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Report of the Director of Environment and Neighbourhoods

Executive Board

Date: 13th February 2009

Subject: Support for the affordable housing and regeneration priorities

Electoral Wards Affected:
Killingbeck and Seacroft, Gipton and Harehills,

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In
(Details contained in the report)

EXECUTIVE SUMMARY

This report provides details to Executive Board on steps proposed to support the council's affordable housing and regeneration priorities in response to current economic conditions. Government support for initiatives is being made available to support jobs, the housing market and house building industry, and local priorities for regeneration.

In addition, the report seeks authority to spend of £2.368m to support the EASEL programme, so that the council can buy twenty houses, on the EASEL phase one sites, to be used as social and intermediate rented homes. It is proposed that this will be funded by £1.193m from Housing Revenue Account (HRA) and £1.175m from the council's returns from the EASEL phase one sites.

1 Purpose of This Report

- 1.1 To update Executive Board on market conditions for house builders, the government's response, and the impact on the council's affordable housing and regeneration priorities.
- 1.2 To inform Executive Board of discussions with government on affordable housing and regeneration priorities in Leeds, through Communities and Local Government (CLG) and the Homes and Communities Agency (HCA) as a response to tightening economic conditions.
- 1.3 In the short term the affordable housing and regeneration priorities, which can most easily be assisted, have been identified as the EASEL phase one sites, the housing PFI schemes currently in procurement (Beeston Hill and Holbeck and Little London PFI projects) and the council's strategic affordable housing partnership board. This report seeks approval to develop support measures for these priorities with the HCA, for funding in the two years 2009/10 and 2010/11.
- 1.4 The report also requests approval for funding to support the EASEL phase one sites to allow the council to buy twenty houses which the council can initially offer as rented properties.

2 Background Information

- 2.1 The downturn in the UK economy has already seen significant jobs losses throughout the supply chain for the building industry and this is most keenly felt in the house building industry. Evidence shows that changes to lending rules applied by banks and building societies has significantly restricted the number of mortgages being granted. In addition, mortgage deposit levels demanded by lenders have increased significantly with 10% now being standard, but some lenders requiring 20% or 30% deposits. This, combined with a continued slide in house prices and increasing concerns on job losses has meant that the numbers of mortgages granted in recent months are at their lowest recorded levels. There has also been a tightening of the availability and cost of development finance used by registered social landlords, which is reducing the viability of affordable housing schemes.
- 2.2 In Leeds this is affecting a number of the key affordable housing and regeneration priorities for the city. The schemes which are most advanced and therefore most at risk have been identified as the EASEL programme phase one sites (in Gipton and Seacroft), the two housing PFI schemes currently in procurement, and the council's programme of affordable housing development progressing through the strategic affordable housing partnership board .
- 2.3 For EASEL, the level of reservations on the initial sites is very low and the build programme cannot be sustained without support. For the Little London, Beeston Hill & Holbeck housing PFI scheme, support may be needed to help develop options on some of the residential development land proposed for private development, linked to the PFI contract. Currently the sites may not be viable without support from the governments affordable housing programme (now administered by the HCA).
- 2.4 In addition, the strategic affordable housing board programme has sites coming forward in the next two years which, in the current market, may need additional HCA support.

3 Main Issues

- 3.1 Discussions between the council and HCA are currently underway regarding these regeneration priorities for the city. The HCA was established in December 2008 and is the lead government agency for affordable housing and regeneration. They are

leading discussions with local authorities across the country on measures to support key local priority schemes and thereby to safeguard jobs in the house building and construction sector.

- 3.2 The HCA has asked the council to identify its priorities for funding which may be available in the next two financial years within its allocation of funding for affordable housing. At this stage they have not identified flexibility in other funding for which they have responsibility, for example for regeneration investment and within PFI allocations.
- 3.3 It is proposed to negotiate with the HCA on making funding available for these three council priorities with a decision on funding allocations expected in Spring this year.
- 3.4 Executive Board are asked to support these priorities and authorise the Director of Environment and Neighbourhoods to negotiate an appropriate support package with the HCA and to report details of the result of these discussions to Executive Board in June this year.

4 EASEL Investment Proposals

- 4.1 Of the priorities detailed above, EASEL is the only scheme where building is currently underway. The council has sold these two sites, South Parkway (site 7) and Oaktrees (site 5) (see map at appendix 1), to partners Bellway who have planning permission on the sites for 400 new homes. The remediation work on the sites is complete and building of the first units commenced in Autumn 2008.
- 4.2 Despite marketing the sites for some six months, reservation rates for the new homes have been very slow. In addition, it has proved very difficult for Bellway to sell the units identified through the affordable housing agreement signed for this disposal.
- 4.3 Following discussions with Bellway, it was clear that without further sales continuing to build units on the sites will not be viable from the end of January 2009. As a response to this, officers, with the support of members, have been in negotiations with Bellway to agree a package of support for the scheme.
- 4.4 When considering intervention, it is vital that the ethos of EASEL is not lost in the package of investment proposed. Intervention should continue to support the aim of the EASEL programme to create sustainable mixed communities which both deliver a built environment of excellent quality and offer improvements to the quality of life for residents.
- 4.5 What is therefore proposed is a range of affordable housing products and tenures which develop the local housing "ladder" to meet the aspirations of local people, maximise flexibility and allow individuals to access home ownership at a pace which suits their current circumstances. In support of the EASEL ethos to create sustainable mixed communities, a variety of tenure and letting options are currently being investigated to support the delivery of the scheme.
- 4.6 As a response to market conditions which would otherwise see these sites closed down, it is proposed that the council buys twenty units (ten on each site). This will support a total build programme of up to 53 units through until summer 2009. Bellway will seek to sell the other 33 units and this will provide a programme large enough to safeguard the jobs of workers currently employed on the sites. These measures will also give Bellway the ability to recruit further apprentices. They have confirmed that they will recruit an apprentice joiner immediately in response and recognition of the council's approach.

- 4.7 On this basis, subject to Executive Board approval, agreement has been reached with Bellway for the discounted purchase of twenty units made up of seven two bedroom properties and thirteen three bedroom properties. This is in line with an analysis of demand patterns for properties across tenures in the area, which shows there is considerable demand for two and three bedroom properties.
- 4.8 Discussions are currently taking place regarding the most appropriate tenancy and management arrangement for the bought in units. A further report will be brought to Executive Board to confirm the management arrangements once they are finalised. However, the council will look to ensure that there will be a mix of council rented (with the potential for using target rent levels) and intermediate rented properties. Rent to mortgage is being investigated as an option for consideration, as is a local lettings policy for the new stock.
- 4.9 The funding package identified in this report which will provide for half of the new units to be made available as council houses and half to provide the potential for intermediate rental options (rent to mortgage or similar).
- 4.10 The acquisitions have been discussed with East North East Homes Ltd (ENE Homes) and, subject to their Board approval, the new units will be managed by the ALMO.
- 4.11 Following this initial approach, and in line with section 3 detailed above, it is intended that future funding opportunities in partnership with the HCA and ENE Homes will be developed to provide stability to the build programme for the following two years.
- 4.12 Through the discussions with the HCA support will be sought for a variety of housing products for both sites 5 & 7, including intermediate rent, equity share (including the council's equity loan scheme) and register social landlord (RSL) products. It is envisaged that a mix of these products will be applied to approximately 200 units across both sites over two years.
- 4.13 The housing products proposed through both the short and medium term interventions detailed above will help to stimulate demand for house sales in the area and allow local people to afford the new homes.
- 4.14 Delivery of the investment will be via a committed partnership of the Council and ENE Homes alongside RSL partners and Bellway.
- 4.15 Local EASEL ward Members have been consulted on and support the intervention package.
- 4.16 It is important to note that this package of support has been put together to help sustain the investment to date through a difficult economic period. It does not, however, mean that the delivery of the EASEL regeneration scheme as a whole is in jeopardy, as work continues on the overarching regeneration objectives explained elsewhere on this agenda. Bellway and the council remain committed to the long term regeneration of the area through the joint venture. The current housing situation is a national and international phenomenon and the package that is being proposed represents a way of working through the issues arising, providing options and solutions for individuals wanting to access housing, until the market recovers.
- 4.17 The package of support for these sites is in line with the EASEL aims of creating mixed, sustainable communities as it offers a package of different tenure support options to help stimulate the housing market and allow individuals to access the housing ladder.

5 Implications For Council Policy And Governance

- 5.1 There are no direct policy or governance implications from this scheme.

6 Legal And Resource Implications

- 6.1 The outline terms for the purchase of these properties have been agreed with Bellway, with the council buying units at cost plus a calculated contractor margin. The purchase price has been verified by an independent open market valuation in order to give assurances regarding the soundness of the purchase price for these units. This information is detailed in confidential appendix 2.
- 6.2 The information in appendix 2 of this report relates to the financial or business affairs of a particular person, and of the council. This information is not publicly available from the statutory registers of information kept in relation to certain companies and charities. It is considered that since this information was obtained through one to one negotiations for the purchase of the land/property referred to then it is not in the public interest to disclose this information at this point of time. Also, the release of such information would or would be likely to prejudice the council's commercial interests in relation to and undermine its attempts to acquire by agreement similar properties in the locality in that owner of other similar properties would be aware about the nature and level of consideration which may prove acceptable to the council. It is considered that whilst there may be a public interest in disclosure, much of this information will be available from the Land Registry following completion of the purchases and consequently the public interest in maintaining the exemption outweighs the public interest in disclosing this information at this point in time. It is therefore considered that this element of the report should be treated as exempt under rule 10.4 (3) of the Access to Information Procedure Rules.
- 6.3 It is proposed to buy the new units under separate contracts over the next six months. Reservations fees and deposits will be payable prior to contract completion as with a normal private housing sale. Construction is almost complete on five 3 bedroom units on site 5, these units could therefore be acquired during the current financial year. The remaining units will be acquired during the early part of 2009/10.
- 6.4 It is proposed that the council will enter into separate contracts to purchase each of the 20 houses and pay a deposit. Following completion of the sales as they fall due, the balance of the purchase price will be paid for each property transferred to the council. Tax implications will be managed in the most efficient manner available in liaison with HMRC.
- 6.5 Executive Board is requested to approve purchase of 20 housing units from Bellway on the phase one sites and to delegate responsibility for the completion of the purchase agreements to the Directors of Environment and Neighbourhoods, City Development and Legal and Democratic Services.
- 6.6 The Chief Officer (Legal Licensing & Registration) has advised that the council has powers to acquire by agreement any land pursuant to the local government Act 1972 section 120 for the purposes of the benefit, improvement or development of their area. Additionally, the well-being powers in Section 2 of the Local Government Act 2000 provide that every local authority has the power to do anything which they consider is likely to achieve the promotion or improvement of the economic, or social, or environmental well being of their area.
- 6.7 In determining whether or how to exercise this power, the Council must have regard to its sustainable community strategy. The well being powers include the power to incur expenditure, to give financial assistance to any person, enter into any arrangements or agreements with any person and to co-operate with or facilitate or co-ordinate the activities of any person. There are also constraints on the powers in particular an authority is not able to do anything which they are unable to do due to a prohibition, restriction or limitation contained in other legislation passed before or

after the 2000 Act. Neither does the power enable an authority to raise money by precept borrowing or otherwise.

- 6.8 In relation to the well being powers, Members should consider whether well being is likely to be improved or promoted as a consequence of the proposals set out in this Report. The Reports of the Director of Neighbourhoods & Housing and the Director of Development to Executive Board in 2007 set out regeneration objectives and priorities for the EASEL area with a view to securing its economic, social and environmental well being.
- 6.9 This report seeks approval to develop support measures for achieving those regeneration objectives and priorities by entering into arrangements to acquire property, at the valuations set out in this report, to enable the EASEL build programme to continue and to meet demand for homes by offering a mix of council housing and flexible affordable housing solutions in a time of economic uncertainty.
- 6.10 There are no procurement implications for this scheme as the Public Contracts Regulations 2006 and the Council's Contract Procedure Rules do not apply to land transactions of this nature.
- 6.11 The funding options for the initial investment have been analysed closely in order to identify the most cost effective option. This exercise took into account the costs and duration of any borrowing, together with the impact of negative housing subsidy on socially rented units, maintenance costs, and anticipated rental income from a mix of social and intermediate rented units.
- 6.12 Currently, units within the Housing Revenue Account (HRA) will attract negative subsidy, ALMO management fees, and will be limited to a social or target rent. Government has recently started a consultation on proposals to allow local authorities to build new council houses outside the subsidy provision. The council will pursue the benefits which this new opportunity provides for these units bought in from Bellway. Units funded outside the HRA will not attract negative subsidy and the management of these units can therefore be more cost efficient. For the units funded outside the HRA in this proposal it is permitted to charge a market rent or an intermediate rent (generally equivalent to 75% of an open market rent). Maintenance costs are assumed to be the same for both types of tenancies.
- 6.13 The total investment in twenty units is estimated to be £2.4m including tax, fees and other associated costs. The actual purchase price of individual units is yet to be negotiated and finalised and details are provided in the confidential appendix 2. The optimum use of resources to fund the acquisition is to utilise the existing HRA earmarked reserve of £0.5m, together with a further HRA provision of £0.693m, and returns from site disposal of £1.175m.
- 6.14 The HRA provision was intended to fund the cost of site assembly for Phase 2 of EASEL. Early utilisation of this funding may therefore result in a potential resourcing issue in the future. The use of this resource will necessitate the approval of a release from reserves.
- 6.15 The returns from site disposal relate to Phase 1 of EASEL, were originally intended to repay ENEH for the costs of site assembly. These returns will be utilised to resource the general fund acquisitions for the units on which the rent to mortgage product will be trialled. Both of these adjustments can be achieved without risking the completion of the decency standard.
- 6.16 The profile of expenditure (including associated costs) and funding is anticipated to be as follows:

Expenditure required on this scheme	TOTAL £ 0 0 0 's	2 0 0 8 / 0 9	2 0 0 9 / 1 0	2 0 1 0 O N
		£ 0 0 0 's	£ 0 0 0 's	£ 0 0 0 's
LAND (1)	0.0			
CONSTRUCTION (3)	0.0			
FURN & EQPT (5)	0.0			
DESIGN FEES (6)	0.0			
OTHER COSTS (7)	2 3 6 8 . 0	4 9 8 . 0	1 8 7 0 . 0	
TOTALS	2 3 6 8 . 0	4 9 8 . 0	1 8 7 0 . 0	0 . 0

Total overall Funding Available	TOTAL £ 0 0 0 's	2 0 0 8 / 0 9	2 0 0 9 / 1 0	2 0 1 0 / 1 1
		£ 0 0 0 's	£ 0 0 0 's	£ 0 0 0 's
HRA surplus	1 1 9 3 . 0	2 4 9 . 0	9 4 4 . 0	
Site Returns	1 1 7 5 . 0	2 4 9 . 0	9 2 6 . 0	
Total Funding	2 3 6 8 . 0	4 9 8 . 0	1 8 7 0 . 0	0 . 0
Unsupported Borrowing	0 . 0	0 . 0	0 . 0	0 . 0

7 Revenue Implications

- 7.1 There is no borrowing associated with this acquisition and therefore no long term financing costs. There will be an income stream arising from a mix of social and intermediate rents. Rental income is anticipated to be largely offset by the impact of negative housing subsidy on socially rented units, management and maintenance costs, and the annualised cost of major repairs, leaving a small net contribution to the HRA and General Fund.
- 7.2 For future investment, should the HCA bid be successful, funding will be available for 2009/10 to 2010/11. The profile of funding is not yet known and a separate approval will be sought to inject all HCA funding which results from current discussions.

8 Risk

- 8.1 A number of risks have been considered in relation to this proposal to buy twenty units. On balance the mitigation and control of the risks are considered reasonable.
- 8.2 The risk of falls in the market value of the units is difficult to predict. Values are likely to continue to fall after the units have been bought. Some of the units will be fall under right to buy legislation and could be bought by the tenant after five years. Units being sold through the rent to mortgage route would be likely to be sold after more than five years. While the market is difficult to predict the relative value of any loss is considered to be minimal. This takes into consideration the increasing attractiveness of the area as investment comes in.

9 Conclusions

- 9.1 That it is appropriate to intervene to support the key regeneration priorities for the city as outlined in this report.
- 9.2 That the most cost effective method of funding the initial council intervention is to utilise existing resources, comprising existing surplus and provision, and site returns. Investment funding from the HCA will be requested to fund further intervention.

10 Recommendations

- 10.1 Executive Board is asked to:
- 8.1.1 support the priorities for affordable housing and regeneration and authorise the Director of Environment and Neighbourhoods to negotiate an appropriate support

package with the HCA and to report details of the result of these discussions to Executive Board in June 2009;

- 8.1.2 approve the purchase of 20 units as outlined in this report and delegate responsibility for the completion of the purchase agreements for the twenty units to the Directors of Environment and Neighbourhoods, City Development and Legal and Democratic Services within the funding approved in this report;
- 8.1.3 approve the use of £2.368m of council funding as outlined in this report, including the release of £0.5m from HRA Reserves, this funding will be injected into the capital programme through the report from the Director of Resources elsewhere on this agenda; and
- 8.1.4 authorise expenditure of £2.368m for the acquisition of the units on this scheme to support the EASEL phase one sites and the promotion of the economic, social and environmental wellbeing of the EASEL area.

Appendices

- Appendix 1 Map EASEL sites 5 & 7
- Appendix 2 Confidential Appendix – Costs and Valuation

Background Documents

- 4th April 2007 Executive Board Report - East and South East Leeds (EASEL) Regeneration Area – outcome of additional negotiation period