



Reigate & Banstead
BOROUGH COUNCIL
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SIGNED OFF BY	Director of People
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TO	Executive
DATE	Thursday, 27 February 2020
EXECUTIVE MEMBER	Portfolio Holder for Housing and Benefits

KEY DECISION REQUIRED	Y
WARDS AFFECTED	Lower Kingswood, Tadworth and Walton;

SUBJECT	Pitwood Park Development: agreement of a change of tenure mix and entering into a build contract.
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RECOMMENDATIONS
<p>(i) The updated forecast expenditure and income for the scheme be accepted and approved.</p> <p>(ii) The Head of Housing be authorised in consultation with the:</p> <ul style="list-style-type: none">• Head of Finance• Head of Legal and Governance• Executive Member for Housing & Benefits• Executive Member for Finance• Executive Member for Investments and Companies <p>a) To enter into a contract to build with the recommended contractor.</p> <p>b) To appoint and enter into contracts (as required) with any remaining consultants or suppliers to allow the contract to progress to completion including unit sales.</p> <p>c) Enter into an agreement with the chosen Housing Association for the transferral of affordable housing units.</p> <p>d) To amend the tenure mix at a later stage (as required) with up to a maximum of 100% of the scheme being retained by the Council with a condition that the scheme expenditure remains within the approved capital budget of £6,448,000 as detailed within the exempt report in Part 2 of the agenda.</p>

(iii) The Head of Housing be authorised in consultation with the:

- **Head of Legal & Governance**
- **Executive Member for Housing & Benefits**
- **Executive Member for Finance**
- **Executive Member for Investment and Companies**

- a) To enter into any Easements, Licences, Covenants or Wayleaves as required on the development.**
- b) Complete Party Wall agreements as required on the development.**
- c) Authorise the sale of new homes on this development.**

REASONS FOR RECOMMENDATIONS

In April 2018 the Executive approved a report seeking permission to proceed with a mixed tenure development of 25 houses and flats together with associated external works at Pitwood Park. The report provided information on the projected financial return to be expected from the sale of the new homes.

Starter Homes secondary legislation from Central Government has not been issued and, as a result, a revised tenure mix is required on this project. It is also necessary and prudent to reflect a revised financial position as there were a number of assumptions within the previous appraisal which have required updating.

The recommended approvals are now required to facilitate the delivery of this project.

The delivery of the project meets the Corporate priority of making the Borough a great place to work and live. It also supports the Executive's commitment to deliver housing that meets the needs of local people, as 11 of the dwellings on this site are proposed to be sold via a Housing Association partner on a shared ownership basis.

EXECUTIVE SUMMARY

- Pitwood Park is an important regeneration opportunity in Preston and the Council owned site is identified as needing investment/redevelopment. The former building that occupied the site has been demolished. The building was vacant and in poor condition.
- The Executive identified the site as a priority site for meeting the local housing affordability challenge.
- The revised appraisal has been undertaken incorporating a tenure change. The previously appraisal allowed for 17 dwellings to be sold as starter homes. The appraisal made several assumptions which are no longer supported.
- Regardless of the ability to achieve the profit margin previously assumed, the Council is no longer able to deliver the starter home product as secondary legislation, due to be issued by Central Government, has been postponed indefinitely. As such a revised tenure mix, incorporating market sale homes and shared ownership properties (which may be sold onto a Housing Association and marketed by them) is recommended.
- The full financial implications of the tenure variation are included in the exempt report in Part 2 of this agenda

Executive has authority to approve the above recommendations

STATUTORY POWERS

The Council has no statutory obligation to undertake this work 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

1. In April 2018 the Executive received a report seeking permission to proceed with a mixed tenure development for 25 houses and flats together with associated external works. The report provided information on the proposed tenure mix and the projected financial return to be expected from the sale of the new homes.
2. This report explains why a variation to that tenure mix is now required and presents a revised capital budget baseline position to reflect this tenure change.

KEY INFORMATION

Updated Financial Forecasts

3. The financial forecast which gained approval in April 2018 is no longer considered accurate. The appraisal provided within the previous report is now 18 months old. Some of the factors have changed, and some of the assumptions made within that report are no longer supported.
4. Local Housing Market: We have received indicative valuations from local Estate Agents who are advising that there has been a slight downturn in the housing market. Further advice given has indicated that a gross margin allowing for a market downturn should be factored into our development appraisals, as assuming achieving 100% of sales values is a high-risk strategy.
5. Land Costs: The original appraisals did not incorporate the value of purchasing the long leasehold on the site. This has now been shown to fully represent the purchase costs associated with this scheme.
6. Assumptions made in the original report that require amendment: the original appraisals were modelled based on assumptions that new homes would sell immediately, and that those buying the starter homes would all buy increased shares up to 100% within 15 years. Industry advice is that this cannot be relied upon, and this level of 'staircasing' is not evident. A more prudent position is now adopted by many housing associations and Local Authorities who develop new homes, which is that schemes must work without equity sales in the long-term.

Requirement to Amend Tenure Mix

7. Starter Homes: to date the government has not enacted the necessary secondary legislation that would make it possible for developers to market new homes as 'Starter Homes' as was intended by the Housing and Planning Act (2016). Consequently, we cannot market the homes as Starter Homes within the legislative regime which was not created, and as such we need to change the intended tenure mix. Any alternative is required under our DMP (Policy DES6) to deliver a minimum of 30% affordable housing, as also required by our Housing Delivery Strategy.

Alternative tenure mixes were presented to Leaders at their meeting in January 2020, and the preferred option of 11 x shared ownership units (to be sold via a Housing Association partner) and 14 x market sale homes gained support. This variation alters the anticipated amount that the Council can expect back in receipts.

8. Benefits of collaborating with a Housing Association: It is our recommendation that the shared ownership homes be sold onto a Housing Association, with the remainder being sold by the Council for market sale via a sales agent. This joint approach minimises the Council's exposure to the risks of the housing market. It will also act to strengthen the relationship between the Council and the Housing Association selected.

Financial Position

9. The revised assumptions relating to the expenditure and income associated with this project are shown in the exempt report within Part 2 of this agenda.

OPTIONS

10. Option 1 (**Recommended Option**)- Proceed with the development based on the sale of 11 x shared ownership units to a Housing Association and to sell 14 x units on the open market, approve the recommendations listed, and agree the revised baseline position including the ability to amend the tenure mix further if this is seen as beneficial to the Council.
11. Option 2 – Proceed with the development based on a different shared ownership/sale ratio from Option 1. **This is not the recommended option** because the risk profile and costs are both higher for the Council.
12. Option 3- To not proceed with the development. **This is not the recommended option** as the original building on this site has been demolished and the site is vacant. Not proceeding would detract from our regeneration aims and may also lead to the Council incurring reputational damage with the public, as well from contractors who have tendered for this development opportunity.

LEGAL IMPLICATIONS

13. The Council has general powers of competence under Section 1 of the Localism Act 2011 to undertake any activity which an individual with full capacity may undertake. This includes improving service provision and quality of life in identified regeneration areas by developing the Council's own land.
14. The Council must show that the commercial activity would benefit its area, and that the profit generated by such an activity is only ancillary to the general benefit to the residents. However, if profit is the main driver, a special purpose company must be created for that purpose.
15. In this case, the primary objective of the scheme is to achieve regeneration aims in an area identified as requiring improvement, and shows the Council contributing to delivering new housing units and contributing to the overall housing target of a least 460 homes a year being built across the Borough.

FINANCIAL IMPLICATIONS

16. The capital and revenue implications of the proposals have been set out above and in more detail in the exempt report in Part 2 of the agenda.
17. The project can be delivered within the previously-approved Capital Programme allocation of £6,448,000.

EQUALITIES IMPLICATIONS

18. There are no equalities implications arising from this proposal.

COMMUNICATION IMPLICATIONS

19. Communications will respond to any media enquiries which may arise due to the delay to the proposed start-on-site.

RISK MANAGEMENT CONSIDERATIONS

20. The main risks for the Council in undertaking development are in terms of construction cost changes and market fluctuations.
21. However, in this case, these risks have been considered. The construction cost has been produced further to an OJEU compliant tender, and subject to the successful tenderer entering into contract, will be fixed. Market sales costs have been revised and up-to-date sales values incorporated into the appraisal. An appraisal reflecting a drop in sales values is also included in the exempt report in Part 2 of this agenda.
22. Risk has been partially mitigated by our proposal to transfer a number of the units to a Housing Association for a fixed cost. It continues to be our intention to sell market sales homes off-plan, so that income can be secured at the earliest point.

OTHER IMPLICATIONS

- There are no further implications to be considered.

CONSULTATION

23. The Portfolio Holder for Housing and Benefits has been consulted regarding these proposals.

POLICY FRAMEWORK

24. The Adopted Core Strategy (2014) identifies that moderate development and growth in the Preston Regeneration Area will help to bring about social, economic and/or environmental improvements that will benefit people who have fewer advantages than those in the rest of the borough.

BACKGROUND PAPERS

1. Reigate and Banstead Local Plan: Core Strategy (2014) - http://www.reigate-banstead.gov.uk/downloads/file/3073/adopted_core_strategy_july_2014

2. Corporate Plan 2015-20 - http://www.reigate-banstead.gov.uk/council_and_democracy/about_the_council/plans_and_policies/corporate_plan/index.asp