

Cheltenham Borough Council

Cabinet – 13 March 2012

Cheltenham Borough Homes Development Options Review

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| Accountable member | Councillor Klara Sudbury, Housing and Safety |
| Accountable officer | Jane Griffiths, Director, Commissioning |
| Accountable scrutiny committee | Social and Community |
| Ward(s) affected | St Paul's, Oakley |
| Key Decision | No |
| Executive summary | <p>The Council, on 13th February, 2009, approved a capital strategy which confirmed that Cheltenham Borough Homes (CBH) is its preferred development partner, supported in principle on the basis of prudential borrowing, capital subsidy and transfer of land at nil value. Cabinet, on 21st April 2009, in response to the capital strategy, also agreed in principle to support of the submission of grant funding bids to the Homes and Communities Agency (HCA).</p> <p>In April 2011 the cabinet approved a submission by CBH, through a consortium with Bromford Housing, for HCA affordable homes grant funding under the affordable rents programme to deliver a number of sites. Unfortunately the bid submitted by the consortium was unsuccessful.</p> <p>Officers from CBH have been considering what alternative funding streams may be available to ensure that these sites can be delivered and working with CBC officers have considered a number of different options which are set out in this report. If CBH are able to access affordable homes grant through a third party (developer or RP) then this could reduce the need for CBC subsidy.</p> <p>In addition to the schemes which were in the original consortium proposals, CBH have been approached along with other registered providers (RP) as to whether they would be interested in being the RP for the scheme on North Place. At the time of writing the report, the developers in response to the feedback from the RPs are reviewing the design layout and will be approaching providers for bids in the near future.</p> <p>Any proposals finally endorsed would need to ensure that they provided value for money and a final decision would need to be made as to whether they are CBH or CBC properties.</p> <p>The report also outlines a proposed change to the management agreement schedule which will enable a more efficient procedure for controlling and monitoring reactive repairs for council dwellings, by enabling all expenditure on reactive repairs to the stock to be consolidated through CBH. At present CBH manage certain reactive repairs contracts on our behalf, and with the implementation of the new finance and HR system there is an opportunity to consolidate the work so that it links better with the CBH repairs systems and</p> |

processes and enables more effective management of contracts and spend.

Recommendations

1.1 approve CBH pursuing the options as set out below, with a view to identifying a viable option for each site based on costs, designs, ownership and risks for approval by Cabinet.

i) St. Pauls Phase 2 – options one, two, three and four

ii) Cakebridge Place - options one, two, three and four

iii) Garages – options one and two (with the addition of grant if reallocation by HCA secured).

1.2.To assist CBH in identifying the most viable option for each site, authorise CBH to undertake any necessary procurement exercises to identify a suitable developer partner who will provide a developer grant and/or capital as required, provided that no partner shall be selected until a report on the preferred developer partner(s) and the appropriate value for money tests is approved by Cabinet

1.3 Delegate authority to the S151 Officer in consultation with the cabinet member housing and safety, cabinet member finance and community development and director commissioning to approve any submission by CBH to be the registered provider for the development at North Place based on a nil subsidy approach which secures good value for money for the council and for CBH.

1.4 To note that CBH will continue to pursue potential unallocated grant for those garage sites which have planning permission, with a reduced subsidy requirement aimed at HRA funding and will liaise with the relevant cabinet members and Ward Councillors as schemes become viable.

1.5 Approve CBH employing contractors to carry out reactive repairs to CBC's housing and delegate authority to the director of commissioning in consultation with cabinet member housing and safety and the Borough Solicitor to amend the management agreement accordingly

Financial implications

As set out in the report.

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| <p>Legal implications</p> | <p>A number of the options mentioned in this report will involve the council transferring housing land at nil value and giving grants or granting loans to CBH. As Cheltenham Borough Homes has gained Registered Provider status under the Housing and Regeneration Act 2008, the Council is able to transfer the land and give it financial support to enable it to develop land for housing accommodation by relying on a general consent issued by the Secretary of State, namely “The General Consent Under Section 25 of the Local Government Act 1988 for the disposal of land to registered providers of social housing”. This consent also covers consent required pursuant to Section 32 Housing Act 1985. The land can be transferred by freehold transfer or a lease of 99 years or more.</p> <p>Using this consent, any housing on the land must be vacant at the time it is transferred to CBH and must be demolished. The transfer also needs to contain a provision that the housing on the land must be completed within 3 years of the transfer. This period can be extended if necessary due to circumstances beyond CBH’s control.</p> <p>Any land or houses transferred under this consent cannot be sold on the open market; they must be rented by CBH under periodic tenancies or shared ownership leases. Any land or other financial assistance to be used for the development of units for sale on the open market will require a specific consent from the Secretary of State. There will need to be a resolution of full council authorising an application to be made to the Secretary of State and a resolution of Cabinet to make the application for such consent.</p> <p>Any loan or grant given to CBH should be secured on the land to be transferred by way of a legal charge in favour of the council. It is advised that the council should seek funder collateral warranties from all professionals and contractors working on the new build properties.</p> <p>CBH is bound by the same procurement requirements as CBC and will need to comply with the Public Contracts Regulations 2006 in choosing a development partner.</p> <p>Any financial support to be given to CBH will not be unlawful state aid because it is permitted pursuant to European Commission Decision 2012/21/EU</p> <p>If Cabinet is minded to approve CBH directly employing the contractors carrying out works on CBC’s properties, then the council will need to either be given collateral warranties from the contractors or be named in the contract as a party that has the benefit of the contract using the Contracts (Rights of Third Parties) Act 1999. Further advice will be given to officers about which option best protects the Council.</p> <p>Contact officer: Donna Ruck, Solicitor donna.ruck@tewkesbury.gov.uk, 01684 272696</p> |
| <p>HR implications (including learning and organisational development)</p> | <p>None</p> <p>Contact officer: Amanda Attfield, amanda.attfield@cheltenham.gov.uk, 01242 264186</p> |

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| Key risks | A full risk assessment will be developed for each of the schemes as the preferred option is identified. |
| Corporate and community plan Implications | The provision of affordable housing is a key objective in the council's corporate strategy |
| Environmental and climate change implications | CBH have delivered affordable housing which meets high environmental standards and any future development would need to meet these high sustainable standards. |

1. Background and Basis for Review

- 2.1 CBH has now completed the redevelopment of unfit housing at Brighton Road and is making good progress on site with the first phase of the St Paul's Regeneration project. In April 2011, as members of the Bromford Housing Group Consortium, CBH submitted bids to the Homes and Communities Agency for further grant funding in respect of three developments, including the agreed priority, the St Paul's Phase Two scheme.
- 2.2 The Homes & Communities Agency were unable to support any Bromford Consortium projects in the South West Region and CBH therefore failed to secure Affordable Homes Grant for the submitted schemes. In response to the bid outcome CBH and CBC held preliminary discussions to explore the options that might exist to enable some or all of the potential programme to be delivered. The agenda was also expanded to include the possibility of CBH involvement in the North Place redevelopment proposals and to encompass consideration of adjacent land issues in respect of Cakebridge Place, where the relocation of the football Club to the Racecourse was on the agenda.
- 2.3 At the conclusion of these preliminary discussions it was agreed that CBH would carry out a review exercise to explore options in detail. It was further agreed that an initial update would be provided in mid November and that an option review meeting would take place in January 2012. The interim review took place on 16 November and positive contributions were made to the process. The January review date was deferred until 09 February 2012 in order to provide additional time for discussions/negotiations with potential developers and funders.
- 2.4 The strategic approach taken in this review is based upon the following criteria:
 - That there is general support for ongoing development by CBH, within appropriate financial constraints.
 - That where access to HCA grant funding may be achievable this should be pursued as a first course of action.
 - That it be recognised that the level of headroom identified under the HRA Review offers the opportunity to support a number of initiatives, including LA new build.
 - That where it may not be prudent for CBH to develop the opportunity for CBC to do so should therefore be considered.
 - That for each scheme CBH/CBC should be able to demonstrate that the proposed outcome represents the most satisfactory course of action.
 - That the factors taken into consideration include the social, economic and environmental impacts of the preferred option.
- 2.5 This document provides a comprehensive range of information including the background to each scheme, the options considered viable and practical and recommendations for taking individual projects forward. It is intended that acceptance of these recommendations will secure further support for development proposals and a mandate for CBH to take agreed schemes to the next stage.
- 2.6 CBH secured CBC support for three schemes during the preparation of the AHP 2011 – 2015 Bid. The assumption is made herein therefore that development by or through CBH remains the preferred route, subject to the parameters established for the two established development schemes undertaken by CBH (Brighton Road & St Paul's Phase 1). This could be as CBH or CBC homes, subject to further discussion.
- 2.7 In the event that CBH was able to access affordable homes grant through a third party (Developer or Registered Provider) then this could reduce or even eliminate the need for a CBC subsidy, and options on this basis are being explored.

- 2.8 In the absence of any available grant an alternative would then be one where the development cost is initially funded by a Real Estate Investment Trust such as Quality Social Housing (QSH, who have already approached CBH speculatively). This presents the opportunity for CBH/CBC to develop with a deferred transfer of ownership from the initial funder in stages over a defined timescale (up to 20 years). A scheme on this basis may still require a capital subsidy subject to the impact of property values on the viability.
- 2.9 The Bromford response in respect of the shortfall in allocation compared to the bid has been to seek alternative funding mechanisms and to ensure that there are schemes available at short notice to pick up any unutilised allocations from other Registered Providers (RPs). It is anticipated that the HCA may well towards the end of the programme move unallocated funding to those able to guarantee delivery by the 2015 deadline. This may be an appropriate long-shot for the garage sites, but is considered to be too indeterminate for either St Paul's or Cakebridge Place.
- 2.10 The North Place redevelopment is included herein on the basis that the selected Developers have now sought initial expressions of interest (and value) from RP's. The CBH/CBC response is detailed later.
- 2.11 It is assumed that in the event that CBH secures grant support for any scheme through an existing allocation to a developer, then that grant would transfer with the properties on completion. This is not assumed to be the case with an RP, as they may have links within their grant bid to the conversion of homes to affordable rent and or property disposals.
- 2.12 It is assumed that whatever development option is selected will result in CBC being able to claim the New Homes Bonus, and that this does not therefore advantage or disadvantage any particular option.
- 2.13 There is an established base of Officer, Councillor and Cabinet support for the original development schemes and for the affordable homes bid from 2011. On the basis that that support is understood to be continuing then CBH is not necessarily suggesting that beyond the second phase at St Pauls any scheme should specifically be for CBH or CBC ownership. It is regarded as sufficient at this stage that there is development potential and that the relevant financial factors can be applied to the ownership decision at the next or a later stage in the process.
- 2.14 Factors that may influence the above decision one way or another are:
- Limitations on the revenue deficit (net rent against loan costs - where there is one) which CBH can absorb.
 - The impact of different tenancy conditions and in particular the potential advantage in term of stock retention from CBH tenancies with a Right to Acquire versus CBC tenancies with a Right to Buy, which current legislation changes may make more viable for tenants.
 - Any scheme based upon Option One – with a loan covered by CBH net rents – does not impact upon (reduce) the potentially available HRA borrowing headroom.

At present it is anticipated that where grant is secured schemes become CBH Homes and where HRA funding is used they become CBC homes. In the event that a scheme is delivered without grant but using the balance of available HRA capital receipts it may be prudent to consider the properties as CBH homes as this negates any impact upon HRA headroom.

- 2.15 Any developments for CBH ownership are assumed to be based on a nil value land transfer.

- 2.16 The costs and values used herein are based upon the 2011 Affordable Homes Bid or subsequent professional advice. No allowance has been made for build cost inflation up to the time of construction, as programmes cannot be satisfactorily established at this stage. In general however, the viabilities considered should be robust enough to incorporate inflation in a continuing competitive construction marketplace.
- 2.17 All schemes are based upon affordable rents, as per the 2011 AHP Bid.
- 2.18 As schemes are further developed, viability will be checked on a regular basis and risk and sensitivity analyses will be carried out.
- 2.19 It is acknowledged that best value will potentially be achieved where CBH is able to draw in external funding by way of Section 106 gain or Affordable Homes Grant from a suitable source.
- 2.20 Any intention to utilise grant provided under the 2011 – 2015 Affordable Homes Programme must recognise that the scheme has to be completed before March 2015 in order for the grant element to be secured (from whatever source) and that all programme implications must be taken into account in this respect (including design, planning CPO (where applicable), land acquisition (where applicable) and construction).

2. Reasons for recommendations

- 3.1 It is clear that in considering the above options due consideration must be given not only to financial or viability matters but also to the social and environmental impacts of alternatives.
- 3.2 CBH has pride in its assessment as a Three Star service provider and believes that it can demonstrate success as a developer of homes and the ongoing ability to manage and deliver high quality housing services. The following issues support the ongoing provision of housing (development) and housing services (management) through CBH:
- Service consistency is maintained and CBH can optimise the benefits of scale.
 - CBH has demonstrated that the volume of properties in management supports the delivery of a range of community development, investment and resident involvement initiatives that others cannot achieve, including addressing anti-social behaviour, achieving high levels of lettings, the provision of training initiatives and positive work with young children.
 - CBH can deliver a consistency with management and investment decisions.
 - CBH has a developed 'community infrastructure - the Community House at St Pauls and the local team network.
- 3.3 In respect of environmental considerations CBH can provide continuity in respect of maintaining the built environment, supported by economies of scale.

3. Alternative options considered

| Option: | Principle: | Ownership: | Subsidy: | Long Term Finance: |
|----------|-----------------------------|------------|---|--------------------|
| Option 1 | Further CBH Development | CBH Homes | From CBC | PWLB Through CBC |
| Option 2 | CBC Development Through HRA | CBC Homes | From CBC | PWLB Through CBC |
| Option 3 | Using Developer Grant | CBH Homes? | Through Grant & S106 Gain | PWLB Through CBC |
| Option 4 | Using RP Grant | CBH Homes? | Through Grant & S106 Gain from selected Developer | PWLB Through CBC |

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|-----------------|---------------------|---------------|----------------|------------------|
| Option 5 | Funded Through REIT | CBC Homes? | From CBC | PWLB Through CBC |
| Option 6 | Site Disposal | CBC Sell Site | Not Applicable | Not Applicable |

- 4.1 There are some fundamental differences in the outcome and viability of the options above, not the least of which is the role of CBH and the extent of subsidy and long term finance provided through CBC.
- 4.2 There is a natural limit to the extent of property development for CBH ownership, created by the utilisation of the available reusable receipts and/or a cap on the ability of CBH to fund early year's deficits. The principle adopted herein will be to use the receipts in a practical and pragmatic way to reduce long term borrowing on a scheme (or schemes) in order to reduce or eliminate the early year's deficits.
- 4.3 These option reviews will in this way take into account the limitations on CBC reusable capital receipts which have at present been confirmed as in the region of £800k, after allowing for other identified commitments. It is anticipated that at St Paul's there will be also be a net capital receipt from the sale of the portion of the site identified for development for outright sale, which can be used to offset the development cost of the affordable housing.
- 4.4 With the exception of North Place, the other schemes formed the abortive 2011 – 2015 Affordable Housing Programme Bid. Under that process the development costs were to be met by a combination of capital subsidy, affordable housing grant (from the HCA) and loan funding potentially from PWLB through CBC. The loan funding would have been optimised based upon the level of loan that could be supported by the net rental stream after deduction of management, maintenance and voids charges. In these circumstances, the assumed grant rate was sufficient such that the available capital reserves at CBC (identified above) met the overall funding shortfall across all three schemes.
- 4.5 In the absence of grant in options 1 & 2 above, the available CBC capital would be sufficient to support one scheme only. Due to the nature of St Paul's Phase Two (being the concluding phase of the regeneration project) this scheme is regarded as the priority for support by both CBH and CBC. On that basis Option One could not be considered for Cakebridge Place and the Garage Sites unless an alternative funding arrangement presented itself for St Paul's Phase Two under which the whole of the available subsidy was not required.
- 4.6 Post bid discussions with the HCA identified the strength of support there for the CBH schemes and in particular for St Paul's Phase Two. CBH was encouraged to open a dialogue with developers (and potentially other RP's) who might have received an allocation in the Cheltenham (or Gloucestershire) area, but may not yet have a firm site – hence Options 3 & 4 above. There is also the outside possibility that later in the AHP 2011 – 2015 there might be a shortfall in performance or additions to the programme budget, under which CBH could receive the necessary grant support. This is considered to be too risky to regard as a viable option at this early stage in the programme.

4. Schemes Under Consideration

5.1 St Paul's Regeneration – Phase Two

This scheme is the concluding new build element of the St Paul's Regeneration Project and potentially (subject to available funding from within the CBH Investment Programme) the second phase of transformational improvements (TI's) covering all of the properties in Folly Lane. The Phase Two site is primarily cleared land at Crabtree Place and plots either side of the junction of Crabtree Place with Folly Lane. These plots each comprise two pairs of semis, one

currently providing community support facilities (the Community House) and the other split between a CBH tenant and a private owner.

In addition, there remains within Crabtree Place a single pair of semis of which one is void with the other having an owner occupier. The redevelopment proposals incorporate the resolution of these private owner interests.

In order to achieve a mix of tenures across the whole of the regeneration project it is intended that the new build capacity of circa 56 units will be split in the approximate proportions of 24 units for affordable rent (43%) and 32 for outright sale (there being 18 units for affordable sale in Phase One). This review process will include an initial contact with prospective developer partners to establish the extent of interest in a contract to build the rented units for CBH and the balance for sale on their own behalf.

5.2 Cakebridge Place

Cakebridge Place is the second (and final) site which contains unfit Tarran bungalows that are beyond economic repair. The site consists of 12 homes in total of which 9 are CBC properties and 3 are in private ownerships. Of the CBC properties seven are void and two tenanted, with a policy of not reletting voids in place.

Historically plans had been prepared for the discrete redevelopment of the site these homes, following resolution of options with the owner occupiers and the rehousing of any remaining CBC tenants. The site is adjacent to Cheltenham Town Football Club which was considering relocation to another site which could have potentially released the current site, which is in CBC ownership, for redevelopment. It would now appear that a decision has been taken that this is not a fundable option at present, which once again allows the housing site to be considered for early redevelopment. The current draft scheme layout produces 19 homes for affordable rent.

5.3 Garage Sites Phase One

The initial phase of garage site redevelopment was progressed over 2009/10 with the potential to secure social housing grant funding towards the end of the 2008 – 2011 Approved Development Programme. As a result, CBH secured planning consent for 14 units across 4 sites following a design and consultation process including community stakeholders.

These sites are not the first priority for available funding but could provide a quick win in terms of deliverability if appropriate either within the Affordable Homes Programme 2011 – 2015 or outside of it. Investment has taken place in adjacent garage sites which ensures that the removal of these units would not impact on availability of garages within the local communities.

5.4 North Place Development

The redevelopment of two car parks at North Place and Portland Street is being promoted by the Cheltenham Taskforce on behalf of CBC. At present CBC have a preferred developer, Augur Buchler, who were in contact with CBH during the preparation of their initial design proposals and who included CBH as their potential social housing partner for long term housing management.

CBH has been advised that Skanska will potentially develop the housing element of the scheme and initial informal discussions have taken place. CBH has been approached by EC Harris acting on behalf of Skanska and seeking initial offers for the 50 units of affordable housing (37 for rent and 13 for affordable home ownership).

6 Options Review

6.1 St Paul's Regeneration Phase Two

6.1.1 Options under consideration – 1, 2, 3, 4 & 5.

6.1.2 Option One

Based on the financial data used at April 2011 for the unsuccessful bids, the potential development cost for 24 units for Phase 2 is £2.515M and a loan at £1,627M could be supported. This would leave a balance to fund of £880K. This amount is close to the total available recyclable capital receipts and on that basis those funds could be used to replace the grant support that was assumed at bid stage. These would be CBH properties and CBH would potentially secure a PWLB loan as long term finance through CBC as for the Phase One scheme.

This calculation makes no assumption in respect of any capital subsidy (Section 106 Contribution) from the sale of the balance of the site for private development for sale. However, part of this option review process is to gauge the potential for developer interest in the site and to assess the quantum of any potential subsidy in terms of capital contribution or benefits of scale in respect of build costs. See Option 3.

6.1.3 Option Two

Option Two is a close copy of Option One on the basis that CBC provide the same level of capital subsidy (or possibly revenue sourced subsidy from the HRA) but that the long term finance is secured against the HRA headroom rather than against the CBH net rental stream. In this case the properties would be in the ownership of CBC but managed by CBH under the existing arrangements. As with all St Paul's Phase Two Options, it requires that CBH (or CBC) procure a developer partner to build out the entire scheme and to take the sales risk on the open market properties.

6.1.4 Option Three

This option assumes that CBH is able to secure the involvement of a developer with a non site-specific allocation. In order to explore this potential, CBH appointed Capita Symonds (Employers Agents) to research the position with potential developer partners.

Capita has established contact with a number of developers and significant interest has come from one Developer, who has worked with Capita to put together two potential offers, based upon the existing Nash Partnership design and their own version, which has in their view optimised the site development capacity and resulted in the addition of a further seven units for sale. Both of these schemes demonstrate a positive contribution from the sale element of the site.

In addition to this subsidy, the Developer has identified that they potentially have available Affordable Homes Grant (Developer Grant from the HCA) which they would be prepared to commit to the scheme. Subject to final costs, this would leave a net balance to fund which is well below the potentially affordable loan. This could deliver an attractive funding package with good long term contributions. On completion of the construction contract the developer grant would transfer with the acquired properties to CBH.

This option could be progressed through the HCA Developers Panel, which is a pre-qualified list of developers on a regional basis and the potential Developer is a Central Region members. This could facilitate the establishment of a contractual commitment through either a mini-tender process or by direct negotiation.

6.1.5 Option Four

Whilst securing the grant input could be achieved by working in partnership with an RP with available non site-specific grant, they would be expected to want to retain ownership and would be putting their own subsidy into the scheme through conversions to affordable grant in existing stock or through disposals. In addition, there would still remain the need to secure a developer

partner for the outright sale element of the scheme unless the RP was interested in taking the sales risk, which is assessed as unlikely.

6.1.6 Option Five

CBH has been approached by The Quality Social Housing Company (QSH) which is creating a Real Estate Investment Trust (REIT) with a view to providing interim development funding for social housing. Their model assumes that the REIT will fund development costs for affordable homes through bulk purchase arrangements with developers. They will then enter into a management arrangement based on a percentage of the rental stream, with the expectation (and requirement) that properties are purchased at a minimum rate (units purchased per annum) over years 4 to 20 of an agreement.

The model is based upon property values and assumes that they will be let at affordable rents (80% of market rents). CBH would receive a management allowance per unit on units not purchased and periodic property transfers (acquisitions) at agreed values. The model at present has an overall acquisition cost of £2.13M – £2.30M, including a one-off subsidy of £140,000 required to offset 'depressed' property values. This is a higher capital cost than the developer grant option and requires a subsidy (albeit at a reasonably low level).

6.2 Cakebridge Place Redevelopment

6.2.1 Options under consideration – 1, 2, 3, 4, 5 & 6.

6.2.2 Option One

It would now appear that the potential for the football club to relocate has diminished in the present economic climate, which leaves CBH/CBC once again potentially looking at a stand-alone development albeit that a link could be provided to allow flexibility for any later redevelopment options for adjacent land.

Based on the financial data used at April 2011 for the unsuccessful bids, the potential development cost for 19 units is £2.690M and a loan at £1,997M could be supported. This reflects the higher market values and hence affordable rents at this location. This would leave a balance to fund of £694K.

In the event that the capital reserves are not committed to St Paul's Phase One, then they would provide the necessary subsidy for Cakebridge Place to be completed as a CBH scheme along the lines of previous developments.

6.2.3 Option Two

In the above calculation it is a simple matter to replace the long term funding for CBH based upon the net rental stream with HRA based funding for CBC. On that basis these would be CBC properties which CBH would manage.

6.2.4 Options Three and Four

Based upon the potential success in attracting grant to St Pauls Phase Two and the data (from the HCA) in respect of the outstanding level of uncommitted grant to RP's (in excess of 60%) CBH will now explore the potential with developers and the identified RP's.

6.2.5 Option Five

There is the potential again here for the involvement of The Quality Social Housing Company (QSH). Their model assumes that the REIT would fund development costs for affordable homes through bulk purchase arrangements with developers. They would then enter into a management

arrangement based on a percentage of the rental stream, with the expectation (and requirement) that properties are purchased at a minimum rate (units purchased per annum) over years 4 to 20 of an agreement.

6.2.6 Option Six

The potential removal of the constraint relating to the Football Club returns control of the site to CBH/CBC and with the possible options above open to CBH/CBC, it is considered imprudent to regard disposal as an attractive option at present.

6.3 Garage Sites Redevelopment Phase One

6.3.1 Options under consideration – 2, 3, 4 & 6.

6.3.2 Option Two

Based on the financial data used at April 2011 for the unsuccessful bids, the potential development cost for 14 units is £1.989M and a loan at £1,355M could be supported. This would leave a balance to fund of £634K.

On the assumption that St Paul's Phase Two or Cakebridge Place would consume all of the original available reserves; any CBC subsidy for Garage Sites would need to come from additional or new capital reserves or through an HRA revenue subsidy. On that basis these would be CBC properties which CBH would manage.

6.3.3 Option Three

Due to the dispersed nature of these units, the relatively high clearance and construction costs and the lack of any sale properties, it is highly unlikely that any developer interest could be secured. On that basis this option has not been pursued.

6.3.4. Option Four

Whilst securing the grant input could again be achieved by working in partnership with an RP with available non site-specific grant, they would be expected to want to retain ownership and would be putting their own subsidy into the scheme through conversions to affordable grant in existing stock or through disposals.

There is however a possibility that if the sites are retained as available and a development cost is secured (by negotiation with an appropriate developer) the sites could be used at the back end of the AHP 2011 – 2015 to mop up unused grant prior to the termination of the programme in March 2015. Whilst this is regarded as a long shot at present, unless a decision to fund the schemes under Option Two is secured, this is the best fallback position for the present.

6.3.5 Option Five

There is considered to be no potential for the involvement of The Quality Social Housing Company (QSH), due to the dispersed nature of the sites and the level of development costs. They do not fit easily with the nature of the REIT model.

6.3.6 Option Six

The sale of these sites would reduce the potential CBH/CBC stock growth by 14 units. In view of the historical relationship to the garage sites investment programme it is proposed that no consideration be given to site disposals until such time as alternative funding options have been ruled out. Indeed, investment has been made in adjacent sites to facilitate rationalisation of garage stock/redevelopment of these four sites.

6.4 North Place and Portland Street Redevelopment

- 6.4.1 As identified at 2.4 CBH has received an approach from EC Harris on behalf of Skanska, seeking expressions of interest and initial offers for 50 units of affordable housing within the overall redevelopment scheme. These would be 33 home for affordable rent and 17 homes for affordable home ownership (assumed to be straightforward shared ownership). EC Harris provided an initial 'sketch' proposal for RP's to base an offer on. These showed five storey construction consisting of a two storey house at ground and first floor, a single storey flat at second floor level and a further two storey house (maisonette) at levels three and four.
- 6.4.2 CBH sought indicative valuations and market rents upon which an offer could be based. These were taken into account when CBH pitched their offer, the principles of which were agreed with CBC in advance. This is a Section 106 scheme and therefore CBH was able to assume a significant 'subsidy' from the adjacent sales units. The offer was therefore based upon the level of loan that net rents would support and therefore no further subsidy would be required or was assumed.
- 6.4.3 CBH has subsequently been advised that following feedback from the RP sector Skanska will be considering design modifications. It is anticipated that CBH as a registered provider will receive a further approach in due course.

7. Overview of available resources

- 7.1 Dependant upon the chosen development route for each scheme the resources estimated to be available by April 2013 to finance new build are:-
- Borrowing headroom within the Housing Revenue Account (HRA) of £8.1m.
 - Unallocated revenue funding of £2.6m. within the HRA.
 - Usable capital receipts of £800,000 arising from the previous disposal of HRA assets which are set aside to finance new affordable housing.
 - Borrowing by CBH through CBC General Fund access to the Public Works Loan Board, value determined by the ability to fund repayments from the new rental stream.
- 7.2 Given this level of resources it is possible to finance all three schemes outlined in this report without them being mutually exclusive. The important consideration will therefore be the value for money provided by each option, particularly the opportunity to draw in external subsidy to reduce scheme costs.

8 Recommendations and Next Steps

8.1 St Pauls Phase Two

That it is acknowledged on the basis of the above that there is a significant benefit in CBH owning the balance of new affordable rent homes created through investment in St Pauls Phase Two.

That CBH should continue to advance discussions with Developers in respect of a revised scheme with the inclusion of developer grant and a capital contribution for the site value such that a reduced level of long term funding is required.

That CBH/Capita should explore compliant procurement options based upon the HCA Developer Panel with a view to securing an appropriate developer partner.

That at the earliest appropriate point in the process CBC and CBH reach agreement in respect of the development of a full Planning Application in order to advance progress generally.

8.2 Cakebridge Place

That CBH should continue to explore the potential for either developer or RP grant, subject to appropriate terms and outcome.

That the fallback position be regarded as Option 1 or 2 using the available capital subsidy for either CBH or CBC homes.

8.3 Garage Sites Phase One

That CBH should pursue the potential for unallocated grant to be made available directly through the HCA under any mid-programme reallocation of resources, in order to deliver a scheme with a reduced subsidy requirement.

8.4 North Place

That CBH should maintain the dialogue with Skanska/EC Harris and review ongoing interest on behalf of CBH/CBC as further design development takes place.

That CBH/CBC should consider a further bid based upon a nil further subsidy approach, using updated valuations based upon the anticipated revised designs, subject to CBH/CBC being satisfied with the management implications associated with the anticipated design revisions.

8.5 Next Steps

CBH Senior leadership Team reviewed this document on Monday 30 January 2012 and CBHS Board reviewed it on Wednesday 8 February 2012. It was then taken to a meeting with CBC Officers on 9 February 2012. The next stage of the development process is to achieve CBC Cabinet support on 13 March 2012.

CBH intends to keep viable options open on each scheme until a further approval based upon firm designs, costs and risk analysis has been secured. The timeframe for this will vary by scheme with St Paul's Phase Two taking priority.

Subject to above, CBH would expect to provide a forward development programme for monitoring and a set of deadline dates for various forward approvals.

9 Use of contractors for reactive maintenance

- 9.1 In preparing for both the implementation of Agresso (the new HR and finance system) and proposed changes to the CBH repairs process it has become apparent that the control and monitoring of reactive repairs to the housing stock would be strengthened by consolidating all reactive repairs expenditure through CBH. This would be enabled by CBH directly employing sub contractors rather than simply managing them on behalf of the Council.

- 9.2 There would be no impact on net cost for either CBH or CBC and the s151 officer is happy with the proposal. The Cabinet is requested to approve this change in principle subject to One Legal being satisfied that the Council's position with regard to these works is protected. It is anticipated that the change will also require some minor amendment to the management agreement schedules to show that CBH are now employing the sub contractors directly rather than simply managing them on our behalf.

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|-------------------------------|---|
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| Appendices | 1. Risk Assessment |
| Background information | None |

| The risk | | | | Original risk score (impact x likelihood) | | | Managing risk | | | | |
|---|--|---------------------------|-------------|---|----------------|-------|---------------|---|-----------|----------------------|--|
| Risk ref. | Risk description | Risk Owner | Date raised | Impact 1-4 | Likelihood 1-6 | Score | Control | Action | Deadline | Responsible officer | Transferred to risk register |
| 1. | If developer grant is unavailable then the council will need to think how the sites can be developed | Director of commissioning | Feb 2012 | 3 | 3 | 9 | R | Initial indications would suggest that developer grant is available. The council would need to prioritise the schemes and consider how it used its unallocated capital subsidy and how HRA funding could be used to support the long term viability of schemes. | July 2012 | Gordon Malcolm (CBH) | CBH risk register Commissioning risk register |
| 2. | There is a risk that those living in the vicinity of the proposed sites face yet more uncertainty until a final decision is made | Director of commissioning | Feb 2012 | 3 | 3 | 9 | R | CBH to work with residents to explain the current position and allay concerns CBH to work with relevant ward councillors | July 2012 | Paul Stephenson | CBH risk register |
| <p>Explanatory notes</p> <p>Impact – an assessment of the impact if the risk occurs on a scale of 1-4 (1 being least impact and 4 being major or critical)</p> <p>Likelihood – how likely is it that the risk will occur on a scale of 1-6 (1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)</p> <p>Control - Either: Reduce / Accept / Transfer to 3rd party / Close</p> | | | | | | | | | | | |