
REPORT FOR: CABINET

Date of Meeting:	10 December 2015
Subject:	Homes for Harrow: Building homes for private sale to cross subsidise affordable housing development
Key Decision:	Yes
Responsible Officer:	Lynne Pennington, Divisional Director of Housing
Portfolio Holder:	Councillor Glen Hearnden, Portfolio Holder for Housing
Exempt:	No, except for Appendix 1 which is exempt under paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended) in that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) - contains commercially sensitive information
Decision subject to Call-in:	Yes
Wards affected:	Stanmore Park, Pinner South
Enclosures:	Appendix 1: Infill financial schedule (Part II – Exempt)

Section 1 – Summary and Recommendations

This report sets out proposals to build homes for private sale as part of the Homes for Harrow HRA infill development programme, the proceeds from

which will cross subsidise the development of affordable homes for rent and shared ownership in Harrow.

Recommendations:

Cabinet is requested to:

1. Recommend to Council to approve a new HRA capital budget totalling £3.5m to finance the development of homes for private sale, two of these homes will be in Masefield Avenue and the remainder on other sites identified in Appendix 1, the proceeds from which will be recycled to support the development of affordable homes included within the approved Homes for Harrow HRA infill development programme;
2. Approve the award of the contract to build two homes for private sale in Masefield Avenue to Company C (Indecon Building Ltd);
3. Delegate to the Divisional Director for Housing, following consultation with the Portfolio Holder for Housing, together with the Director of Finance, following consultation with the Portfolio Holder for Finance and Major Contracts, authority to accept tenders and enter into contract for any matters referred to in this report.

Reason: To maximise underused HRA assets to generate cross subsidy which will support building new affordable homes within mixed and balanced communities.

Section 2 – Report

2.1 Introductory paragraph

Cabinet approved increased funding for an HRA infill new build development programme in July 2014. The purpose of the programme is to build new affordable homes for rent and shared ownership to meet the needs of Harrow residents who are unable to afford to rent or buy on the open market. Welfare reforms and spiralling market rent and house prices are having a significant impact in Harrow with the number of families in Bed and Breakfast accommodation at unprecedented levels. This is anticipated to become an even bigger pressure following further announcements by the government in July 2015 and a Housing Bill being published in October 2015. It therefore continues to be a high priority for the council to increase the supply of affordable housing.

The proposal to build a small number of homes for private sale will assist with the delivery of affordable homes particularly for rent at a time of rising build prices as well as contributing to an overall increase in housing supply.

3. Options considered

The following options have been considered:

1. To obtain planning permission to build new homes for private sale on selected sites and then dispose of the sites
2. To obtain planning permission and build new homes for private sale.
3. To pursue a new build programme of homes for affordable rent or shared ownership but not for private sale.

Option 3 has been rejected as this does not provide any cross subsidy to assist with the development of new affordable homes for rent

4. Building Homes for Private Sale

- 4.1 Cabinet has approved a total budget of £8.5m funded from a combination of HRA capital receipts, S106 Affordable Housing monies and HRA borrowing awarded through a competitive bidding process to deliver an infill new council house building programme of 50 new affordable Homes, 40 for rent and 10 for shared ownership. An additional bid for HRA borrowing was subsequently successful which enabled the number of new affordable homes for rent to be increased to 80.
- 4.2 The building contract for the first new build rented homes in Phase 1 has now been let with planning applications for other sites either submitted or being progressed.
- 4.3 Build costs in July 2014 were estimated at a rate of £1,750 per sqm. This was increased from previous estimates to reflect increasing build costs. However build price inflation has continued on an upward trajectory since 2014 rising significantly faster than anticipated at the time the estimates were constructed. The cost of building on small infill sites has risen even faster as there are often more abnormal building costs which cannot be shared over a large number of units. They also reflect the huge amount of house building work going on in London and the South East which means contractors can pick and choose which schemes they work on with small sites being perceived as more difficult and therefore less attractive.
- 4.4 The July cabinet report also contained information about the opportunity that building some homes for private sale could bring in terms of cross subsidy for the affordable homes programme. Two sites were identified as potentially suitable for private sale - Masefield Avenue and Pinner Grove.
- 4.5 Planning permission was obtained for 3 sites in Stanmore, including one site specifically for 2 homes for private sale and tenders were sought for the building contract for each site. The range of tender prices for the 3 sites combined was between £2.95m and £2.58m. Excluding site specific abnormal costs the cost averages around £2,650 per sqm.
- 4.6 A revised build cost rate has been applied to the construction forecast to the first phase of the infill affordable homes and this increases total costs from the budgeted £8.5m to circa £10.2m as set out in Appendix 1. However, while construction prices have risen, so too have sales prices and updating these for the two sites at Pinner Grove and Masefield Avenue indicates an increase in sales revenue from circa £3,570,000 to

£4,820,000, an increase of £1,250,000 against a construction price increase of £1,100,000.

- 4.7 It is clear that building homes for sale is now critical to produce cross subsidy for the infill affordable homes programme alongside reviewing the procurement strategy going forward.
- 4.8 A desk top exercise has been carried out to look to at the options of either selling the site at Masefield Avenue that has planning for 2 detached 3-bed houses for private sale against the benefit of the council developing and selling them. The table below sets out the estimated capital receipt the council might receive if it sells the site with planning permission for private sale.

Sales Revenue	£1,300,000	Estimated sales price of £650,000 per home received after marketing and sales agents costs
Developers Profit 20%	£260,000	Standard rates of developer profit vary between 20% and 25%. 20% has been assumed as there is no planning risk.
Design & Build costs	£675,000	This is cheaper than the tenders received which include contractor profit. It has been assumed a small developer would build cheaper and take profit on sale
Financing Costs	£45,000	Assumed borrowing at 6%
Residual Land value	£300,000 - £320,000	This is the assumed amount that a developer might pay for the site with planning permission.

- 4.9 As set out in 4.5 above, tenders were sought and received for the Masefield Avenue site comprising two three bedroom detached homes for private sale, having been batched with 2 other nearby sites being developed for affordable rent. In total the three sites will deliver 8 new family houses.
- 4.10 An open tender was decided on as a quicker route and one that might attract more suitable suppliers. Consideration was given to use an

established Framework therefore selecting already qualified contractors. However this was ruled out on the basis that a supplier day was held in March 2015, specifically aimed at attracting a range of contractors including local and SME's to bid for potential work. A number of suppliers who took the time to attend expressed interest and therefore using a framework would potentially exclude a number of these suppliers. A single stage open tender was advertised via Due North, (The London Tender Portal) using Employers Requirements (Specification) prepared by our appointed consultants, Martin Arnold and planning drawings from PRP architects. The tender was evaluated 60% on cost and 40% on quality/technical.

- 4.11 The form of contract to be used is JCT Design & Build 2011 which enables Harrow to sign up to a fixed price contract and the design risk falls with the contractor.
- 4.12 Five supplier submissions were received.
- 4.13 Two suppliers submitted bids but did not pass the financial/technical evaluation and were not therefore considered. Supplier E withdrew due to other work commitments when asked to undertake a value engineering exercise. The following commercial prices were submitted.

Supplier	Price
Supplier B	£909,664
Supplier C	£812,249
Supplier E	£720,394

- 4.14 The following is the overall summary of the evaluation.

Section Title/Question	Supplier B	Supplier C
Total Technical Score (out of 40%)	26.67	30%
Total Commercial Score (out of 60%)	54.6%	60%
Grand Total out of (out of 100%)	81.27%	90%

It is therefore recommended that Supplier C is awarded the contract. Supplier C is Indecon Building Ltd and has experience in constructing social housing units which have ranged from single houses to schemes providing up to twenty eight units.

It is the opinion of the Director of Commercial, Contracts & Procurement that the selected provider (s) has demonstrated through their tender submission (s) the ability to deliver the service(s) tendered. The Director of Commercial, Contracts & Procurement is also assured that the process of selection was open, fair and transparent, therefore fully supports the recommendations to appoint Supplier C.

- 4.15 The 2014 existing use valuation for the 21 garages at Masefield Avenue Stanmore was £147,000. This valuation assumes that all garages are in a lettable condition and are managed in a manner to achieve optimum occupancy rates. At the present time not all of the garages are let as works are required to bring them up to a lettable standard.
- 4.16 The total cost of the development including professional fees, internal staff costs and notional land value is £1,007,000. Assuming the same sales receipts as set out in para 4.8, a surplus [profit] of £293,000 plus would be achievable. The residual value calculated in para 4.8 is estimated at £320,000 which would provide a net surplus, taking into account the existing land use value, of c£170,000. The surplus generated helps to mitigate the higher than anticipated build costs for the affordable rented homes. The risk of undertaking the development direct which is set out in the Risk Management implication section are considered to be manageable given the small scale of this first project for homes for private sale.

5. Staffing/workforce

There are no staffing or workforce issues associated with this proposal. Staffing costs are assumed within the professional fees analysis.

6. Performance Issues

All local authorities are expected to increase delivery of all housing types to meet the increasing demand for housing, especially in London. The London Plan sets an overall annual housing supply monitoring target for Harrow which is currently that a minimum of 350 new homes should be built each year. This will soon be increased to 593. This proposal will contribute to achievement of these targets and in particular to building new family homes.

7. Environmental Implications

This proposal will have a positive impact and contribute to the Council's Climate Change Strategy and Delivering Warmer Homes strategy as the new homes will achieve a minimum of the equivalent to Code Level 4 of the Sustainable Building Code (which has been replaced by higher requirement in Part L of building regulations). Other environmental improvements include- , where appropriate; solar thermal hot water systems, PV panels, rain water harvesting and water saving measures to meet the target for use of renewable resources and resulting reduction in CO2 emissions. There will be improved biodiversity as a result of increased tree planting and landscaped public open space, provision of Sustainable Urban Drainage Systems.

8. Risk Management Implications

Risk included on Directorate risk register? No – it will be added if the proposal is approved.

Separate risk register in place? Yes

A risk register is in place for the infill affordable homes programme.
The key risks and mitigations associated with this proposal are:

Risk	Mitigation
The cost of building the homes for private sale is higher than estimated Risk rating: D3	Tender prices have been sought on the basis of a fixed cost Design and Build contract.
Actual sales revenues are lower than anticipated Risk rating: D2	We will work with local agents and obtain professional advice on the best way to market the new homes to maximize sales values.
Properties do not sell within the anticipated marketing period Risk rating: D3	Commence marketing early to sell off plan and minimise the delay between completion and sale. Revert to market rent if sales cannot be achieved with the agreed timescales.

Legal Implications

S.2(1) of the Local Authorities (Land) Act 1963 provides that a local authority may, for the benefit or improvement of their area, erect any building and construct or carry out works on land.

S.9 of the Housing Act 1985 (“the Act”) provides that a local housing authority may provide housing accommodation by erecting houses on land acquired by them for the purposes of providing housing accommodation

S.32(1) of the Act gives local authorities power to dispose of in any manner land held by them for the purposes of providing housing accommodation provided the land is not subject to “Right to Buy” rights. Although this power is subject to consent by the relevant Secretary of State, the Secretary of State has issued a general consent: the General Housing Consents 2013. The Consents at paragraph A.3.1.1 provide that a local authority may dispose of land, which could include dwelling houses, houses and flats, for a consideration equal to its market value.

S.12 of the Local Government Act 2003 gives the Council the power to invest for any purpose relevant to its functions.

Harrow would be able to rely on the above provisions to invest to erect dwelling houses and dispose of them at market value

Section 9E of the Local Government Act 2000 allows delegation of the functions of the Cabinet to an officer of the Council.

New homes for private sale are required to have the benefit of a building warranty. The council’s specification for all new homes built under the infill

programme requires them to be covered by a reputable building warranty provider. There will be a contractual requirement for the Contractor to procure quotations for selection by the council for the building warranty suitable for the tenure being delivered from either - NHBC Buildmark and/or Buildmark Choice and/or Buildmark Connect depending on tenure and LABC New Homes Warranty.

Financial Implications

The total cost to build the proposed new homes for private sale on Masefield Avenue including professional fees, marketing costs is £860,000. These costs are to be funded by HRA capital resources excluding the use of 141 Right to Buy receipts which can only be used towards the cost of building additional affordable homes. Within the HRA financial regulations it is permissible to use the proposed capital resources for this purpose.

Essentially this is a temporary use of available capital resources which will be recycled on receipt of the sale proceeds. The net sales proceeds for Masefield Avenue are anticipated to return a surplus to the council in the region of £440,000 that will be used to cross subsidise the cost of building affordable housing for rent and sale on other infill development sites.

Appendix 1 compares the estimated costs for the Phase 1 infill programme reported in July 2014 against updated estimates based on the recent tender returns for the first schemes. The estimated cost for the development of 50 homes in the Phase 1 programme has now increased to £11.3m. However the inclusion of some homes for sale would provide anticipated sales receipts to offset a significant proportion of the increase in cost.

Appendix 1 identifies additional sites that would be suitable for development of housing for private sale for which a total capital budget, including the costs for Masefield Avenue would be c£3.5m. Approval is therefore sought for HRA capital budget of this amount to enable the development of these homes for private sale to be progressed.

Equalities implications / Public Sector Equality Duty

The Housing Strategy EQIA, completed in 2013, supported a key objective of the Housing Strategy to increase the supply of all types of housing in the borough. This proposal will also provide cross subsidy to support the provision of additional affordable housing which has been demonstrated to have an overall positive impact on a number of protected characteristics.

Council Priorities

The Council's vision:

Working Together to Make a Difference for Harrow

This proposal positively supports the Council's vision for Harrow and the Council's priorities in the following ways:

- Making a difference for the vulnerable: supporting the infill development programme which will provide new build affordable homes for rent and sale for those who are most in need.
- Making a difference for communities: the proposal supports communities and contributes to Building a Better Harrow
- Making a difference for families: the proposal will provide family houses for sale and support building large family housing for affordable rent which is in extremely short supply.

Section 3 - Statutory Officer Clearance

Name: Dave Roberts	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 26 November 2015		
Name: Charles Ward	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 26 November 2015		

Ward Councillors notified:	YES
EqIA carried out:	NO
EqIA cleared by:	A specific EqIA is not needed because the proposal is in line with a key objective of the Housing Strategy which was approved following completion of a rigorous and robust EQIA process.

Section 4 - Contact Details and Background Papers

Contact: Alison Pegg, Head of Housing Regeneration, 020 8424 1933, alison.pegg@harrow.gov.uk

Background Papers:

<http://modern.gov:8080/documents/q62354/Public%20reports%20pack%20Thursday%202017-Jul-2014%202018.30%20Cabinet.pdf?T=10>

**Call-In Waived by the
Chairman of Overview
and Scrutiny
Committee**

NOT APPLICABLE

[Call-in applies]