

Executive

25th June 2015

Report of the Director of Communities and Neighbourhoods

New Council Housing report and approval for development at Ordnance Lane

Summary

1. The following report seeks approval to include new council housing as part of the ongoing project to demolish and replace Ordnance Lane homeless hostel. It identifies opportunities for potential cost savings by including a development of up to 24 new council flats as part of the contract to build the new temporary homeless accommodation.
2. The new council housing at Ordnance Lane would be the next stage in the council's house building programme. Phase one was approved in May 2013 and work is underway to build 71 new council houses across 7 sites (see paragraph 11, table 2). The first site is now complete (Beckfield Lane), two are currently on site and will complete in Autumn 2015, and a further four sites have full planning permission and are currently out to tender.
3. In December 2014 approval was given to use £3.56m to demolish the existing Ordnance Lane homeless hostel and replace this with a new 39 unit scheme of new temporary homeless accommodation. It is proposed to develop the site using a modular or off-site construction method in order to minimise the development period. This development is funded from the £20m Housing Revenue Account (HRA) Investment Fund identified in the HRA business plan.
4. Feasibility analysis of the site has shown that, in addition to the new temporary homeless scheme, the site could also accommodate a development of new council flats. This report seeks approval of funding for up to 24 new council flats and to appoint the same contractor to build both the temporary homeless accommodation and council flats under a single contract should this approach represent value for money. It is anticipated that this approach is likely to bring significant development and cost saving benefits.

5. An OJEU compliant tender process is currently underway and in order to assess the opportunities available for this site, the tender contains two lots:
 - a) To develop the 39 unit temporary homeless accommodation;
 - b) To develop the 39 unit temporary homeless accommodation AND new council housing.

6. At present, funding approval is only in place to develop the homeless accommodation. Feasibility analysis estimates that the development of 24 new council flats on this site would cost approximately £3.6m.

7. The £3.6m would be funded through a mixture of Right to Buy receipts, affordable housing commuted sums, and the Housing Revenue Account Investment Fund; a £20m investment fund within the HRA identified for new council house building. Currently £8.4m of this fund has been allocated to ongoing projects (although could potentially rise due to increases in build costs – see para 12). Approval of the new council housing element of the Ordnance Lane scheme would increase the allocated spend to £10.4m, leaving £9.6m available for future projects. Table one summarises the anticipated costs and funding routes of already approved and proposed projects.

Table One – proposed funding for development schemes

Scheme	HRA Investment Fund	Commuted Sums	RtB receipts	HCA grant	Market sale receipts	Total
Phase one new council housing	£4,815,832	£1,226,443	£1,962,975	£403,000	£1,780,000	£10,188,250
Ordnance Lane temp homeless accommodation	£3,560,000					£3,560,000
Ordnance Lane council housing	£2,020,621	£500,000*	£1,080,266			£3,600,887
Total	£10,396,453	£1,726,443	£3,043,241	£403,000	£1,780,000	£17,349,137

NB – the schemes that are shaded grey already have approval

* Conservative estimate of the anticipated commuted sums expected by completion of the project

8. In addition to Ordnance Lane there were a further three site packages previously identified for potential development as part of a full second phase of new council housing:
 - Three small sites at Vernon Close, Bishopthorpe
 - Former Heworth Lighthouse site
 - Crombie House and Viking Road garage court
9. This second phase is now under review to assess the best way to deliver new council homes. A future report will be brought forward having considered new delivery models and land packages. Ordnance Lane has been brought forward now to access the opportunities that linking to the ongoing homeless accommodation project provides.

Recommendations

10. Executive are asked to:
 - a) Approve the development of new council housing at Ordnance Lane.

***Reason:** To allow the council to add a significant number of homes to its existing asset base and help to alleviate the acute housing need in the city.*
 - b) Recommend to Full Council that a budget of up to £3,600,887 be approved to build up to 24 new homes on this site. 30% of this is to be funded from Right to Buy receipts with the remaining funds to come from the Housing Revenue Account Investment Fund and Section 106 commuted sums where available.

***Reason:** To allow the construction of new homes within an agreed budget whilst minimising the budget draw from the investment fund.*
 - c) Approve the appointment of the contractor who is selected from the OJEU compliant tender process to build the new temporary homeless accommodation at Ordnance Lane to also build up to 24 new council homes should:
 - the cost be within the anticipated budget for traditional build as identified in this report or;
 - if the benefits of a single contract and planning permission mitigate any additional cost

The decision on the above to be delegated to the Directors of Communities and Neighbourhoods and Customer and Business Support.

Reason: *There is an on-going OJEU compliant tender process to appoint a contractor to design and build a new 39 unit temporary homeless accommodation scheme at Ordnance Lane (with returns due back in August). As part of this tender process, an alternative lot has been invited to build both the homeless accommodation and provide new council housing on the remainder of the site. Should the cost of building that new council housing through this route represent value for money it will allow the appointment of a single contractor to build both schemes with associated advantages, such as a single planning application, reduced delivery timescale and minimising the disruption of a phased development.*

- d) Delegate authority to the Director of Communities and Neighbourhoods in consultation with the Executive Member for Housing and Safer Neighbourhoods to agree the inclusion of an element of market housing should it be considered appropriate to cross fund the development or create mixed sustainable communities.

Reason: *To ensure a mix of tenures to create a mixed and sustainable community and to provide cross subsidy to help fund the delivery of council homes.*

- e) Recommend a future report is brought to the Executive which considers options for a range of different delivery and funding models and potential land acquisitions for building new council housing.

Reason: *To ensure new council housing is delivered in the most effective way possible.*

Background

11. **Phase 1** of the new council house building will deliver 71 new council homes and 9 for market sale by summer 2016. All of the homes within Phase 1 will achieve Lifetime Home standards and meet Code for Sustainable Homes level 4 to meet the changing and future needs of tenants and will be more affordable to heat and light. The seven sites are as follows:

Table two – new council housing sites in phase one

Site	Number of homes	Status
Beckfield Lane	27	Complete
Hewley Avenue	8	On site (complete October 2015)
Former Pack of Cards pub	14	On site (complete October 2015)
Chaloners Road	8	Full planning – out to tender
Fenwick Street	8	Full planning – out to tender
Newbury Avenue	9	Full planning – out to tender
Pottery Lane	6	Full planning – out to tender
Total	80	

12. The approved budget for phase one of new council house building is £10.2m, reported through capital monitoring in February 2015 (Capital Strategy report). This increased from the original budget approved in May 2013 of £7m due to the increase in the total number of homes being delivered from 59 to 80 homes and unforeseen remediation issues at several of the sites. The council's cost consultants have also advised that, due to recent significant increases in build costs of up to 10% per annum, there may be further increases in the tender returns for the 4 sites yet to be awarded a contract. Once the tender returns have been received additional approval will be sought for any consequent increase in the budget.
13. The approved demolition of Ordnance Lane hostel to be replaced with a 39 unit temporary homeless accommodation scheme has also provided an opportunity to build new council housing on the same site.

Consultation

14. The proposals for the site have been discussed with ward members who did not raise any major objections. Before a planning application is submitted a public information event will be arranged where the plans will be on display for members of the public and other interested parties to view should the development proceed. A further public information event will take place prior to start on site to introduce the local community to the contractor.

Options

15. Three options are available:

Option 1 – To approve the recommendations in this report for the use of £3.6m to develop up to 24 new council flats at Ordnance Lane to be built

as one scheme under a single contract with the temporary homeless accommodation.

Option 2 – To approve the use of £3.6m to develop up to 24 new council flats at Ordnance Lane as a separate phase to the temporary homeless accommodation

Option 3 – To not develop new council housing on the remainder of the Ordnance Lane site.

Analysis

16. **Option 1** – Approval was given in December 2014 to demolish and replace the existing Ordnance Lane hostel with temporary homeless accommodation, with the remainder of the site being used for new council housing. A budget was agreed for the construction of the replacement homeless accommodation but not the new council housing and road infrastructure works. An OJEU compliant tender exercise is currently underway with modular/off-site construction companies to minimise the timescale from demolition to the new facility being open.
17. Prices are currently being sought for two options - to build only the homeless accommodation; and to build the homeless accommodation and the new council housing as one contract. It is envisaged that the economies of scale associated with developing both the homeless accommodation and council housing will deliver the greatest value for money. In addition, a comprehensive site wide planning application can be submitted ensuring the whole project is delivered at the same time. This will reduce disruption to local residents and ensure part of this prominent site, on the edge of the conservation area, is not left redundant for a period of time. The two lot form of tendering allows the council housing to be separated out from the homeless accommodation and delivered separately if this represents better value for money.
18. Feasibility work has established the likely site area which will be available for new council housing and a formal pre-application submission has been made to the Planning Department. In principle support has been received, and the land is a brownfield site and therefore re-using this site for development is supported by the principles set out in the emerging local plan.
19. The surrounding area contains substantial buildings up to four storeys in height with a variety of building types from traditional terraces to more modern apartments and business uses. The immediate site frontage is within the Fulford Road Conservation Area and this area in particular

requires a well considered design which adds to the quality of the built environment in the area. Due to the central location of the site, height of nearby buildings, and site constraints it is believed that a development of apartments provides the greatest opportunity for maximising the potential of this site, and a scheme feasibility has been developed which shows 24 apartments over four floors. Each apartment is 2 bedroom 3 person in size.

20. Based on the information available a high level cost report has been produced by Turner and Townsend's quantity surveyors (QS) based on today's prices. The cost report is on the basis of the site being developed using traditional construction methods and as a single stand alone development. The estimated construction cost for the scheme of 24 apartments is £2,897,733. Added to this would be £175,090 to resurface Ordnance Lane, and an industry standard 15% for fees and on costs. It is anticipated that the tender returns will need to include an allowance for inflation given the estimated start on site date. QS advice is that residential construction inflation is likely to be 1.9% over the next six months. Therefore, the current total scheme cost budget estimate is £3,600,887, which equates to £150,037 per unit. This is based on a specification of Lifetime Home standards and an environmental standard equivalent to Code for Sustainable Homes Level 4. This is consistent with the standards being achieved within the Phase 1 council housing programme. This cost assumes no site abnormal costs such as land contamination or the need for a non-basic foundation solution. Further work will need to take place when the existing building is demolished to fully establish the ground conditions.
21. The construction of both the temporary homeless accommodation and the new council housing would be built under a single contract should the cost of building the council housing be within the above budget. This would mean that the project would be cheaper or equivalent to building through traditional build and therefore represent value for money. Should the tender returns, which are due back in August, show that the new council housing element can be delivered within the cost estimate above to a quality the council expect, the contract will be let to develop the whole site.

Delivery programme

22. The current anticipated programme for the new temporary homeless accommodation is to complete by Autumn 2016, although this is subject to the successful contractors proposals that will form part of their tender return. It is anticipated that including the new council housing within this contract would follow the same delivery programme.

Funding Route

23. Based on current information and design feasibilities the budget for the delivery of up to 24 new homes on this site is approximately £3.6m. 30% of this cost (approximately £1.08m) can be funded by monies from Right to Buy sales. The remaining £2.52m will be funded through the HRA Investment Fund and commuted sums. In order to reduce the resource ask from the investment fund, leaving more money for future schemes, it is proposed to use Section 106 commuted sums where possible. A number of substantial commuted sums totalling over £1m are anticipated to be received over the next two years.
24. Within Table One at paragraph 7 a conservative amount of £500k has been provisionally allocated to this development scheme as all commuted sums may not have been received by the completion of the development. The proposals also have the potential to minimise the use of the HRA investment fund if a mixed tenure scheme is created. Selling a number of apartments on the open market in this high value area will reduce the overall net ask of the investment fund leaving more money available for future schemes. However, it would result in a lower number of new council housing being achieved in this phase.
25. In summary, Option 1 takes advantage of opportunities available for the delivery of a comprehensive redevelopment of the Ordnance Lane site to create 24 new council houses alongside the replacement temporary homeless accommodation facility. This will add a number of homes to the councils existing asset base and help to alleviate the acute housing need in the city. The proposed procurement allows the new council housing to be built under the same contract as the homeless accommodation if it represents a cost saving from the estimates to build the new homes as a separate phase through traditional construction routes. A single contract would enable the development of the site with a single planning application and construction period, which would minimise disruption to the surrounding community. In addition this approach allows for a comprehensive joined up redevelopment of the site improving design and function of the developments.
26. **Option 2** – Option 2 will result in the development of much needed new council housing. However, this option misses the opportunity to package this development up with the development of the temporary homeless accommodation. It is considered that missing this opportunity is likely to result in:
 - Higher costs due to lost economies of scale and an inability to share site costs across a larger development;

- A delay in the delivery of council housing as a whole new development route will need to be determined and procured;
- Greater obstacles to achieving planning permission for the temporary homeless accommodation as a comprehensive site redevelopment proposal cannot be submitted;
- A less joined up development scheme;
- A greater period of time when the site will be under construction causing disruption to local residents;
- Additional resource implications for the Housing Development Team in managing two sites over a longer period of time.

27. **Option 3** – An opportunity is missed for providing much needed new council homes in a sustainable brownfield location.

Implications

28. The following implications have been identified:

- Financial** – A budget of approximately £3.6m is required in order to deliver up to 24 new council houses at Ordnance Lane. This will be funded through the HRA Investment Fund, Right to Buy Receipts, and commuted sums.
- Human Resources** – Director of Communities and Neighbourhoods is reviewing the resources of the Housing Strategy and Development Team given the increase in development projects.
- Equalities** – The development would create much need new housing available for social rent potentially housing some of the most vulnerable people in the city.
- Legal** – The Council has the power, under section 9(1) of the Housing Act 1985, to build new houses. If the Authority decide to sell any of the housing, the Secretary of State's consent will be required pursuant to s32. General consents have, however, been granted by the Secretary of State and are contained in the General Consents 2013. This allows disposals of vacant dwellings at market value to persons who will use the property as their principal home

If land is to be sold section 123 Local Government Act 1972 requires the Authority to obtain the best consideration reasonably obtainable for any disposal, but disposals at less than best consideration can be made pursuant to the Local Government Act 1972: General Disposal Consent (England) 2003, provided the Authority consider that the disposal is likely to contribute to the

achievement of the objective of promoting or improving the economic, social, or environmental well-being of its area or residents; and the difference between the unrestricted value of the land and the consideration does not exceed £2 million

European state aid rules must also be complied with in respect of any disposals for less than market value which might impact on trade between Members states. The appointment of the developer and the various technical consultants will need to be procured and contracts will be prepared by Legal Services

- (e) **Crime and Disorder** – There are no crime and disorder implications.
- (f) **Information Technology** – All new homes will be developed to be fully broadband compatible. Information will be provided within the welcome pack for each property outlining how to get connected and how to search for the best deal.
- (g) **Property** – There are a number of issues associated with the site including the legal title, any restrictions on use, environmental and planning considerations which will need to be further investigated and dealt with to ensure the site is ready to be developed without delay once a contract is awarded. If this further investigation results in a matter which cannot be resolved and would as a result prevent the development of that site for housing then the scheme will need to be re-designed or alternative sites will need to be considered
- (h) **Other** – There are no other implications.

Risk Management

- 29. The project to deliver up to 24 new council homes carries a number of risks. It is a multi-million pound project that has a tight delivery timescale. The council will need to procure consultants and contractors, resolve issues affecting the development of the site, achieve full planning permission, and build a significant number of new homes. These all pose challenges to project delivery and the consequent impact on the reputation of the council.
- 30. To mitigate these risks the project must be properly resourced. Cross directorate support and commitment will be required to ensure each directorate meet their identified and agreed delivery timescales.

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**Report
Approved**



Date 15th June 2015

Specialist Implications Officer(s) List information for all

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Wards Affected: *List wards or tick box to indicate all*

All

For further information please contact the author of the report

Background Papers:

Cabinet Report - New Council House Building – Phase 2

Cabinet Report - Get York Building – A Case for Change

Cabinet Report - The replacement of Ordnance Lane Homeless Hostel

Annexes

Appendix A - Ordnance Lane site location plan

Glossary of abbreviations used in the report:

HRA – Housing Revenue Account

OJEU - Official Journal of the European Union

QS – Quantity Surveyors

RtB – Right to Buy