

Agenda Item 25

Cabinet

7 March 2012

PL



Affordable Housing – Land off Grove Road Whimble

Exempt Information

Para 3 Schedule 12A - Information relating to the financial and business affairs of any particular person (including the authority holding that information)

Summary

This report sets out a revised proposal seeking consent from the Cabinet to transfer East Devon District Council (EDDC) owned land to a preferred Registered Provider (RP) Spectrum Housing Association (SHA) for the provision of seven affordable and four open market homes.

This proposal has along with two others been previously considered by the Executive Board on the 3rd December 2008 (copy of the report attached). Due to a significant change in grant funding arrangements from the Homes and Communities Agency (HCA) the original proposal has had to change to achieve a viable scheme. We now seek support for an affordable housing scheme (Grove Road Whimble) that should deliver a mix of social / affordable rent and shared ownership homes, as well as four open market properties.

Recommendation

- (i) Approve the transfer by way of a 125 year lease agreement at a nominal amount to the Registered Provider for the land to be used for the provision of affordable homes.

a) Reasons for Recommendation

To continue to meet the shortage of affordable housing.

b) Alternative Options

Not to provide much needed affordable accommodation. To sell on the open market.
Do nothing.

c) Risk Considerations

Not achieving best value for our land and property interests by negotiating with preferred partners.

d) Policy and Budgetary Considerations**Positive Impact Overall**

Affordable Homes.
 Thriving Economy.
 Safe Environment.
 Green Environment.
 Recycling.
 Young People.
 Excellent Customer Service.
 Inspirational Council.
 Meeting our crime and disorder duties.
 Meeting our Diversity and Equality duties.

e) Date for Review of Decision

January 2013.

1 Background Information

- 1.1 A report has been previously considered and approved by the Executive Board on the 3 December 2008.
- 1.2 The proposed development has been subject to a number of pre-application meetings with planning colleagues and Councillors of Whimpe Parish Council. The development will be subject to securing planning permission, funding and other external board approvals.
- 1.3 Following on from the Comprehensive Spending Review in October 2010 the amount of grant funding for affordable housing has been significantly reduced. This has had a serious knock on effect with potential affordable housing schemes locally and nationally. The reduction in grant per unit has meant that the traditional social rented tenure will be an exception rather than the rule. Social rented tenure has been replaced by Affordable Rent (up to 80% of market rents including service charges) this will significantly increase the rents charged on new affordable housing.
- 1.4 Unfortunately the scheme wasn't successful in securing HCA grant funding earlier last year. So a proposal to cross subsidise the affordable housing with open market housing using the " Interim Mixed Affordable Housing Position Statement " is now proposed to enable this scheme to proceed.
- 1.5 The proposed alternative tenure has enabled the scheme to "stack up" in viability terms. It is therefore proposed to deliver seven affordable homes with an additional four open market homes to help cross subsidise the funding of the affordable housing element. The affordable housing will comprise of two social rented, three affordable rented and two shared ownership homes.
- 1.6 Due to the current economic situation SHA are unable to provide the shared ownership homes with a staircasing restriction in place. This staircasing restriction normally ensures that affordable home ownership is capped at 80% of

the open market value, thus ensuring the property remains available for local people in perpetuity. This restriction is normally associated with rural affordable housing in a Designated Protected Area (DPA). By seeking to lift the DPA restriction it will enable more mortgage lenders to lend, as currently there is only one lender who will lend with this restriction in place, and they require a 20% deposit.

- 1.7 Whimble Parish Council have indicated support for the current proposal and are aware that by agreeing to the lifting of the DPA the shared ownership homes may be lost as affordable. It is considered that it may be some time before an individual could afford to staircase out to 100% ownership.
- 1.8 Whilst re-evaluating the scheme SHA have managed, upon a request from Whimble Parish Council, to factor in a community sum of £24k for the provision of sports changing facilities within the Village.
- 1.9 The lifting of the DPA is a planning matter and will be considered when planning officer's report to Development Management Committee, along with the community sum payment.
- 2.0 An Option agreement is in place with SHA which 'falls away' on or near to the 28 February 2012. Unless a planning application is submitted before this date, it then extends for a further six months. The Option agreement provides SHA the security to continue to work up a scheme at considerable financial risk to themselves.
- 2.1 Proposed site plan attached, Land off Grove Road, Whimble – **annex 1**

3. Newly proposed development and costs at Grove Road Whimble

- 3.1 Information provided by SHA (30 Nov 11) and is subject to change.

11 units:-

2 x 2 bedroom flats
2 x 1 bedroom flats
4 x 2 bedroom houses
3 x 3 bedroom houses

With a tenure mix as follows:-

2 x social rent (No 2, 2 bedroom 3person)

3 x affordable rent (No2, 3 bedroom 5 person) & (No1, 2 bedroom 4 person)

2 x shared ownership @ 40% equity share & 2.7% yield on unsold equity (No1, 2 bedroom 4 person) & (No1, 3 bedroom 5 person)

4 x 2b house for market sale (No2, 2 bedroom 4 person) & (No2, 2 bedroom 5 person)

Estimated Scheme costs

| | |
|--|----------------|
| Land purchase price | £ 0 |
| Works costs | £ 977,202 |
| On costs | £ 300,000 |
| (includes fees, marketing, corporation tax, contractor design fees, interest costs on loan, allowance for village facilities of £24,000) | |
| Total scheme costs | £1,277,202 |

Rent per week (approx)

| | |
|--|-----------|
| Social rents as per the HCA target rents | = £71.33 |
| Affordable rents based on Local Housing Allowance for 2b accommodation ie Housing Benefit limit for the area | = £137.31 |
| Affordable rents based on Local Housing Allowance for 3b accommodation | = £160.38 |
| Shared ownership rents 2b @ 2.7% unsold equity | = £ 56.07 |
| Shared ownership rents 3b @ 2.7% unsold equity | = £ 62.30 |

4. Valuation

- 4.1 It is proposed that SHA will be granted a 125 year ground lease to enable the development to be undertaken on this land. It is proposed that the lease be at a nominal ground rent of £1 per annum, without a premium.
- 4.2 The previous decision by the Council in relation to this site gave approval for the grant of a 125 year lease, at less than best consideration. This scheme was however a 100% affordable housing scheme. The current proposal would provide 7 affordable units and 4 houses for open market sale.
- 4.3 The developers are seeking to include the houses for open market sale in order to make the scheme financially viable. This scheme would therefore mean that around two thirds of the development would be affordable housing with the Council having full nomination rights. It should however be noted that under the Interim Mixed Affordable Housing Position Statement, any development of this site for housing purposes would require the developer to provide this level of affordable housing.
- 4.4 This therefore means that the Council could seek to market the site and generate a capital receipt. It is considered likely that any developer would wish to acquire the freehold interest rather than a long leasehold and the requirement to provide two thirds affordable housing would make the site considerably less attractive.
- 4.5 A valuation of the site has been undertaken to establish the 'Under Value'. The unrestricted open market value of the site (assuming it to have the benefit of planning permission for a development of seven affordable units and four open market units) has been assessed to be of the order of £85,000-£100,000.
- 4.6 The proposed scheme provides a favourable mix of affordable housing, together with a contribution to community

sports changing facilities and the creation of an allotment parking area on the land to the east of the site. It may be difficult to ensure such a mix of affordable tenure and contributions should the site be sold on the open market.

- 4.7 The site at present is fenced off and forms part of an agricultural field. The Existing Use Value is considered to be in the region of £12,000 - £15,000.
- 4.8 The proposed partnership with SHA will deliver seven low cost homes and four open market homes. However, this transaction will be a disposal at less than best value than would otherwise be achievable if the land were to be sold on the open market without restrictions.

5.0 Conclusions

- 5.1 The Cabinet are invited to consider whether it still wishes to provide affordable housing at Grove Road Whimple, based on the assumption that this scheme is a cross subsidised development that intends to provide a mix of affordable and open market housing, as well as agreeing in principle to the lifting of the DPA restriction, and whether it is appropriate that we transfer the identified land to our preferred RP partner by means of a 125 year lease at a nominal amount.

Legal Implications

There are no legal implications requiring comment at this stage but there will be issues of valuation and title if the matter proceeds.

Financial Implications

The financial implications are included in the report. The scheme depends on the land being transferred at nil value thereby foregoing a capital receipt.

Consultation on Reports to the Executive

Reports to the Executive re the budget/policy framework must detail the nature, extent and outcome of consultation with stakeholders and relevant Overview Committees. Reports about other matters must give details and outcome of consultation as appropriate

Background Papers

- Executive Board report 3 Dec 2008
- Executive Board reports 4 Mar 2009 (09/9003), and Exec Brd 14 July 2010 (10/1011)
- Interim Mixed Affordable and Market Housing Position Statement Jan 2010

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Housing Enabling Officer

Cabinet
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