Title of meeting:	Cabinet
Date of meeting:	9th October 2018
Subject:	Development of Five Key Sites for Housing Delivery
Report by:	Natascha McIntyre Hall, Assistant Director of Strategic Developments
Wards affected:	Central Southsea, Charles Dickens, Hilsea and St Thomas

Key decision: Yes

Full Council decision: No

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1. Purpose of Report

1.1. The purpose of this report is to seek agreement from the Cabinet, to proceed with the recommendation of officers, to redevelop five Council-owned sites.

1.2. The report proposes that the Council takes a pro-active approach to developing underused council assets in line with its corporate objectives, to support the physical, social, cultural and economic regeneration of the City.

2. Recommendations

2.1. It is recommended that the Cabinet:

2.2. Note the cross directorate engagement undertaken to identify the five sites and the officer recommendations.

2.3. Approve the principle of redevelopment of the five sites for the purposes of housing delivery, subject to a planning permission being granted.

2.4. Delegate to the Section 151 Officer, in consultation with the Leader, Cabinet Member for PRED, Cabinet Member for Housing and Director of Regeneration, to agree the development strategy and preferred delivery route for each site, subject to a business case review.

2.5. Delegate authority to the S151. Officer to lend monies to the Arms-Length Development Company (ALDC from hereon in referred to as Ravelin) within the limits of the Council's treasury Management Strategy and following production of a full and proper financial appraisal demonstrating viability of each project.

2.6. Approve in principle the appropriation of land between the Council and Ravelin, to deliver the five site projects. The transfer of land will be delegated to the relevant Cabinet Member dependant on the site ownership and the Section 151 Officer with the timing of this subject to a final project specific business case being approved. All transfer will be carried out in line with treasury guidance using red book valuations.

3. Background

3.1. The Council recognises that it has under-utilised and vacant property that could be put to better use.

3.2. A cross-directorate Development Programme Enabling Board (DPEB) has been established to create a pipeline of development projects to make best use of this land to support the Council's ambitions for physical, social and economic regeneration of the City. All directorates are invited to put forward their requirements for consideration when new strategic development opportunities are identified.

3.3. The first DPEB took place on the 23rd July 2018 and Board Members supported the following recommendations (**see Appendix A**) for residential development across five sites.

3.4. These first five sites have been selected for their individual attributes including simplicity, planning status, location, availability and timely deliverability. However these sites are still subject to ongoing design, planning and viability testing.

3.5. The first five sites are to be determined as a portfolio in conjunction with the recommendations herein. The recommendations for these five sites will not necessarily be a pattern for all future development opportunities. Future projects will consider and deliver other uses such as adult social care, education, culture and leisure, employment etc. This list is not exhaustive.

3.6. Feasibility work has been undertaken on each of the five sites. **Table 1** provides an overview of the five sites; where the asset is held; anticipated housing delivery numbers and development costs. **Appendix A** provides more detailed businesses justification commentary on each of the five sites.

Table 1 - Summary of Five Sites Proposed for Development and Potential Housing Delivery

Site Reference	Site/Size	Site Overview	Asset Held by	Anticipated Housing Delivery[1]	Development Costs
Site 1	**Southsea Community Centre King Street** (474 sq m)	The site has extant planning consent for 23 one and two bed apartments. The site is currently hoarded and clear.	HRA	23 (0 private / 23 affordable) 5 floors 1 and 2 bed apartments	**£3.0m**
Site 2	**Arundel Street** (502 sq m)	Former office and retail site is redundant except for a temporary office for mobility services. The adjacent former post office building is out for consultation.	General Fund - PRED	43 (28 private / 15 affordable) 10 floors 1 and 2 bed apartments	**£5.6m**
Site 3	**Doyle Avenue Northern Parade** (1,890 sq m)	Cleared piece of land following demolition of Northern Parade Clinic, previously associated with adjacent/completed sheltered accommodation scheme.	HRA	58 (29 private / 29 affordable) 4 floors 1 bed apartments	**£5.5m**
Site 4	**Brewery House Hambrook Street** (487 sq m)	Vacant site currently allocated for D1 use. Fallen into disrepair so is no longer financially viable as a leisure asset.	General Fund - PRED	15 (15 private / 0 affordable) 3 floors 1,2 and 3 bed apartments	**£2.5m**
Site 5	**Records Office Museum Road** (3,995 sq m)	Current D1 planning use. Site in considerable state of disrepair. Former Records Office. Declared surplus to occupational requirements.	HRA	91 (63 private / 28 affordable) 9 floors 1 and 2 bed apartments	**£16.9m**

Note: The figures in Table 1 are subject to Planning Consent and Viability

4. Reasons for Recommendations

4.1. <u>Corporate Objectives</u>

4.1.1. The paper is promoting projects in line with the Councils corporate objectives, *working together to shape a great waterfront city* and will support some of the key focus areas namely *being entrepreneurial and efficient* and *encouraging regeneration and investment*.

4.1.2. It is anticipated that these new sites will be developed with collaboration from a cross directorate project board which will further consider the opportunities for cultural led regeneration and how to further empower residents to be healthy and independent.

[1] Anticipated housing delivery and affordable numbers will be subject to viability assessments/consultation & subject to Planning Permission

4.1.3. The sites selected are currently vacant or underutilised and therefore are a financial burden to the Council. These sites require constant maintenance in terms of security, maintaining boundaries and hoardings, clearance from fly tipping, landscape maintenance, structural support and proactive buildings maintenance. More importantly they are unsightly and send a negative message to residents about the Council's willingness to invest in the City.

4.2. Supporting the City's Housing Need

4.2.1. The current Portsmouth Core Strategy outlines a delivery target of 584 homes per annum to 2027. The Government through the emerging National Planning Policy Framework (NPPF) have set an ambitious housing delivery target of 868 new[2] homes each year in Portsmouth between 2016-2026, a total of c.17, 000 homes over the next 20 years. **Table 2** sets out various housing target expectations set.

Table 2 - Summary of Housing Targets Expectations

	Dwellings per annum	**Equivalent Total 2011-2034**
Existing Adopted Local Plan	584	13,432
Previous Push statement of need	740	17,020
Latest Government figure	868	19,964

4.2.2. Development of these five sites could deliver up to 230 homes (subject to more detail design and planning) over the next 3 years which would contribute towards the achievement of this target.

4.2.3. The current Local Plan for Portsmouth sets out a requirement for affordable housing to be delivered as part of larger developments at up to 30% of the total number of dwellings. The Council through self-development can consider the housing needs of local people and deliver products that meet these planning thresholds.

4.2.4. The new Local Plan is at an early stage in its development, gathering information on what the city's future housing needs will be however it is not anticipated that the need for a variety of affordable products has decreased.

4.2.5. The new NPPF sets out planning policies for England and how they should be applied, this is based on national trends and shows support for a variety of affordable housing options. It’s the view of officers that while the information gathering is not complete, the need for a variety of affordable products exists here in the City. **Table 3** outlines some of the options being considered by officers which could be available for development on the five sites.

[2] NPPF July 24th 2018

Table 3 - Tenure options considered to deliver housing affordable for Portsmouth Residents

Type of Tenure	An opportunity for local people and local families to purchase or rent a new home that is truly affordable to them: "Dream Start"	NPPF Compliant
Social Rent	Social rented eligibility is determined with regard to local incomes and local house prices. Social rented housing is owned by the council for which guideline target rents are determined through the national rent regime. It may also be owned by a company and provided under equivalent rental arrangements to the council.	Yes
Shared Equity	Shared equity allows a purchaser the opportunity to acquire a share of a home that would not necessarily be available to them. The purchaser will buy up to 75% of the equity with the remaining 25% being held by the company. The purchaser may have the opportunity to purchase a further share in the property at a later date if they so wish. The company will not charge the purchaser a rent on the remaining equity stake, (unlike Housing Association Shared Ownership Models) therefore making the purchase of a new home truly affordable.	Yes
Intermediate rent	Tenants will have the opportunity to rent a property on an intermediate rental basis. This means that a tenant can rent a property at a c.20% reduction on market rents for the area making the tenancy available to more households.	Yes
Rent To Buy	Many first time buyers do not have the opportunity to purchase a new home as they will probably be paying market rents and unable to save a deposit. The rent to buy model, will allow prospective purchasers the opportunity to rent their home for up to a year prior to purchase. The rent received by the company will be used in two ways: the financial cost of holding the property for the rental period will be deducted from the rental income and the remaining rental income will be used as the tenants' deposit to purchase the home. A model will show that the rent charged will equate to a 5% deposit plus the holding interest payment on the value of the property. This model has proven effective when used by developers and housing associations in the past.	No
Key Worker Homes	The City typically has a problem in recruiting and retaining key worker staff such as Teachers and Social Care Workers. This is due to low incomes and lack of homes that they can afford. It is expected that not only will access to these products be made available to people with family connections in the area and employment within the City but priority will be made for Key Workers. This scheme will help in supporting the Local Economic Growth of the City.	Yes

Note: All tenure options will be subject to further planning advice and modelling on a project by project basis. Social Rent, Shared Equity and Intermediate Rent could all be considered in a retirement living development.

4.2.6. Officers have proposed that the five sites treated individually could deliver c.70 affordable homes, which equates to around 30% of the total number of dwellings, using some of the tenure types from **Table 3** above however early indications that this approach will have viability challenges.

4.2.7. Officers are proposing that by considering all five sites as a portfolio in both planning and delivery terms, will allow the Council to develop affordable homes beyond the policy guidelines of 30%. This will create a viable solution for delivering truly affordable homes for local people.

5. Delivery Options

5.1. Ravelin is considered both internally by officers and by legal opinion to be the most suitable model for Portsmouth to develop new homes for sale and rent however in this officers considered the following other options.

5.2. Using the Housing Revenue Account (HRA)

5.2.1. The HRA is subject to a number of restrictions which limit its ability to dispose of homes (no more than five homes per year can be disposed of before the permission of the secretary of state is required).

5.2.2. The HRA is also subject to a Borrowing Cap which is currently restricting it from developing further homes. The Council are currently in the process of applying for additional borrowing capacity which may give it greater scope to deliver housing in the near future.

5.2.3. The development of these sites under the Housing Revenue Account has not been completely dismissed and a detailed financial appraisal as to the most financially effective method in which to deliver a development will be considered for each scheme.

5.3. Using the General Fund (GF)

5.3.1. Legal opinion has confirmed that the GF can develop homes for sale but cannot hold homes for rent.

5.3.2. As homes for rent are part of the proposed development it is suggested that Ravelin is used and that affordable homes for rent a could be subject to a lease back to the HRA and then held as affordable homes in perpetuity, ensuring that the Council continues to support local residents in need of a variety of affordable tenure homes.

5.3.3. Ravelin will borrow the development and rental property finance from Portsmouth City Council at market rates with a repayment structure in place supported by sales of properties or rental income. Portsmouth City Council will make a profit on financing Ravelin on an ongoing basis.

5.3.4. The land for the first five projects is all in the ownership of Portsmouth City Council and as such these projects do not rely on any third party contribution in terms of land or finance. However this could be a consideration in future projects.

5.4. Housing Associations (HAs) & Registered Providers (RPs)

5.4.1. The use of HAs & RPs as joint venture partners or delivery partners has been considered and ruled out at this stage. It will be reviewed again once the schemes are further developed if support with the cash flow is required.

5.4.2. In considering early engagement with external partners, officers looked for gaps within the current internal teams specifically at skillsets and experience in the available teams and at current capacity. Once the designs are further developed and agreed with planning it's anticipated that the option to dispose of completed units can be revisited.

5.4.3. Initial engagement with HAs and RPs has shown that they require control over the development including finance, procurement and often that Council land is to be assigned to them at zero value.

5.5. Using Ravelin

5.5.1. Ravelin will initially utilise Portsmouth staff under Service Level Agreements (SLAs). Services that will be used include project management, facilities management, procurement, legal & finance amongst others.

5.5.2. Ravelin will set out its business plan for the year noting that surpluses accumulated will be reinvested into further schemes allowing for delivery of more housing across the City portfolio. Consideration could be given to the sale of completed affordable units at an appropriate time in the future.

5.5.3. Ravelin may have the ability to use section 106 affordable homes contributions and affordable homes recycled receipts to deliver further affordable housing for the council.

5.5.4. Ravelin has the ability to consider a variety of tenure types, working closely with the Council to ensure the right homes are provided to support the housing needs of Portsmouth. Some of these are listed in **Table 3** above.

5.5.5. A comparison table (**Table 4** below) shows how a traditional Shared Ownership model favoured by RPs compares with Ravelin's proposed Shared Equity model from the residents' perspective.

5.5.6. A shared ownership model provides an opportunity for a purchaser to acquire a share of the property, yet then seek to impose a rental charge for the retained equity stake. **Table 4** below demonstrates the impact of charging a rent for the retained equity and our concern is that this does not make the property truly affordable.

Table 4 - Impact of rent charging on affordability

	Shared Ownership With HA/RP	Full Purchase with Help to Buy (HTB)	Shared Equity With Ravelin
Full Purchase Price	£ 140,000	£ 140,000	£ 140,000
Share Purchased	75%	100%	75%
Purchasers' Deposit	£ 7,000	£ 7,000	£ 7,000
Help to Buy 20%	£ 28,000	£ 28,000	£ 28,000
Mortgage Amount	£ 70,000	£ 105,000	£ 70,000
Annual rent charged	£ 1,050	£ -	£ -
Monthly outgoings (PCM)			
Monthly Rent	£ 88	£ -	£ -
Monthly Mortgage	£ 321	£ 481	£ 321
Monthly Service Charge	£ 46	£ -	£ -
HTB Payback	£ -	£ -	£ -
Total PCM	**£ 454**	**£ 481**	**£ 321**
Based on a purchase of a one bedroom apartment with an open market value of £140,000 within Portsmouth			

Note: The above are examples of shared ownership models, shared equity models and Help to Buy purchases.

5.5.7. The table above demonstrates how Shared Ownership and Shared Equity schemes vary in terms of true affordability to the homeowner. The Shared Ownership model demonstrates that with a rent charge and service charge levied to the purchaser, it is distinctly more expensive than a comparative Shared Equity model that does not charge the purchaser any rent or service charge. The Shared Ownership model is 49% more expensive to the purchaser for the same share.

5.5.8. Further information regarding the proposed use of Ravelin can be found in **Appendix B.**

6. Equality Impact Assessment (EIA)

6.1. A Preliminary EIA has been carried out and a copy is attached in **Appendix C**.

7. Legal Implications

7.1. A parent company (Ravelin Property Limited) ("Hold Co") owned wholly by the Council is incorporated and in shell form pursuant to the recommendations from the Cabinet decision meeting of 9 June 2016. Further legal work is required in order to ensure the Hold Co is in a tradable form. External legal advisors have been instructed to assist in the process.

7.2. The Council has the legal power to set up, participate in and appoint Directors to operate Ravelin and further subsidiaries to deliver development for the Council as detailed above.

7.3. A further range of subsidiary companies will need to be established to develop and deliver the proposed five sites ("the Projects") - each separate and distinct from the Council operating and delivering their own objectives (pursuant to each separate Project). Council oversight and scrutiny will come in the form of a detailed Shareholders Agreement, bespoke articles of agreement (ensuring annual sign of each subsidiary Business Case) and a range of Reserved Matter residing with the Council.

7.4. The formation of each of the subsidiaries will be driven by the specifics of each Project - reviewed upon their own merits noting the following:-

i. Land holding;
ii. Asset holding -HRA;
iii. Tax efficiency;
iv. Whether the Council is offering support services (via SLA); and
v. The role of the company in terms of land ownership.

7.5. In relation to point ii above Counsel Advice has been sought and concluded the Council has the power to develop housing for sale at market value outside of the HRA. Note - this is to be within the powers granted within Part 2 of the Housing Act 1985 and must be reviewed on a Project specific basis.

7.6. Once incorporated the subsidiaries will be party to a number of secondment agreements and Service Level Agreement(s) to enable appointed Directors to bind the companies and services procured.

7.7. It will be necessary to obtain specialist tax advice in relation to the Hold Co as well as the subsidiaries to provide detailed analysis as to each transaction based on its own merits.

8. Director of Finance's Comments

8.1. Any loan provided by the Council will need to be on commercial terms in order to comply with the rules on State Aid with commercially viable rates.

8.2. Any loan provided by the Council will need to be on commercial terms in order to A detailed financial appraisal has been carried out for each of the five sites mentioned in this report with particular regard being given to what the financial implications would be if:

i. we did nothing with the sites and then sold them after 30 years,
ii. we were to sell the site to a developer today,
iii. to develop the sites in the General fund,

iv. and the if we were develop them using an Arm's-Length Development Company (Ravelin)

8.3. The appraisal undertaken included an assessment on the effects on the General Fund, the Housing Revenue Account and Ravelin.

8.4. The outcome of these appraisals is detailed in **Appendix A**, in each case the most financially advantageous proposal was to use Ravelin to develop these sites. The reasons for this were due to the HRA borrowing cap would not support further development of homes as it currently stands and that by using Ravelin as the delivery vehicle the Council should be able to make savings on revenue and on capital delivery costs through procurement of around 10%, albeit this is an estimate and would need to be tested.

8.5. The table below sets out the overall impact of developing these sites using Ravelin, all options have the same assumptions as follows:

a) Each proposal assumes that Ravelin purchases land from the Council which in turn receives a capital receipt.
b) The Council provide a loan to Ravelin, the Council incurs borrowing but charge the Ravelin more than it cost them to borrow.
c) Once Ravelin have built the sites, it then immediately repays the loan to the City Council, the net difference is the profit on sale.
d) Ravelin retains the Freehold of the property and receives Ground rent for this over a 30 year period.
e) All profits from Ravelin are remitted back to the City Council or reinvested.

Table 5 - Overall Financial Impact of four sites

	Arundel Street	Museum Road	Hambrook Street	Doyle Avenue	Total
Effect on the Council	£'s	£'s	£'s	£'s	£'s
Sale of Land to Ravelin	(320,000)	(1,253,000)	(400,000)	(480,000)	(2,453,000)
Cost of Borrowing	43,000	129,000	19,000	42,000	233,000
Income from Borrowing to Ravelin	(337,000)	(795,000)	(116,000)	(329,000)	(1,577,000)
Total Surplus	(614,000)	(1,919,000)	(497,000)	(767,000)	(3,797,000)
Effect on Ravelin					
Purchase of Land	320,000	1,253,000	400,000	480,000	2,453,000
Cost of Build	5,290,000	15,665,000	2,071,000	4,995,000	28,021,000
Income from Sale	(6,039,000)	(24,106,000)	(3,235,000)	(6,090,000)	(39,470,000)
Net profit on Sale	(429,000)	(7,188,000)	(764,000)	(615,000)	(8,996,000)
Cost of Borrowing	337,000	795,000	116,000	329,000	1,577,000
Income from Ground Rent	(323,000)	(683,000)	(113,000)	(435,000)	(1,554,000)
Total Profit	(415,000)	(7,076,000)	(761,000)	(721,000)	(8,973,000)
Overall Surplus	(1,029,000)	(8,995,000)	(1,258,000)	(1,488,000)	(12,770,000)

8.6. **Table 5** above shows the overall impact on the City Council and Ravelin of the four sites, this would result in an overall surplus of £12.7m being generated by the

Council. It would generate a £2.45m capital receipt from the sale of the four sites and a £1.34m net return on borrowing to Ravelin.

8.7. Ravelin would look to build £28m worth of properties and would sell them for £40m generating a return of 23% after taking account of borrowing costs.

8.8. The fifth site Southsea Community Centre works on a slightly different model. Instead of selling the site Ravelin would again retain the freehold and rent back the 23 units to the Housing Revenue Account (HRA). The HRA would pay a lease equal to Ravelin's borrowing costs and a Ground rent.

8.9. **Table 6** below sets of the Financial Effect on the HRA, the General Fund and Ravelin.

Table 6 - Southsea Community Centre

Effect on General Fund	£'s
Cost of Borrowing	1,376,636
Income from Borrowing to Ravelin	(3,790,801)
Total Surplus	(2,414,165)
Effect on Ravelin	
Cost of Build	2,950,040
Income from Sale	(3,199,500)
Net profit on Sale	(249,460)
Cost of Borrowing	3,790,801
Income from Lease to HRA	(3,889,550)
Total Profit	(348,209)
Effect on HRA	
Lease Payments to Ravelin	3,889,550
Maintenance	1,492,905
Total Cost	5,382,456
Income from Affordable rents	(6,207,866)
Total Deficit	(825,411)
Overall Surplus	(3,587,785)

8.10. This proposal shows that the General Fund will make a return of £2.4m from borrowing costs to the General Fund. Ravelin would make a profit of £348,000 assuming that it sold the property on the open market after 30 years. It would recover its borrowing cost from the HRA at a cost of £3.79m and would also charge the HRA a Ground Rent.

8.11. In this scenario the HRA would see a surplus of £825,411 over the 30 year period. This is principally because although the lease payment to Ravelin is fixed, the rental income is subject to inflation. These lease payments are driven by the cost of borrowing Ravelin has been charged by the City Council.

8.12. Because this option has been assessed over a period of 30 years a financial appraisal has been carried out using the Net Present Value Method (NPV) which takes account of the time value of money and the outcome is that the proposal would be positive for the General Fund, the HRA and Ravelin as shown in the table below.

	GF	HRA	Ravelin
	£m's	£m's	£m's
NPV	(1.9)	(0.4)	(1.2)

8.13. If the Council are successful in applying for additional borrowing it may be better financially for the Council to develop the Southsea Community site through the Housing revenue Account, which would allow it to fund 30% of the development cost using its one for one receipts and this additional borrowing capability. This will need to be appraised once the outcome of this bid is known.

8.14. In order for Ravelin to operate the City Council will be required to advance a considerable amount of money to provide Ravelin with sufficient cash flow to deliver these developments, it cannot use its Capital Powers in order to advance these monies. A separate business case will need to be written that appraises the likely cost and working capital requirement in order for Ravelin to be viable dependant on the how the company is to be operated. There is insufficient detail currently as to what those costs might look like.

8.15. When developing these sites the Council may have to lend Ravelin 10's of millions to fund developments and would be subject to housing market price risk, as the repayment of loans is based on Ravelin being able to sell the properties. Before the Council advance funds to Ravelin it will needs to reassure itself that a robust business case and financial appraisal is carried out and approved by the Director of Regeneration and the Section 151 Officer. Part of any loan agreement will need to set out that any sales made by Ravelin go towards paying off the debt owed to the City Council.

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Signed by: Tristan Samuels, Director of Regeneration

Appendices:

Appendix A - DPEB Business Case Justification - Five Sites
Appendix B - Arms-Length Development Company
Appendix C - Completed Preliminary EIA

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	**Location**
Portsmouth Local Plan	https://www.portsmouth.gov.uk/ext/development-and-planning/planning/the-local-plan
National Planning Policy Framework	https://www.gov.uk/government/publications/national-planning-policy-framework--2

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by ……………………………… on ………………………………

………………………………………………
Signed by:Councillor Gerald Vernon-Jackson, , Leader of the City Council