

Subject:	New Homes for Neighbourhoods: Frederick Street	
Date of Meeting:	18th September 2019	
Report of:	Executive Director for Neighbourhoods, Communities & Housing	
Contact Officer:		
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Ward(s) affected:	St Peter's & North Laine;	

FOR GENERAL RELEASE**1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 Improving housing supply, including through building new council homes, is a priority in our Housing Strategy and essential if City Plan housing targets are to be met and the city's housing crisis tackled. The council's New Homes for Neighbourhoods (NHFN) programme addresses this undersupply by identifying suitable vacant land and infill sites to develop new homes across the city.
- 1.2 The Royal Institute of British Architects (RIBA) Design Competition was held in 2015/16 to unlock smaller sites within the NHFN programme. Frederick Street alongside the previously approved Rotherfield Crescent have been taken forward for further detailed design work.
- 1.3 This report asks for approval to progress Frederick Street into the planning and construction phases.

2. RECOMMENDATIONS:

- 2.1 That the Housing Committee approves:
 - i. The proposed scheme of four new council homes at Frederick Street, Brighton under the New Homes for Neighbourhoods programme;
 - ii. The rent levels for the 2 bed flats are set at Local Housing Allowance (LHA) rates and the 1 bed flats are set at 37.5% Living Wage rates in line with the New Homes Rent policy.
- 2.2 That the Housing Committee recommend to Policy & Resources Committee to:
 - ii. Appropriate the Frederick Street car park site (7-9, Frederick Street, Brighton, BN1 4TA) for planning purposes and delegate authority to the Executive Director for Neighbourhoods, Communities & Housing to appropriate for housing once the development is complete.

- iii. Approve the appropriation of land at Frederick Street from the General Fund to the Housing Revenue Account for £0.300m, being the best consideration reasonably obtainable.
- iv. Approve the use of £0.300m of commuted sums held for housing purposes as a contribution to the total scheme costs.

3. CONTEXT/ BACKGROUND INFORMATION

The site

- 3.1 The site is a small private car park located in the North Laine conservation area and is owned by the General Fund. It consists of eight parking spaces currently let by the council to a private company; all spaces are currently let, with the General Fund receiving £8,000 per annum.
- 3.2 The area is approximately 136m² with a slight slope rising from east to west. This development is classified as an infill development due to the proximity of neighbouring properties.
- 3.3 Our proposals consist of 2 x 1 bed flats and 2 x 2 bed flats with four secure cycle spaces.

Design

- 3.4 The designs have been produced by Innes Architect who won the original design competition and several iterations have been worked upon to blend our proposals within the conservation area.
- 3.5 A specialist historic building consultant was appointed to the project team to review the drawings and comment on their suitability for the area in light of initial planning pre-application feedback in 2017.
- 3.6 This approach has led to a positive collaboration between all parties with the following changes being made:
 - The massing of the building has changed to a single, stepped brick mass rising from two storeys to three.
 - The external elevation has been designed to create the appearance of two town houses rather than one singular façade.
 - Two new bay windows have been included to generate a “feature” on the street scape rather than the original flatter appearance.
 - The use of a robust light clay brick to create the appearance of traditional white render without the ongoing maintenance responsibilities.
- 3.7 These changes have simplified the appearance of the building and the scheme as proposed is now considered acceptable in principle by the planning team.

- 3.8 All four homes meet the nationally described minimum national space standards as follows:

	<u>Type of home</u>	<u>Area</u>
Lower Ground	2 bed, 3 person	61 m2
Ground	1 bed, 1 person	44 m2
First	2 bed, 3 person	61 m2
Second	1 bed, 1 person	37 m2

- 3.9 It should be noted one flat will be constructed at a new lower ground floor requiring excavation works. These works are factored into the budget proposed for this report.
- 3.10 The proposed drawings are included as appendix 2 to this report.

Sustainability

- 3.11 The project team have considered the approach to sustainability throughout the design process.
- 3.12 Key aspects of the design include:
- Installation of PV solar panels at rooftop level;
 - An air-source heat pump at semi-basement level with renewable heating systems under review for the higher level flats;
 - Sustainable Urban Drainage: Permeable surfaces are introduced at the semi-basement gardens areas and lower roof levels achieving a betterment in run-off in comparison to the existing site;
 - Bird nesting bricks to be included to provide an appropriate nesting habitat.
- 3.13 In addition, a low-carbon timber frame is proposed, which should reduce build time, minimise disruption to neighbours where possible and provide high insulation values.
- 3.14 As part of the tender for this project contractors will be asked a number of questions relating to their sustainability approach and their responses will be factored into the selection process.
- 3.15 The expectation is the contractor will work alongside council officers to identify further carbon reduction measures and suggest alternative approaches where applicable.

Project delivery and timescales

- 3.16 If Housing Committee agrees to progress this proposed scheme we would seek to hold another public exhibition before submitting a full planning application.
- 3.17 The scheme has been consulted on previously with local residents; however, the appearance of the building has changed and further feedback can be incorporated into the designs.

3.18 The indicative timescales for this project are as follows:

- Public exhibition: October 2019
- Planning application submitted: November 2019
- Planning application decided: March 2020
- Mobilisation period for contractor: April-June 2020
- Start on site: July 2020
- Practical completion: April 2021

These are indicative and may be subject to change.

3.19 It is currently proposed to tender this project to smaller local contractors through a traditional procurement method. This tender will run alongside the planning submission and any amendments required to the scheme by Planning will be priced by the contractors before a final contract is signed.

3.20 A traditional procurement method is an invitation to contractors to bid for the construction element of the project. This would be through a competitive process on a single stage basis. This would mean the contractor would submit their overall price and responses to a number of quality criteria questions. These responses would then be assessed by officers and the independent quantity surveyors to make an overall decision on the most suitable contractor for the project.

3.21 The site is deemed too small for the Strategic Construction Partnership and soft market testing suggests there is interest from local contractors in developing this project.

Financial modelling and rent Policy

3.22 Financial modelling of the latest design has been undertaken and the rent levels should be decided by Members in line with the New Homes Rent Policy report which was approved by Housing & New Homes Committee in November 2017.

3.23 The development costs modelled have been estimated by The Millbridge Group who are the quantity surveyors for this project and are still subject to planning approval, therefore costs and funding are indicative at this stage. Any significant variations to the proposed capital scheme and funding will be reported back to Policy and Resources Committee in accordance with council's standard financial procedures. Table 1 below outlines the estimated costs of development.

Table 1 – Estimated Scheme Cost

	£'000
Land appropriation	300
Basic Build Costs	690
Preliminaries	120
Construction Contingency	50
Tender Price Inflation	30
Professional Fees (incl external consultants, planning fees, building control)	130
Total Scheme Costs:	1,320

Funded by:	
HRA Borrowing	710
Right to Buy Receipts	310
Housing commuted sums	300
Total Funding	1,320

- 3.24 The housing commuted sums is an amount of money, paid by a developer to the council, where the size or scale of a development triggers a requirement for affordable housing, but it is not possible to achieve appropriate affordable housing on site.
- 3.25 These sums can subsequently be used by the council to unlock affordable housing development across the city. Commuted sums are not held by the HRA, they are held by the council in its role as the planning authority.
- 3.26 Table 2 provides a summary of the viability modelling results for each of the rent options considered for Fredrick Street. This demonstrates that a return is provided by the LHA rents and a mixed rent scheme, whilst a subsidy would be required if 37.5% of Living Wage rents, 27.5% Living Wage rents and social rents were to be considered. Recommendation 2.1ii, proposes to proceed with the scheme on the basis of a mixed rent scheme using 37.5% Living wage rents for the 1 beds and LHA rents for the 2 beds.

Table 2 – Financial Viability results

Rent Option	Mixed rents	LHA	37.5% Living Wage	27.5% Living Wage	Social
1 Bed weekly rent	£134.70	£157.61	£134.70	£98.78	£74.42
2 Bed weekly rent	£204.20	£204.20	£161.63	£118.53	£83.22
60 year Net Present Value (NPV) Subsidy / (Surplus) £'000	(13)	(66)	93	306	466
Pay back period (Years)	52	45	60+	60+	60+

Note: Living Wage hourly rates are assumed to be in line with Office for Budget Responsibility forecast for 2019; actual rent figures would be set according to the rates or valuation prevailing close to letting of the homes concerned.

Appropriation

- 3.27 Land appropriation in this context means transferring the use of land from one purpose to another. Under S122 of the Local Government Act 1972, the council has the power to appropriate land for planning purposes. Under Section 203 of the Housing and Planning Act 2016 where land is held for planning purposes and work is done in accordance with planning permission, third party rights are overridden. The benefit of appropriating this site for planning purposes is to protect the council from the risk of the development process being stopped once it has started. The rights of third parties whose private interests may be affected by development are protected to the extent that they have a right to compensation against the local authority.

- 3.28 The appropriation for planning will take place immediately if the recommendation at 2.2ii is approved.
- 3.29 Once the site has been developed, the council will need to appropriate the site for housing and it is therefore proposed that authority is granted to the Executive Director for Neighbourhoods, Communities & Housing. That second appropriation will take place when the Executive Director for Neighbourhoods, Communities & Housing executes an "Appropriation Memo". The site will be available for housing use.

4 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 The Design Competition process considered a wide variety of proposals for this site.
- 4.2 The site could be considered for the development of two x three bed houses or potentially disposal into the private market.
- 4.3 It is considered the three bed houses would maximise the land value for the site, but private amenity space would be significantly limited for family homes and may not be approved by planning officers.
- 4.4 Additionally, disposal of the land to the private sector will likely result in development of the plot for private homes which would not meet the council's objectives of increasing affordable housing supply.

5. CONCLUSION

- 5.1 If approved, this proposal will deliver 4 homes for the council to let within affordable rent levels to applicants from the Homemove register. This fits with the council's Housing Strategy 2015 objectives to increase housing supply and prioritise support for new housing development that delivers a housing mix the city needs, with a particular emphasis on family and affordable rented housing. This scheme will also help to achieve the council's aim to deliver at least 800 additional council homes.

6. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 6.1 The financial viability modelling sets out to show whether a given scheme can pay for the initial investment itself by using the new rental stream only (net of service charges, management, maintenance, and major repairs and voids costs) over a 60 year period. It also assumes that 30% of the investment costs are met from retained Right to Buy (RTB) Receipts. Assessing the project viability over a 60 year period not only matches the life of the asset but also reduces the need to use existing tenant's rents to support the project.
- 6.2 The total estimated costs for this scheme is £1.020m excluding land costs; this includes all construction works, allowances for contingency, inflation and professional fees. In accordance with the RTB pooling policy signed in 2012,

30% of the cost of this scheme can be funded from RTB receipts leaving a net investment requirement from the HRA, which at this stage is assumed to be funded by borrowing supported by the new net rental income stream.

- 6.3 The land costs are estimated at £0.300m and will be payable by the HRA to the General Fund in order to appropriate the land and use it for housing purposes. This means that the total cost of these four units will be an estimated £1.320m, an average of £0.330m per unit. The future rental stream is not sufficient to cover this land cost and so, in order for this scheme to go ahead in its present form, the report recommends the use of £0.300m of commuted sums currently held to subsidise the scheme.
- 6.4 The land has been valued by the independent valuers Avison Young, providing assurance that this is a reasonable valuation of the land at Frederick Street.
- 6.5 Current forecasts for the use of RTB receipts in 2020/21 include the development at Frederick Street; any delay to the scheme would have a negative impact on their use and would increase the risk of not achieving the required expenditure.
- 6.6 In accordance with the new rent policy, five rent levels have been modelled for this scheme. Affordable rents capped at LHA rates, 37.5% of Living Wage rents, 27.5% of Living Wage rents, target social rent and a mixed rent option of LHA and 37.5% Living Wage rents. A summary table of the viability modelling is shown at 3.26 of the main report.
- 6.7 The impact of using current LHA rates for the assumed rental income results in a surplus of £0.066m at today's value. The payback period, i.e. time taken for the future rental income to repay the initial investment, net of RTB receipts is 45 years. This level of rent therefore supports a viable project over a 60 year period. It would require an increase in construction costs of an estimated 10% before the scheme is no longer viable, so requiring subsidy from existing tenants' rents
- 6.8 The impact of using the current 37.5% of Living Wage, 27.5% of Living Wage and target social rents result in a subsidy of £0.093m, £0.306m and £0.466m respectively at today's value.
- 6.9 The impact of using a mix of rent rates for the assumed rental income results in a surplus of £0.013m at today's value. The payback period, i.e. time taken for the future rental income to repay the initial investment, net of RTB receipts is 52 years. This level of rent therefore supports a viable project over a 60 year period. It would require an increase in construction costs of an estimated 2% before the scheme is no longer viable, so requiring subsidy from existing tenants' rents.
- 6.10 The projected surplus from the options modelled would allow the HRA more funds to invest in their current tenant's homes or use to contribute to building much needed affordable housing. The LHA and mixed rent options represent the only surplus to reinvest. All rent options modelled assume the use of £0.300m commuted sums to subsidise the scheme.
- 6.11 There is sufficient budget set aside for the development at Frederick Street in the current HRA capital investment programme, approved for the four design competition sites at Policy & Resources Committee (P&R). The remaining two

sites will be reported to Housing committee and subsequently P&R for scheme approval and, where necessary, for budget approval.

- 6.12 Any significant variations to the costs at Frederick Street will be reported in accordance with the council's standard financial procedures and reported through P&R.
- 6.13 Any decision around the borrowing requirement for this project will be made in consultation with the council's Treasury Management team to ensure that it is undertaken in accordance with the council's borrowing strategy, authorised borrowing limits and prudential indicators.
- 6.14 Progressing with the proposal will result in a loss of income to the General Fund of £8,000 per annum from the car spaces that are currently let to a local company.

Finance Officer Consulted: Monica Brooks /Craig Garoghan Date: 05/09/19

Legal Implications:

- 6.15 Under section 122 of the Local Government Act 1972, a principal council, such as Brighton & Hove City Council, may appropriate land belonging to it for any purpose for which it is authorised by statute to acquire land. The council is authorised to acquire land by the Town & Country Planning Act 1990 provided that it considers that the acquisition will facilitate the carrying out of development, re-development or improvement on or in relation to the land but a local authority must not exercise the power unless it thinks that the development is likely to promote or improve the economic, social or the environmental well-being of their area. The reasons that the development is in the social interests of the area are set out in the body of this report. The council has powers under the Housing Act 1985 to purchase land for housing and is therefore able to appropriate for housing once the development is complete
- 6.16 Policy & Resources Committee has delegated powers to manage corporately held property and is the proper committee to authorise the appropriation for planning purposes, and the later appropriation for housing purposes.

Lawyer Consulted: Name Liz Woodley Date: 28/08/19

Equalities Implications:

- 6.17 All current housing supply programmes support the delivery of the city's Housing Strategy and an increase in housing supply will extend opportunities to accommodate households on the Housing Register who are in housing need.
- 6.18 The New Homes for Neighbourhoods programme builds at least 10% of new council homes to full wheelchair user standard and the rest to accessible and adaptable standard, which can be easily adapted for people with disabilities. An Equalities Impact Assessment has been completed on the programme and is supplemented for individual projects.

7. Supporting Documentation

Appendices:

1. Site Plan
2. Drawings

