

<b>Signed off by</b>	Chief Executive
<b>Author</b>	Richard Robinson, Head of Housing
<b>Telephone</b>	Tel: 01737 276367
<b>Email</b>	Richard.Robinson@reigate-banstead.gov.uk
<b>To</b>	Executive
<b>Date</b>	Thursday, 24 March 2022
<b>Executive Member</b>	Portfolio Holder for Housing and Support

<b>Key Decision Required</b>	Y
<b>Wards Affected</b>	Redhill West and Wray Common;

<b>Subject</b>	Ownership, tenure and management of Wheatley Court, Cromwell Road
----------------	---

<b>Recommendations</b>	
<p>(i) <b>Approval of Option one, the direct Council ownership of Wheatley Court and provision of the 32 homes as Affordable rent tenure;</b></p> <p>(ii) <b>The Head of Housing be authorised, in consultation with the:</b></p> <ul style="list-style-type: none"> <li>• <b>Head of Legal and Governance</b></li> <li>• <b>Head of Finance</b></li> <li>• <b>Executive Member for Housing &amp; Benefits</b></li> <li>• <b>Executive Member for Finance &amp; Governance and Deputy Leader</b></li> </ul> <p>a) <b>to procure and enter into contract with a selected Registered Provider for the future management and maintenance of the residential units in Wheatley Court.</b></p> <p>b) <b>To procure and enter into contracts to maintain the fabric of the building (capital spend).</b></p>	
<b>Reasons for Recommendations</b>	
Options for the future ownership, tenure and management of Wheatley Court have been appraised. During this process three options were explored in depth, they were: direct	

Council ownership of 100 percent Affordable rent homes, secondly ownership by a Council wholly-owned company of private rented homes, and thirdly the market sale of all homes. Having appraised all options in depth, the only financially viable option is direct Council ownership and delivery of 100 percent Affordable rent homes. It is recommended that this option is progressed together with procurement and appointment of a local Registered Provider to undertake management and maintenance of the homes.

### **Executive Summary**

Wheatley Court is delivering 32 residential homes and ground floor commercial units in the centre of Redhill and makes a significant contribution to the on-going regeneration of the town centre.

Options for the future ownership, tenure and management of the scheme have been reviewed since the last report to the Executive in February 2020. Extensive modelling has been undertaken on three options and the outcomes are set out in the Part 2 report.

Having assessed and modelled all three options, Option One is the financially viable option, and has the benefit of delivering Affordable rent housing for households on the housing register.

To deliver Option One, it is proposed that the management and maintenance of the residential properties is subject to a procurement exercise seeking the appointment of a local Registered Provider.

**Executive has authority to approve the above recommendations.**

### **Statutory Powers**

1. The Council has no statutory obligation to own and manage affordable housing but has general powers of competence under section 1 of the Localism Act 2011 to do anything that individuals with full capacity generally may do, subject to the provision of the Act.

### **Background**

2. The Cromwell Road scheme was first considered at November 2015 Executive. At that time a building refurbishment was planned, and the Executive granted approval to refurbish the commercial units and update the derelict eight 3-bedroom maisonettes into 24 2-bedroom flats over two floors for market sale. This scheme was not progressed.
3. In April 2017 a further report was considered and approved by Executive with the aim of supporting the regeneration of this area. The revised approved scheme was demolition of the existing building and the construction of 32 flats for market sale with ground floor commercial units.
4. In April 2018 a revised scheme was approved by Executive in light of reduced indicative scheme profits, to comprise 50 per cent market sale and 50 per cent shared equity sale.
5. In February 2020 the Executive approved an updated capital expenditure forecast, approval to contract for the build and the option to revise the tenure mix, to be

revisited at a later stage. In June 2020, Neilcott Construction were appointed as main contractor and development commenced. The completed properties were handed over to the Council in February 2022.

6. As a 'non-stock holding' local authority, the Council can hold up to 199 properties in its General Fund without the requirement to establish a ring-fenced Housing Revenue Account. Currently the Council holds under 20 homes, the majority of which are managed by the Housing Team and let under the Council's Homelessness powers on unsecure tenancies.

## **Key Information**

7. During the last year, a review of the options available to the Council to hold and manage the Wheatley Court scheme have been considered. Officers across the Council and a team of external consultants and advisors have undertaken extensive financial modelling of options for this scheme. During this process the Government's Public Works Loan Board rules and Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on borrowing changed, therefore assumptions around costs and income realisation have had to be reviewed and re-modelled. Three main options for Wheatley Court were explored in detail and are summarised here.

### **Option One: Council direct ownership**

8. In this option all 32 flats will be 'affordable housing' units, be let at Affordable rent levels and the building asset will remain in Council ownership.
9. Under this option all 32 tenants will be nominated direct from the Housing Register. Tenants will be offered an introductory tenancy for the first 12 months and following a satisfactory introductory period tenancies would become secure. Tenants who transfer from other Registered Providers would be granted a secure tenancy from the outset. The delivery of 32 Affordable rent homes would have the greatest impacts on the growing waiting list for social housing. Currently there are 406 applicants waiting for 1-bedroom properties and 429 families waiting for 2-bedroom properties.
10. The delivery of an affordable housing tenure also enables the Council to apply for Homes England capital grant funding. Initial discussions with Homes England have been positive. The Council has Investment Partner status and can apply for grants, therefore a capital grant application will be made to Homes England for the scheme.
11. The ground floor commercial units will be retained by the Council and a suitable tenant secured.
12. Under this model the residential units will be managed and maintained by a local Registered Provider (RP) under contract to the Council.
13. The Council is registered with the Regulator of Social Housing and the units will need to be managed according to the Regulator's statutory requirements and annual reporting requirements. The managing RP will be required to comply with the Regulator's Standards.
14. Financial analysis of this direct Council ownership model shows it is the only viable model. It is also the only option that delivers rented accommodation, in this case as 100 percent Affordable rent. This is because the model takes into account a Homes England grant towards eligible scheme costs (costs from 'clear site'). In comparison

grant cannot be secured on Options two or three. The full financial appraisal for Option One is detailed in Part 2 of this report. This is the recommended option.

### **Option Two: Transfer of scheme to Council wholly-owned company**

15. The option to set up a new Council wholly-owned company has been considered as part of a wider vision to facilitate a housing delivery programme, to enable the Council to take more commercial decisions, to secure more housing choice and provide the Council with flexibility to let residential units at a mix of market and submarket rents on assured shorthold tenancies.
16. In this model the units would be managed and maintained by a residential management company following a procurement exercise undertaken by the Council's company. The company will not be an RP, this means there are no monitoring or reporting arrangements in relation to the Regulator of Social Housing and tenancies are not secure. In this model the company will retain the commercial units and the Property Team will be contracted by the company to manage them.
17. Extensive and detailed financial modelling, including stress testing, has been undertaken to understand the viability of this option.
18. The costs of this model are higher than Option One. As mentioned above, under this model the scheme cannot access Homes England capital grant because the homes will not be delivered as affordable homes.
19. In addition, more stringent financial rules now apply to local authority borrowing from the Public Work Loans Board and the associated CIPFA guidance. These extend to forward lending to third parties, including wholly-owned companies, with the effect of significantly increasing costs to the Council of making these loans. Within this model there are the associated additional costs of maintaining a company that include payment of Non-Executive Directors and audit, other professional and statutory fees, and business plan production costs.
20. The key financial assumptions used in the Council wholly-owned company model are summarised in the Part 2 report and confirm that this option is not financially viable and therefore not recommended.

### **Option Three: Sell the residential units on the open market**

21. The third option is sale of all the residential units at market value for a capital receipt and retention of the commercial unit/s by the Council. This means the scheme will not deliver affordable housing for local people and will not contribute to managing the growing housing waiting list. This option does not therefore fulfil the Council's Corporate Plan or Housing Delivery Strategy objectives.
22. A market sales forecast has been provided by a local estate agent. The details of the projected receipt compared to scheme costs are set out in the Part 2 report. In summary this confirms that the capital receipt generated from sales is unlikely to cover build costs and therefore this option is not recommended.

### **Options**

23. **Option One:** Council direct ownership is the recommended option. Having undertaken extensive financial modelling, assessed legal and financial advice it is

the only option which delivers a financially viable scheme and delivers affordable housing.

This is the recommended Option.

24. **Option Two:** to set up a Council wholly-owned company, lend the company the capital to purchase the homes and use them as private rented accommodation.

As the Part 2 report shows, this option is not financially viable mainly due to the recent changes imposed on the use of government loans obtained from the Public Works Loan Board. This option is not recommended.

25. **Option Three:** sell all the residential properties as market homes.

Having assessed the financial viability of this option, the Part 2 report demonstrates this option is not financially viable. This option is not recommended.

## Legal Implications

26. The Housing Revenue Account (HRA) is a ring-fenced part of the General Fund (GF)

27. The land and building at Wheatley Court would not be required to sit in the HRA as the legal tests for the Council to be required to do so are not met.

28. Regarding the recommended Option One:

The threshold of 199 council held properties referred to in Paragraph 6 has no legal implication for the statutory provisions relating to Right to Buy or the Right to Acquire. Any eligibility an individual may have to these statutory rights is determined by the nature of the property and tenancies themselves; it is not linked to or determined by who holds the property.

The Council will maintain legal responsibility for the occupiers, including any statutory rights, this is the case even though the property would be managed by a third party RP.

## Financial Implications

### Capital Programme Costs

29. The forecast capital cost of £8.600 million to deliver the scheme was approved by the Executive in February 2020 and is included in the Council's Capital Programme.

30. Construction of the units is being funded through borrowing from the Public Works Loan Board (PWLb).

### Option One: financial implications

31. The financial appraisal for the recommend Option One is set out in Part 2 of this report alongside the financial appraisals for Options Two and Three.

32. The loan repayment period of 50 years for Option One has been modelled against a number of factors and assumptions regarding loan interest rates and repayments, rental income, voids, management and maintenance costs. The final outcome reflects current PWLB lending rules and Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on borrowing.

33. The income, maintenance and management costs for the ground floor commercial units have also been factored into the long-term financial forecast as set out in Part 2 of the report.

### **Equalities Implications**

34. No negatives implications have been identified. There are many positive benefits for several groups with a protected characteristic. The building has good access in terms of physical access to the homes which benefit from a lift service as well as the location benefits of being in central Redhill where all essential services can be accessed easily.

### **Communication Implications**

35. There are no significant communication implications from this report. The proposal to deliver the 32 flats at Wheatley Court as Affordable rent homes for local people is a positive outcome and will be communicated by the communications team using their standard communication channels.

### **Environmental Sustainability Implications**

36. The development has achieved a 19 percent reduction on the current building control carbon emissions target. This has been achieved using a variety of measures including an enhanced building fabric, gas saver units on all boilers which will achieve hot water savings of 7 percent and reduced gas use for heating of up to 37 percent annually. A heat-recovery ventilation system has been included in road-facing properties.
37. The design approach to Wheatley Court excluded parking spaces for the 32 residential units. This is in recognition of the development's town centre location with ready access to bus and train services. There is an expectation that the absence of parking spaces and the scheme's location will reduce car ownership in the block and therefore impacts on local air quality and the wider environment.

### **Risk Management Considerations**

38. There is a risk that Homes England offers less grant than the amount modelled in Option One. The scheme has been discussed with Homes England and their feedback at this stage is positive. Grant funding will be sought, however there is no guarantee the Council will be granted the full amount applied for. A reduced Homes England offer will require the input of funding from the Council's s106 developer contributions.
39. The costs associated with procuring and appointing a Registered Provider to manage and maintain the residential properties could be higher than expected and / or increase through the life cycle of the scheme impacting on revenue costs. This aspect of the scheme has been modelled and various options assessed alongside legal advice. There is no expectation that costs will exceed the financial forecast.

## **Consultation**

40. The Wheatley Court development in its current building design has been considered by the Executive several times as detailed above. The Commercial Ventures Executive Sub-Committee has also been consulted about the development and the above options for holding the residential units.

## **Policy Framework**

41. The Corporate Plan 2025 sets a housing objective to secure the delivery of homes that can be afforded by local people and choice of tenure, type and size. A series of actions explain how this will be achieved. Actions include working with partner organisations to deliver homes for local people, delivering a minimum of 30 percent affordable housing on housing schemes on Council-owned land, continuing to secure private rented and social housing to prevent homelessness, prioritising local people for affordable housing, and using or planning policies to secure affordable housing. The delivery of Wheatley Court as 100 percent Affordable rent for local people will make a significant contribution towards meeting these corporate housing objectives.

## **Background Powers**

1. Corporate Plan 2025 - [https://www.reigate-banstead.gov.uk/info/20205/plans\\_and\\_policies/280/reigate\\_and\\_banstead\\_2025](https://www.reigate-banstead.gov.uk/info/20205/plans_and_policies/280/reigate_and_banstead_2025)