health at a disadvantage.
- 24 The development will contribute to LIGS ambitions by seeking to maximise employment and training opportunities. Caddick Construction, as the main contractor, will provide opportunities for training and employment on this site and are recording local labour. They have also engaged with local schools. Further detail is to be provided in monthly contractor reports to ensure that the level of social value delivered is recorded.
- 25 The scheme will contribute towards achieving zero carbon ambitions by taking a fabric first approach to enhance the thermal efficiency of the building and offer low air permeability. The scheme will be built to the latest national building regulations and fitted with solar PV panels to make them more energy efficient. Heating and domestic hot water will be generated by Heat Interface Units in each apartment. The scheme will also connect to the Leeds District Heating network, which is a low carbon energy source. Overall, this will deliver a 23% reduction in carbon emissions, which exceeds the minimum 20% sought by policy EN1, and more than 10% of the energy need will come from a low carbon source (the district heat network). These measures will reduce the cost to heat and run apartments making them more affordable for tenants, reducing the risk of fuel poverty and supporting the general health of tenants.
- 26 In addition, EV charging will also be provided to all car parking spaces and bike storage for each flat will be available in a bike store on the ground floor of the development.
- 27 An Equality, Diversity, Cohesion and Integration (EDCI) screening has been completed for this application and is available at Appendix 2.

What consultation and engagement has taken place?

Wards affected: Burmantofts and Richmond Hill

Have ward members been consulted? Yes No

- 28 The decision was advertised as a Key Decision on the forward plan from 26th January 2024 with a decision not to be taken before the 26th February 2024.
- 29 Engagement has taken place regarding the scheme with the ward members in Burmantofts and Richmond Hill including email correspondence. The Executive Member for Housing was consulted 5th February 2024 and is supportive of the scheme.
- 30 Legal and finance have been consulted and the legal implications and risks are set out below.

What are the resource implications?

- 31 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. The cost per property and the proportion of total scheme costs are outlined in Exempt Appendix 1. These costs are slightly lower than other schemes that have previously received commuted sums support, and so this is considered good value for money. 54North Homes have confirmed that they have secured the remaining sums required through grant and loan funding.
- 32 The quantum of commuted sums requested will ensure that 54North Homes address an identified viability gap and can deliver the 100% scheme with all properties available for social rent. This approach aligns strongly with ambitions to increase the number of social rented homes in the city. Without the spend of commuted sums, the scheme could not proceed as planned and the quantum of social rented properties would reduce.
- 33 Whilst the Council recognises that 54North Homes has a record of delivery in the city, funds will be released in tranches. This will ensure that should the organisation not be able to deliver the scheme, or fail to conform to the conditions agreed, the grant agreement will require 54North Homes to repay all or part of the commuted sum grant as appropriate.

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

- 34 54North Homes have a record of delivery in the city, including through their previous capacity of Leeds and Yorkshire Housing. They are making good progress on site at Leonora House and are currently in line with the programme.
- 35 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 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,

- d) 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,
- e) 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?

- 36 A legal agreement will be drawn up between the Council and 54North Homes setting out the grant requirement and the nominations requirements.
- 37 The information contained within Exempt Appendix 1 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.
- 38 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).
- 39 A Subsidy Control assessment has been undertaken of 54North Home's application. 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.
- 40 54North Homes are choosing to receive the subsidy SPEI Assistance. This is as 54North Homes have declared that the total amount of SPEI financial assistance they have received does not exceed £725,000 over the past three financial years, in line with Subsidy Control guidance. The request does meet Subsidy Control principles outlined in the guidance and is to be recorded on the Government's Subsidy Control Transparency Database.
- 41 This is a Key Decision and is subject to Call In.

Options, timescales and measuring success

What other options were considered?

42 There are currently no other proposals for this site.

43 If commuted sums were not available to support this scheme, it is likely that 54North Homes would be unable 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 a 100% affordable housing scheme of social rented units, contributing greatly to ambitions to increase the number of social rented homes in Leeds.

How will success be measured?

44 Critical success factors will include 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 and West Yorkshire Combined Authority grant funding and 54North Homes loan funding.

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

46 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?

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

- a) Planning Approved – April 2023
- b) Start on Site – May 2023
- c) First commuted sums Grant Drawdown – April/May 2024
- d) Practical completion – December 2024
- e) Final commuted sums grant drawdown – December 2024

Appendices

- Appendix 1 - Location Plan of Leonora House, Railway Street
- Appendix 2 – EDCI Screening
- Exempt Appendix 1 – 54North Homes Programme Finances
- Exempt Appendix 2 – Draft Heads of Terms

Background papers

- None