

Subject:	New Homes for Neighbourhoods – Small Site Strategy – Housing Co-operative Pilot		
Date of Meeting:	18 January 2017 – Housing & New Homes Committee 19 January 2017 – Policy, Resources & Growth Committee		
Report of:	Executive Director for Neighbourhoods, Communities & Housing		
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Ward(s) affected:	Hanover and Elm Grove		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 On 5 March 2014 Housing Committee agreed to three pilots to deliver much needed new homes on small, challenging council owned sites under a small site strategy for the New Homes for Neighbourhoods programme. One was a pilot for development of a small site by a housing co-operative represented by Co-operative Housing in Brighton & Hove (CHIBAH).
- 1.2 Extensive soft-market testing in 2013 had revealed a lack of interest amongst potential partners in helping the council develop four of eight small former or underused council housing garage sites which Housing Committee had agreed on 6 March 2013 should be developed for new housing. One of these is a former garage site off Plumpton Road on the Queens Park estate, Brighton. Although just large enough for two houses, it has a long, kinked and extremely narrow access (less than 4m wide), making it unsuitable for many forms of construction. A plan is at Appendix 1.
- 1.3 On 23 September 2015 the Housing & New Homes Committee noted progress with the co-operative pilot and that members of a self-build co-operative nominated by CHIBAH were preparing a feasibility study for development of two family houses on this Plumpton Road former garage site. The Estate Regeneration Member Board has also had regular updates on progress with this proposal.
- 1.4 This report now seeks approval to lease the Plumpton Road former garage site to Bunker Housing Co-operative in order to self-build two family homes for rent, which will be let within affordable rent levels to applicants from the Homemove register and to which the council will be able to nominate future tenants.

2. RECOMMENDATIONS:

- 2.1 That Policy, Resources and Growth Committee take note and approve the recommendations as set out below, as recommended for approval by Housing and New Homes Committee, that:
- a) The land at Plumpton Road, Brighton BN2 9YL be made available for leasing.
 - b) There be delegated authority to the Executive Directors for Economy, Environment & Culture, Finance and Resources and Neighbourhoods, Communities & Housing (in consultation with each other) to enter into the necessary contracts with Bunker Housing Co-operative Limited to lease the former council housing garage site at Plumpton Road, Brighton BN2 9YL, to secure the building of two new homes for rental by the co-op. The granting of the lease is subject to Bunker obtaining planning consent, funding and entering into a nominations agreement with the council.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 A co-operative pilot was agreed by Housing Committee in March 2014 as part of a small site strategy under the New Homes for Neighbourhoods programme to achieve development of new homes on small, challenging council housing sites. Housing Committee had previously agreed in March 2013 to the procurement of a delivery partner for the development of new housing on the Plumpton Road site and seven other small former or underused council housing garage sites. Initial design and feasibility studies had been carried out for these sites with Homes & Communities Agency funding. However, approaches to potential partners (including Registered Providers, developers and large construction firms) to procure a development partner had proved unsuccessful for this and three other sites. More innovative solutions were required to develop such small, challenging sites and meet the target of 500 homes on Housing Revenue Account (HRA) land.
- 3.2 The co-operative pilot that Housing Committee agreed is for development of a small site by a housing co-operative represented by Co-operative Housing in Brighton & Hove (CHIBAH). This is in keeping with the commitments in the council's Housing Strategy 2015 to support community housing development. It also supports Housing Recommendation 1 (f) of the council's Fairness Commission 2016 to offer brownfield sites to local organisations such as co-ops to develop affordable social housing for local people. Following meetings and site visits, in March 2015 CHIBAH nominated a small self-build co-op, Bunker Housing Co-operative Limited, to develop a proposal for the former garage site at Plumpton Road.
- Plumpton Road former garage site*
- 3.3 This small, overgrown site has been empty for many years and is a focus for dumping of bulky and other rubbish. However it is very challenging for development, not only due to its size, but also because of a long, very narrow and angular access, which rules out most construction methods. A plan is at

Appendix 1. Self build appears the most viable approach to bring the land into use to deliver a pair of new homes, subject to planning consent.

Project management and support

3.4 Bunker Co-op has the full backing and support of CHIBAH, including project management support. A statement in support of the co-op is at Appendix 2. The co-op is also drawing on the expertise of the UK Confederation of Co-operative Housing and working with a network of organisations and individuals, including a local development sub-group. Co-op members with their experienced project manager, supporting project group and architects have prepared a feasibility study, business plan and project management documents for development of two three bedroom family houses on the site.

3.5 Council officers have worked with the co-op to help ensure their proposals and supporting documentation are as accurate and realistic as they can be at this initial stage, and that they comply with the council's allocations and nominations policy and procedures.

Co-op constitution and membership

3.6 Bunker Co-op is a non-profit making, fully mutual housing co-operative registered with the Financial Conduct Authority under the Co-operatives and Community Benefit Societies Act 2014 on model rules. It is governed by general meeting of all its members. All members must be tenants or prospective tenants of the co-op and all tenants must be members. Tenants cannot assign their tenancy to anyone other than the co-op and have no right to buy their home or succession rights. If the co-operative were ever dissolved, the assets must be passed to another co-operative or to a not for profit organisation with similar aims and principles.

3.7 The co-op currently comprises nine members, which satisfies quorum arrangements under its rules and the requirements of its prospective funder. All members are currently registered on the Homemove housing register.

Proposed new homes and construction

3.8 Initial design proposals have been drawn up by architects for two three bedroom houses on the site, with both private and communal garden space. Construction would be by wall and roof panels manufactured in a factory and delivered for assembly on site, and making the most of green technologies. Co-op members would project manage the build and expect to have hands-on involvement in site clearance and second fix work, such as external cladding, landscaping, decorating, plumbing and carpentry under the supervision of relevant professionals who would 'sign off' the work. They expect to complete the total construction within one year.

Planning advice

3.9 Pre-application planning advice was provided on the initial design in January 2016. Planning's opinion is that 'two dwellings on the site can be supported in principle, subject to improvements to soften the appearance of the first floor southern elevation and the removal of the first floor terraces'. The co-op and architects are confident that these improvements can be achieved and details of parking and landscaping will also be submitted at application stage. Bunker will

apply for planning permission after it has the council's agreement to lease the land.

Funding proposals

- 3.10 The co-op has powers under its rules to borrow funding and issue loanstock in order to fund the construction. It plans to fund some £170,000 of the project costs with a loan from a building society with a track record of lending to housing co-ops. A representative of the building society has visited the site and is ready to progress a formal application for mortgage facilities once the lease of the land and planning consent are confirmed. Construction costs including a contingency provision will be firmed up after planning consent, with more detailed quotes from contractors. Bunker also plans to raise £43,000 in loanstock from other co-ops (local and further afield). It has already received £15,500 worth of pledges from individuals within Brighton & Hove and requests for loanstock from other UK housing co-ops are underway to achieve the remaining £27,500. The Manager of Redditch Co-operative Homes which has created many co-ops has advised that around £43,000 in loanstock is a prudent figure to budget for.
- 3.11 Bunker has already obtained a £5,000 grant from 'Seedbed', a local charity, which was used to pay the first round of architects' costs. Other avenues will be pursued using co-operative housing contacts to find a further £5,000 once all the documents are completed.

Financial plan

- 3.12 The co-op proposes to charge an initial rent of £175 per week, rising by 2% p.a. in line with the assumed rate of inflation for its business model. The co-op has calculated this as the 'cost rent' required to service the debts, maintain the properties and to keep the co-op financially in the black as a going concern. This currently represents 46% of average market rent for a three bedroom home in the city. It represents 76% of the Local Housing Allowance (LHA) Housing Benefit rate for a three bedroom property (£230.28 pw), which is used in the council's definition of 'affordable rent' for its Tenancy Strategy and its own new homes. The discount on the LHA rate represents the 'sweat equity' of co-op members/tenants in constructing, managing and maintaining the homes. The proposed rent levels also exceed those of older established co-ops with homes on land leased from the council.
- 3.13 Forty year financial projections using realistic expenditure assumptions, and the fact that Bunker as yet has no assets, indicate that the co-op would not be in a position to pay an up front lease premium for the site. However, it would be able to pay the council an annual ground rent of £500 p.a. from the start of Year 3, after the homes are completed and it has income from tenants' rents. The ground rent payment would be reviewed from Year 20 and thereafter five yearly, by which time the co-op is projected to be accumulating surpluses after repaying the loan stock and having built up an appropriate extraordinary maintenance provision.
- 3.14 If the Committees agree the proposals, Bunker will conduct a detailed cash flow analysis for the construction stage, leading to a cash flow statement, a cash flow budget and a projection of the future deposits and withdrawals. They will focus on the timing of the flows ensuring that they maintain their working capital, the

money need to facilitate business operations and transaction, to provide a good view of the liquidity of the business during the build period.

Allocations policy and procedures

3.15 With feedback from the council's Head of Temporary Accommodation & Allocation and Service Improvement Manager, the co-op has ensured its allocations policy and procedures meet the council's requirements. Bunker has confirmed that tenants will need to comply fully with its allocations policy, which is also in line with the council's Community Housing Nominations procedure for properties where the council has an interest.

3.16 This procedure recognises involvement in the actual build of self-build schemes as a positive contribution to the city, and permits the people who have been actively involved in the build process to be housed in the first instance. However, applicants must meet the following criteria:

- All successful applicants should be registered on the Housing Register
- Applicants should live / work in the city or have a local connection
- Size of property must be suitable for the person housed (no over or under occupation)
- Standard earning limits etc. should be applied within the co-op's lettings policy
- The co-op must provide confirmation of the successful applicant/s to the council.

Future vacancies must be advertised through Homemove, with the statement that applicants will need to demonstrate they are suitable for co-op living as assessed by the co-op. Interested applicants will bid as usual and be shortlisted by the council then interviewed by Bunker.

Best consideration

3.17 A Valuer from the council's Property Estates team has advised on the proposed heads of terms for the lease and supporting documents. They were negotiated with the co-op both to achieve viable development of new affordable, rented homes on this very small, constrained site and to ensure the council achieves best consideration for leasing this Housing Revenue Account (HRA) land. There has been soft market testing and little interest in the site. The Property Estates team advises the terms are the best agreement available.

3.18 An external valuation has advised that the land has a nil value for development of affordable rented homes with nomination rights to the council, assuming planning permission is granted for their development. This confirms the proposal will achieve best consideration to the council for development of affordable rented housing on this site. External legal advice has also confirmed that best consideration can comprise an annual ground rent, in lieu of a capital payment at the start of the lease.

Legal agreements

3.19 The way forward would be an agreement for lease, subject to planning, whereby the lease would only be granted on the condition that planning permission was granted, funding is available to the co-op to construct the homes and to a nominations agreement with the council. Once the lease has been granted this will enable development to commence and the co-op to draw down its funds. The final structure will be subject to discussion with the co-op's lender.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 The Plumpton Road former garage site, with its very restricted access and small size, did not attract any interest from potential development partners when soft-market testing was undertaken in 2013 to develop new council homes on this land. Hence it was included in the pilot projects under the small sites strategy in order to explore alternative options. It is unsuitable for traditional construction methods because of the very narrow access. Self-build appears the most likely and viable way to be able to develop new affordable rented homes on this very constrained site.
- 4.2 As stated above, the site has a nil value for development of affordable rented housing. It would not be financially viable for development of affordable rented housing or even shared ownership homes by usual means. If the council were to dispose of this site on the open market, the external valuer considered it might have a value of £50,000 for residential development which is not restricted to affordable rented housing and £25,000 for open storage (both subject to planning).
- 4.3 In comparison with potential sale of the site on the open market, this co-op pilot proposal under the umbrella of the council's New Homes for Neighbourhoods programme offers the following benefits:
- A steady income to the HRA in ground rent of at least £500 per annum over 97 years, to be reviewed in Year 20 and five yearly thereafter
 - Increases the stock of affordable rented homes in the city and ensures they remain in the affordable rented sector
 - Delivers two new affordable rented homes to which the council will have future nomination rights at no cost to the Housing Revenue Account
 - Ensures tenants are from the Homemove register and that future lettings are through Homemove
 - 99 year lease enables the council to retain the freehold and the land to return to the council at a future date
 - Enables the council to test alternative methods to achieve development of affordable rented homes on very small, constrained HRA sites without council finance
 - Enables the council to monitor the costs, timescale and quality of a self build pilot on a small site and potential for other co-operative and/or self build housing developments on council land
 - Delivers the commitments in the council's Housing Strategy 2015 to support community housing development
 - Supports the local community housing network's learning on development of new homes. Their goal is to use the Bunker pilot to create a local tool-kit to help the other co-ops in Brighton & Hove who are planning projects over the next few years
 - Supports Housing Recommendation 1 (f) of the council's Fairness Commission 2016 which states *"The council should offer council-owned and other publicly owned land, including sites on the city fringes and brown field sites, to mechanisms such as housing co-operatives, self-build groups and community land trusts to develop affordable social housing with the guarantee it will go to local people"*.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 The Estate Regeneration Team prioritise engagement and consultation with local ward councillors, council tenant and resident associations and local residents in the neighbourhood of each site handed over to the team for development under the New Homes for Neighbourhoods programme. Local ward councillors have been consulted on the co-op proposal and updated on progress. They have raised no objections.
- 5.2 The Estate Regeneration Project Manager discussed the possible co-operative pilot on site with some neighbouring residents and wrote to residents of all fifteen houses bordering the site in May 2015 to inform them, inviting them to a meeting held at the local community centre on 2 June 2015. Their response was generally positive and concerns raised about possible wildlife on the site were allayed by an ecologist's survey in June 2015 which found no badger sett or fox earth or other evidence of wildlife which would restrict development of the site.
- 5.3 The Community Development Worker and Queens Park Community Association were also informed and raised no concerns or objections. Council tenants adjoining the site whose fencing needed replacing after a storm have had new, secure fencing erected and those of one property agreed to a reduction in their garden size in exchange for the new fencing and removal of a tree and some rubbish, which widens the worst pinch point in the long, narrow access into the site. Other council tenants have been visited to confirm the boundary of their garden and the site and answer any questions.
- 5.4 If the lease proposals are agreed, the Estate Regeneration Project Manager will update and facilitate further engagement with the local community, including a meeting to which local residents will be invited to meet with Bunker members. Bunker is committed to inform, consult, involve and collaborate with the local community and become active and valued members of it.

6. CONCLUSION

- 6.1 This housing co-op pilot proposal will deliver two large family homes within affordable rent levels at no cost to the HRA to which the council will have nomination rights for future lettings. Leasing the land for self build would achieve both affordable rented homes on this small, very challenging and otherwise financially unviable site and best consideration to the Housing Revenue Account. It fits with the council's Housing Strategy objectives to increase housing supply and support community housing development, meets a key recommendation of its Fairness Commission and helps achieve the council's aim to deliver at least 500 new homes on council land under the New Homes for Neighbourhoods programme.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 As the main body of the report states, it is unviable to develop housing on the site via the traditional building methods, due to the various constraints around the site. The recommendation in 2.1 is to allow the site to be leased to Bunker Housing Co-operative Limited over a 99 year period to build two new homes. Council officers have reviewed Bunker Housing Co-operative Limited's financial model and business plan and are satisfied that both these support the report's recommendations and include realistic and reasonable assumptions at this point in time.
- 7.2 The construction of the two homes will be at a nil cost to the council with Bunker Co-op taking on all of the risks associated with the development of a self-build project, as detailed in their financial modelling and business plan. At the end of the 99 year lease agreement all costs associated with the potential handing back and making good the site to the council will be met by Bunker Housing Co-op.
- 7.3 An external valuation of the site has been carried out to ensure that the council is receiving best consideration for the site. The £1,500 cost of the external valuation has been met by the professional fees budget held by the Estate Regeneration Team. The result of the valuation was that the site has a nil value for the development of affordable homes with nomination rights given to the council; advice from the council's Property Estates team has been sought and based on this advice entering into a lease with an annual ground rent of £500 per annum represents best consideration for the site. The Property Estates team confirms that this is the best agreement available.
- 7.4 External legal advice has also confirmed that best consideration can take the form of an annual ground rent instead of an initial capital payment. The alternative option of selling the site on the open market would not guarantee that affordable homes would be built and would forgo the benefits outlined in paragraph 4.3 of the main report.
- 7.5 The HRA has not received any income for the garages at the Plumpton Road site for a number of years. The proposed lease agreement will generate income of £500 pa, over the first 20 years of the lease and is subject to review at year 20 and every 5 years thereafter. The review will propose to adjust the rent to a market ground rent discounted to reflect the council's nomination agreement and the site's continued use for affordable housing. Bunker Co-op has mitigation procedures (detailed in their Business Plan) in place to ensure that the lease commitment is continually met. As per the paragraph 3.6 of the main report if the co-op were to cease operations the lease would be passed to another similar organisation ensuring the lease income would still be received by the council.
- 7.6 The Estate Regeneration team will be charged for the Property Estates Team's time spent on providing valuation advice and the Heads of Terms for the lease; this will be met by the capital feasibility budget for 2016/17.
- 7.7 There are costs which have been incurred as a result of widening the access point to the site. They were replacing a tenants' fallen fencing which runs parallel

to the access point at a cost of £1,950 and the removal of a tree and rubbish at a cost of £2,876. The capital feasibility budget for 2016/17 will be used for this.

Finance Officer Consulted: Craig Garoghan, Accountant *Date: 21/12/2016*

Legal Implications:

- 7.8 The grant of a lease amounts to a disposal of land, and Section 32(2) of the Housing Act 1985 prohibits disposals without consent of the Secretary of State. The Secretary of State has given authority to dispose of vacant land under the General Housing Consents 2013 at A3.2. The council can therefore grant the necessary lease to Bunker Housing Cooperative Ltd.
- 7.9 As a general point, the disposal of land is complex in terms of the legislation. There are a number of factors that need to be considered in any disposal around areas such as best consideration. Each decision has to be site specific. The decision on the Plumpton Road site takes in to account the specific factors outlined in the report. While the proposals are lawful in relation to Plumpton Road, the same principles may not apply to other locations. This advice should not be treated as a general consent for other comparable proposals.
- 7.10 The council's constitution provides that the disposal of land must be referred to Policy, Resources and Growth Committee for determination.

Lawyer Consulted: Simon Court

Date: 19/12/16

Equalities Implications:

- 7.11 An Equalities Impact Assessment has been carried out for the New Homes for Neighbourhood programme and actions are built into the Estate Regeneration project management procedures.
- 7.12 Bunker Housing Co-op has produced an allocations policy which includes non-discrimination and equal opportunities and has an equal opportunities monitoring form. At interview all applicants will be expected to show that they possess a good understanding and commitment towards equal opportunities.

Sustainability Implications:

- 7.13 In order to obtain planning consent the new homes will be required to meet sustainability standards for energy and water efficiency equivalent to Code for Sustainable Homes Level 4. Bunker aims to be as self-sustaining as it can, making the most of all available green technologies including solar panels, wind generators, grey water management, ecologically sensitive and sustainable materials, buried water heating systems and bio-mass heaters. Being a co-operative housing development and including shared garden space will also help encourage a sustainable lifestyle.

Crime & Disorder Implications:

- 7.14 This small unused former garage site attracts the dumping of bulky rubbish, which the Housing Revenue Account has had to pay to remove. Development of

the site is an opportunity to provide new homes and to help regenerate and improve the neighbourhood, deterring crime and disorder.

Risk and Opportunity Management Implications:

- 7.15 There are a number of risks associated with developing new homes on small, challenging sites, including of relatively higher construction and development costs per home. Self build will reduce the build cost to achieve viable development and the co-op has developed a risks log including mitigation measures it will adopt, particularly around cost control for the development phase. It will use connections with the co-op movement for support, including financial support, for the project. The 40 year business plan indicates the co-op's long term viability but there is scope for rent levels to rise to secure that, if that were necessary.
- 7.16 The lease and other legal documents will help protect the council's interests and minimise risk that the homes are not built, including dates by which a full planning application must be made and a longstop date for completion of the new homes.

Public Health Implications:

- 7.17 Making best use of unused or underused council owned garage sites and land supports the council's duty to promote the public health and wellbeing of people in its area. Development of this overgrown, unused site which has been used for dumping of rubbish will reduce the risk to public health and improve the neighbourhood. Energy efficient homes which are easier and cheaper to heat will help support the health of households.

Corporate / Citywide Implications

- 7.18 The New Homes for Neighbourhoods programme of building new homes on council land supports the council's priorities for the economy, jobs and homes. The development of new housing has a strong economic multiplier impact on the local economy, estimated at over £3 of economic output for every £1 of public investment, creating jobs and supply chain opportunities.
- 7.19 Every new home built on small sites helps meet the city's pressing housing needs and deliver the first priority in the council's [Housing Strategy 2015](#) of improving housing supply. New homes also bring benefits to the council in the form of New Homes Bonus payments and new council tax income.

SUPPORTING DOCUMENTATION

Appendices:

1. Plan of former garage site at Plumpton Road, Brighton
2. CHIBAH statement in support of Bunker Housing Co-operative Ltd.

Documents in Members' Rooms

None

Background Documents

1. [New Homes for Neighbourhoods - Small site strategy report to Housing Committee 5 March 2014](#)
2. [New Homes for Neighbourhoods - Small sites strategy report to Housing & New Homes Committee 23 September 2015](#)

