

Agenda Item 20

Executive Board

12 May 2010

JG/EC



Securing funding to add to S106 money to purchase affordable housing in Woodbury

Exempt Information

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

Summary

We have £64,000 Section 106 money to spend on affordable housing in the village of Woodbury. Having considered other possible avenues we are asking that the money is put towards purchasing a property on the open market to go into council housing stock. We have identified a suitable 3 bedroom property but to purchase this we need to secure additional funding to add to the S106 money. We are asking that funding is found from a Public Works Loan Board loan repaid by the rental income with any necessary balance to come from HRA under spend, using any HRA surplus and trimming of schemes already in the budget.

Recommendation

- a) Money is made available from the HRA to put towards the S106 money of £64,000. Between £111,000 and £131,000 will be required, depending on negotiations and survey.
- b) The money is funded from a combination of under spend, trimming of schemes already in the budget, using any HRA surplus and a Public Works Loan.
- c) We put in an initial offer on the property and if accepted arrange for a full structural survey to be carried out. If not accepted we increase the offer, if deemed appropriate, in stages up to the asking price.
- d) If we are unsuccessful in purchasing the property identified in this report we request permission to bid on similar suitable properties up to £195,000.
- e) The Portfolio-Holder Communities and the Head of Housing and Social Inclusion are given authority to make a decision regarding the agreed final price on this, or other suitable properties.

a) Reasons for Recommendation

To ensure we spend Section 106 money and secure another affordable home in council ownership.

b) Alternative Options

Consider giving back the S106 money to the developer.

c) Risk Considerations

Purchase falls through but we have incurred costs.
We have to pay back the commuted sum to the developer if it is not spent.
The purchase price is not covered by the loan.

d) Policy and Budgetary Considerations

Covered in the report.

e) Date for Review of Decision

Not applicable.

1. Background

- 1.1 As a consequence of a development in Woodbury, (planning applications 7/13/02P12499/00180 and 7/3/02P1250/00180) we have a sum of Section 106 money that has to be spent on the provision of affordable housing within the village.
- 1.2 The original amount available was £60,000 and this has increased with interest and is now approximately £64,000. The money has to be spent by 22 August 2010 and has to be spent within the village of Woodbury only.
- 1.3 There is significant housing need within the village. In September 2008 the Community Council of Devon undertook a housing needs survey which indicated that there is a need for 40 affordable properties of which 20% should be one bedroom, 60% two bedroom and 20% three bedroom (with a tenure mix of 75% rented and 25% shared ownership).
- 1.4 We have been seeking ways to spend the money on affordable housing through (a) using the money to help an RSL secure a development site, (b) the purchase of land for development, or (c) the purchase of an existing property. We have looked closely at options (a) and (b) but there are no sites or potential sites available that would enable the money to be spent within the remaining timescale.
- 1.5 We are therefore pursuing option (c) and are looking at ways to raise money to add to the S106 money to allow there to be sufficient funds to purchase a property.

2. Potential properties

- 2.1 Efforts to find a suitable property to purchase have been unsuccessful until now. One property was identified in 2007 but the purchase fell through. However due to housing down turn properties now are in the main more affordable and several properties have recently either come on to the market, or are about to come on to the market, which may be suitable to purchase for our own council stock.
- 2.2 Examples of potential properties:
 - 2.2.1 **Property 1:** A new build 2 bedroom semi-detached cottage style house, with double glazing, central heating and designated parking space on sale for £210,000. (This property is considered not to be value for money for the amount of accommodation offered.)
 - 2.2.2 **Property 2:** One bedroom semi detached house in Brent Close on the market for £139,950 (recently reduced from £144,500). The property is reasonably modern with gas central heating, double glazing and an allocated car parking space. It is understood that this property is owned by a council employee.

- 2.2.3 **Property 3:** A 3 bedroom end link house in Fulford Way on the market for £195,000. This is a reasonable modern property with night storage heating. It requires some updating. We understand that the owner has deceased and the property is vacant.
- 2.2.4 Although Property 1 has potential it is only one bedroom and we feel that Property 3 offers the best value for money and would provide a family house in the village.
- 2.2.5 The Housing Enabling Officer and Housing Maintenance Surveyor have viewed Property 3 and assess that approximately £20,000 would need to be spent on it to bring it up to standard. This would include replacing the kitchen, bathroom and night storage heaters, upgrading the electrics and plumbing, survey the drains and work to the garden.
- 2.2.6 As the property is currently vacant we would suggest putting in an initial offer of £175,000 which reflects the property's condition and our ability to proceed quickly.
- 2.2.7 If this property does not proceed we request permission to offer on other similar suitable properties.

3 Sources of extra funding

- 3.1 A report was submitted to the Strategic Management Team (SMT) meeting on 10 March 2010 outlining some potential sources of funding including (i) using the proceeds from the sale of Globe House, Woodbury, (ii) using money allocated to other housing schemes (both from HRA and General Fund) and/or (iii) applying for a loan from the Public Works Loan Board (PWLB).
- 3.2 SMT concluded that:
- the money from the sale of Globe House has been allocated to other council capital projects and is therefore not available for this purchase
 - consideration is given to using funds available within the HRA
 - a calculation of the Public Works Loan is undertaken taking into account the fact that the rental income will rise year on year.
- 3.3 SMT also requested that we check that the developer is still in existence. The S106 Officer has confirmed this.
- 3.4 To purchase Property 3 at a suggested offer price of £175,000 would require an amount of £111,000 to be found to join with the S106 money of £64,000. If we have to offer the asking price a balance of £131,000 will be required.
- 3.5 The cost of a Public Works Loan of £111,000 based on a 40 year loan period with the rent being set initially at the target rent for such a property (ie slightly above the current average rent for a 3 bedroom property in the area) and increasing by 2% year on year does make the loan affordable, but only marginally with net income over the 40 year period of £106. The calculation does not take into account any likely void periods or charges for repairs, maintenance and management.
- 3.6 There is currently a predicted underspend on the HRA account of £161,000 (as at end of January 2010).
- 3.7 There are budgets within the HRA which could be slightly reduced to allow for funds to be found towards this purchase.
- 3.8 We request that money is made available to purchase Property 3 and thus secure the S106 money of £64,000. The balance (between £111,000 - £131,000) could be found from a Public Loans Work Board loan repayable through the HRA with any

balance being found from HRA under spend and trimming of schemes already in the budget.

- 3.9 We request permission to make an initial offer on the property and if accepted arrange for a full structural survey to be carried out. If not accepted we request that we increase the offer in stages up to the asking price.
- 3.10 We need to proceed quickly to ensure that we secure the S106 money by August 2010 and do not lose a potential property.

4 Recommendation

- 4.1 Money is made available from the HRA to put towards the S106 money of £64,000. Between £111,000 and £131,000 will be required, depending on negotiations and survey.
- 4.2 The money is funded from a combination of under spend, trimming of schemes already in the budget, using any HRA surplus and a Public Works Loan.
- 4.3 We put in an initial offer on the property and if accepted arrange for a full structural survey to be carried out. If not accepted we increase the offer, if deemed appropriate, in stages up to the asking price.
- 4.4 If we are unsuccessful in purchasing the property identified in this report we request permission to bid on similar suitable properties up to £195,000.
- 4.5 The Portfolio-Holder Communities and the Head of Housing and Social Inclusion are given authority to make a decision regarding the agreed final price on this, or other suitable properties.

Legal Implications

As this was not part of the capital programme it is necessary that the consent of this Board is obtained before any expenditure can be authorised. There have been no other opportunities identified and the capital sum will otherwise have to be repaid to the Developer

Financial Implications

The financial implications are contained within the report.

If the 3 bedroom property identified in the report is purchased at the lower end of the calculations, that is £175,000, then the full amount can be funded through a loan after deducting the 106 contribution. However it maybe prudent to look to fund part through loan and part through savings, the Finance Team will give advice at the time of funding as to the best option for the Housing Revenue Account (HRA). All costs will eventually be charged to the HRA, whether through budget savings now or future loan repayments.

If the offer goes above the £175,000 then it suggested that defiantly part of the cost is funded upfront from savings/budget reductions to reduce the burden on the HRA in future years.

Consultation on Reports to the Executive

Background Papers

- Report to Strategic Management Team – 10 March 2010

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