

## SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

**REPORT TO:** Leader and Cabinet

9 November 2006

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### OPTIONS APPRAISAL FOR RESIDUAL AIREY PROPERTIES

#### Purpose

1. To consider the outcome of an options appraisal for the Airey properties not subject to a redevelopment scheme.

#### Effect on Corporate Objectives

2. Quality, Accessible Services	The Council is committed to ensuring that high quality housing services are provided to its tenants and to meeting the Decent Homes standard. The current structural condition of the Airey properties means that they will not meet the Decent Homes standard without considerable investment.
Village Life Sustainability	The Airey properties in their current condition are not sustainable in the longer term. Therefore, where practicable redevelopment has been the preferred option to provide good quality, energy efficient homes that will meet the needs of existing and future tenants. The refurbishment of the remaining units would ensure the retention of affordable housing to meet the high level of need in our existing villages. However, this needs to be balanced against resources available to meet the investment needs of the overall housing stock.
Partnership	The Council has investigated with its partner Registered Social Landlord (RSLs) available options for the retention of the Airey homes as affordable housing in the longer term.

#### Background

3. The Airey redevelopment programme as agreed by Full Council in October 2004 left 15 properties within the Councils housing stock, which require modernisation and/or improvement in order to meet the Decent Homes Standard (DHS). All Airey sites had been considered for redevelopment but this option had not proved viable for all the Airey housing stock in part due to the relatively small number of properties grouped together in some villages and their disparate geographic location.
4. In addition there are 5 properties that are not to be demolished as part of a redevelopment scheme as they adjoin sold properties that are excluded from the proposals that also need to be taken into consideration. These were to be transferred to Circle Anglia for refurbishment but they have since ruled this out as a financially viable option on the basis that there would be no return on the required level of investment within 25 years even applying higher intermediate rent levels.
5. Further the proposed redevelopment scheme for Teversham has been unable to be progressed because of local concerns that the site is unsuitable for redevelopment given the narrow access road and surrounding development.

6. Following a series of consultation meetings with affected residents and the Parish Council at Teversham it was clear that there was no support for the redevelopment proposals. There were concerns expressed that the site is not suitable for development because of the narrow access road and proximity of neighbouring developments. Therefore the residents and the Parish Council have been advised that the Council would respect the wishes of existing residents who did not wish to move and not pursue the redevelopment in the short term.
7. However, they were also advised that unless or until a alternative option could be agreed by the Council:
  - (a) any properties that become available in the normal course of events would be let on a short term basis only in order to facilitate redevelopment in the longer term and,
  - (b) that the Council would continue to meet its repairing obligations as a landlord in accordance with the terms of the tenancy agreement and,
  - (c) that the Council would not be able to include the Airey properties in the housing capital programme for refurbishment given the decision that this site be included in a redevelopment programme.
8. In response the Parish Council and affected residents have requested that the Council review the redevelopment option for the Airey properties in Spurgeons Close with a view to, relet them as they become available on a permanent basis to those in housing need, and, carry out any necessary refurbishments to meet the minimum specification required which is the DHS. In January this year, following a further meeting with the Parish Council, the Housing Portfolio Holder agreed to consider the inclusion of the Teversham units in the options appraisal for the residual Airey homes across the district.
9. It should be noted that some of the tenants have voluntarily relocated from Spurgeons Close and this means that 3 of the 7 properties on the site, 6 of which would be included in the redevelopment scheme, are now available leaving 4 secure tenants who have stated a wish to remain in their current homes.
10. In total, therefore, there are 29 properties that have been the subject of a more recent options appraisal process as follows:

	<u>Number</u>
Park View, Bassinbourn	2
Waresley Road, Gamilngay	4
Hereward Close, Impington	6
Haggis Gap, Fulbourn	3
Teversham	8
Coton	2
Elsworth	1
Sawston	3
	—
	29
	—

## Considerations

11. An options appraisal has been carried out to reassess the available options for the future of the 29 Airey homes that are not subject to redevelopment schemes that have been able to be progressed since the Full Council decision to pursue this as the preferred option on sites with potential to increase the overall supply of affordable housing as well as meet the DHS.
12. The options that have been considered as part of the options appraisal are as follows:
  - i) refurbishment and retention
    - as 100% rented accommodation
    - as part rented and part shared ownership accommodation
  - ii) disposal to a Registered Social Landlord
  - iii) disposal on the open market
  - iv) disposal to existing tenants and or applicants on the Housing Register
  - v) redevelopment

The evaluation of each of these options is considered below.

## Options

13. In terms of a refurbishment and retention as social rented housing option the works required to the properties would need to ensure that the structure was repaired and that the properties fully met the Decent Homes Standard (DHS)
14. Based on tenders received in late 2005 the lowest Contract Tender sum was for £1,020,880 for traditional cavity brickwork or £1,146,023 for timber framed construction. On the cavity wall option this results in a total cost per unit of £85,073.35. Further analysis and applying economies and value management adjustments this could be revised down to £66,388.75 per unit.
15. In order to further inform likely costs of the refurbishment option 27 of the 29 units have since been individually surveyed in order to assess the elements that need to be addressed to achieve the DHS. The results of the survey are illustrated in **Appendix 1** to this report.
16. As can be seen from this information the total cost of refurbishment of the 29 units is in the region of £1.6m which provides no business case for pursuing an option of refurbishment and retention as 100% rented accommodation based on an average cost of £55.1k per unit.
17. This conclusion is also supported by the decision of Circle Anglia not to take up the option of acquisition of the Airey homes adjoining sold properties on the redevelopment sites for refurbishment and re-letting as affordable housing.
18. Given the existing commitments within the housing capital programme in the next 3 years to meet agreed priorities eg DHS the refurbishment of the 29 residual Airey properties cannot be achieved without adversely affecting existing planned programmes.
19. Further the expected limited financial resources to support the capital investment needs in the Council's housing stock in the medium to longer term as identified as part of the stock options appraisal completed last year means that the financial position will not improve sufficiently over time to enable the refurbishment option to be

progressed without impacting on wider programmes unless additional funding can be identified to contribute towards estimated costs.

20. In terms of generating additional funding sources to enable the refurbishment of the residual housing stock it is considered that if around 50% of the units were to be refurbished for shared ownership then the capital receipts generated could provide cross subsidy for the remaining Airey homes to be refurbished and relet to existing and new tenants.
21. However, this option assumes that the existing anomaly within the Capital Finance Regulations in terms of the proceeds from equity share/shared ownership sales being caught by the capital receipts pooling requirements being rectified by the Department for Communities and Local Government (DCLG). It is anticipated that amended regulations will be issued although this is still subject to Ministerial approval.
22. Further this option assumes that shared ownership leases can be offered with the ability to staircase to 100% even though the lease also requires the Council to buy back in the event that a shared owner wishes to surrender their lease without being caught by the Capital Finance Regulations. If this would not be the case staircasing would need to be restricted to say 80%. This would impact on the ability of prospective purchasers to secure a mortgage as there are a more limited number of lenders willing to offer mortgages in such cases.
23. It should also be stressed that this option assumes that there will be sufficient interest from applicants registered for low cost home ownership in the improved homes who have the ability to afford a 50% share. The properties would be in a mortgageable condition following refurbishment but are likely to have an open market value of more than £200,000. In any event an average capital receipt of £100,000 would be required to ensure an adequate level of cross subsidy to make the scheme viable. It is suggested that under this option any existing tenants who express an interest in the shared ownership option be able to acquire initial shares of between 30 and 50% depending on their financial circumstances.
24. The following is an illustration of how the scheme could work based on inclusion of all 29 units:

	Total	Gamlingay	Impington	Bassingbourn	Coton	Teversham	Fulbourn	Elsworth	Sawston
Shared Ownership	15	2	3	1	2	3	1	1	2
Rented	14	2	3	1		5	2		1
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Refurbishment Costs	1,820	250	375	125	140	485	180	70	195
Capital Receipts	1,300	160	260	100	160	300	60	60	200
Net cost	520	90	115	25	(20)	185	120	10	(5)

Notes:

- 1) It is assumed that five Shared Ownership sales will be at 30% and ten at 50%.
  - 2) The estimated open market valuation of the improved homes is £200k although actual valuations will need to be sought from our independent Valuer.
  - 3) The refurbishment costs for the rented units is based on an average cost of £55k.
  - 4) The refurbishment costs for the shared ownership units is based on an average cost of £70k as it is expected that a higher specification would be required to ensure that the units are attractive to prospective purchasers.
  - 5) The net cost of the refurbishments could be accommodated over more than one financial year ie 2006/07, 2007/08 and 2008/09 as required to ensure that costs can be managed with the available budget for improvements to non-traditional housing stock. This would still enable the target of 2010 to meet the DHS to be achieved.
  - 6) The budget for improvements to non-traditional housing stock in 2006/07 is £300,000 and to date this sum is substantially uncommitted because of the options appraisal for the residual Airey homes.
25. Expressions of interest have been invited from all the Council's preferred Registered Social Landlord (RSL) partners and 4 have been received.
26. In summary the RSLs are able to offer a range of options around the following basic proposals:
- i) acquisition of the Airey homes either with tenants in situ (on protected terms and conditions) or with vacant possession. Any transfer of tenanted homes would of course be subject to the affected tenants supporting a transfer to an RSL. The terms of such a disposal vary from a residual land valuation model to discounted or free land.
  - ii) Where units are proposed to be acquired for refurbishment this would include some of the existing and future vacant units being offered on a shared ownership basis.
  - iii) Redevelopment of some of the sites although in most scenarios this would be dependent on the acquisition of some freehold properties which would impact on the deliverability of certain proposals.
27. The main advantages of disposal to an RSL are that properties could be retained as affordable housing as the Council would receive nomination rights and would result in the DHS being met without any financial outlay by the Council. However, it is likely that some of the properties would need to be designated for shared ownership and/or redeveloped to make this a financially viable option for an RSL.
28. Based on valuations provided by our independent appointed Valuer in 2004 the unimproved Airey properties could achieve upwards of £115,000 per unit, depending on their condition, if sold on the open market. However, unless they were sold to an individual who intends to carry out the necessary improvements and offer the properties for sale for occupation as a principal or only home such disposals would not be exempt from the capital pooling requirements unless anticipated amendments to the Capital Finance Regulations include provision to avoid the pooling requirements for **all** non-RTB sales.
29. The Council could investigate the disposal of the Airey properties to the existing tenants for a discount equal to the maximum available under the Right to Buy legislation regardless of their length of tenancy. A disadvantage is that existing tenants may not be able to raise the necessary funds to purchase their homes because they will not be mortgageable and/or they will not be able to fund the improvement works required.

30. The advantage of this option is that the Council will meet its Decent Homes target without incurring significant expenditure and attract a capital receipt. This would also enable existing residents to remain in their existing homes if they wish to do so.
31. If the current tenants do not wish to purchase their homes then the Council could offer relocation to a suitable alternative property and tenants could be afforded an appropriate level of priority within the Council's lettings scheme. This would enable other priority purchasers to be offered any available units.
32. The disadvantage of options to dispose of the Airey properties, other than to an RSL, is the loss of affordable housing in the affected parishes.
33. The development potential of the Airey sites has previously been investigated by the Council and only Teversham appeared to offer an opportunity to pursue this option and was therefore included in the sites for which redevelopment was agreed by Full Council in October 2004. However, the site is relatively small with only 6 units that could be demolished to facilitate redevelopment and has some more difficult site specific issues to be overcome eg narrow access road.
34. The expressions of interest received from RSLs do include some redevelopment proposals but in the most part they are dependent on securing freehold properties to be viable.
35. Following an evaluation of the available options it is considered that refurbishment of the residual 29 Airey units (including Teversham), with some being designated for shared ownership, offers a potentially cost effective solution that meets both the Council's objectives and those of the affected local communities. This is because this option could provide the cross subsidy needed to make refurbishment affordable while respecting the wishes of existing residents to remain in their homes, as far as possible, and retain the units in Council ownership as affordable homes.
36. However, the preferred option is predicated on the necessary amendments being made to the Capital Finance Regulations and the ability to sell the improved homes on a 30%-50% shares to interested existing tenants and/or at 50% shares to applicants on the Low Cost Home Ownership Register.
37. It is suggested that a pilot refurbishment programme be agreed in respect of the following units:
  - 8 units at Spurgeons Close/Pembroke Way, Teversham with the 3 units not currently occupied by secure tenants to be used as decant units and then offered for sale under shared ownership
  - 3 units at Dale Way and Sunderlands Avenue, Sawston two of which are currently vacant
  - 1 vacant unit at Paddock Row, Elsworth
38. If the properties designated for shared ownership cannot be sold to eligible applicants and/or any capital receipts would be subject to pooling because the necessary adjustment to the Capital Finance Regulations have not been made then these units could need to be sold on the open market to provide adequate cross subsidy to cover a significant proportion of the refurbishment costs with the remainder being met from the existing capital programme budget for improvements to non-traditional housing stock.

39. It is estimated that the level of cross subsidy that could be achieved through open market sale of improved units is as follows:

	Total	Teversham	Elsworth	Sawston
Shared Ownership	6	3	1	2
Rented	6	5		1
	£000	£000	£000	£000
Refurbishment Costs	750	485	70	195
Net Capital Receipts	615	307.5	102.5	205
Net cost	135	177.5	(32.5)	(10)

- 1) The net sale proceeds are estimated at an average of £200k per unit.
  - 2) It is assumed that capital receipts pooling will apply which means that 75% of net proceeds (£200k less £70K refurbishment costs) will need to be pooled in each case.
40. If the shared ownership model proves successful then this could be rolled out as a programme across the remaining 17 Airey units at Bassingbourn, Fulbourn, Gamlingay, Coton, and Impington.

### **Financial Implications**

41. The current estimated cost of the refurbishment option for the 29 Airey properties under consideration is £1.6m which equates to £55.1k per unit.
42. The full refurbishment programme for the traditionally built housing stock is ongoing but costs have been reduced significantly from previous years due to the specification being brought in line with the DHS which is effectively a lower standard than that adopted in previous years. The average cost of a full refurbishment is now around £25-£30,000 per unit compared to £40-£50,000 per unit 2 years ago. This is considered to provide value for money relative to the costs of providing a new affordable home by way of grant funding.
43. The refurbishment of the Airey homes at an average cost of £55.1k per unit cannot be viewed as a value for money option if compared to the level of grant needed to fund a new build affordable home which is expected to be in the region of £35,000 to £60,000 per unit for a rented unit and £10-£25,000 for a shared ownership home. Further new build homes will achieve higher standards eg in terms of energy efficiency and amenities than a refurbished Airey home.
44. However, if an element of cross subsidy can be achieved through shared ownership sales this could bring the net average estimated cost of refurbishment to £18k per unit based on the example in paragraph 24 above subject to the capital receipts pooling mechanism not applying in this scenario.
45. The housing capital programme for 2006/07 includes £300,000 for the refurbishment of non-traditional housing stock and this is not fully committed to date mainly as a

result of the options appraisal for the residual Airey units that has been undertaken in recent weeks/months.

45. If existing tenants would need to be willing to relocate to a suitable alternative home to facilitate any of the options then they would be entitled to receive home loss payments of £4,000 and associated removal/disturbance payments. These costs could be netted off against any capital receipt or, in the event of disposal to an RSL at nil cost the RSL can be asked to meet these and any legal costs.

### **Legal Implications**

46. The General Housing Consents 2005 – Section 32 of the Housing Act 2005 enables the Council to dispose of vacant properties held for housing purposes at full open market value to:
- (a) any individual(s) who intends to use it as his only or principal home or,
  - (b) where substantial works of repair, improvement or conversion are required to any individual(s) who intends to carry out necessary works and then dispose of the property to a person(s) who intend to occupy it as their principal or only home.
47. The same General Consents Order enables a local authority to dispose of occupied properties to a secure Council tenant for consideration equal to its market value or its market value less a discount of:
- a) where the period of approved tenancy is less than the qualifying period, not more than the amount of discount which would be applicable if the period of approved tenancy equalled the qualifying period and the tenant were acquiring the property under Part V of the Housing Act ( Right to Buy);
  - b) where the period of approved tenancy exceeds the qualifying period, not more than the amount of discount which would be applicable if the tenant were acquiring the property under Part V
48. In addition a local authority may dispose of vacant properties to 'priority purchasers' at a substantial discount where the property is in need of repair or improvement. Priority purchasers would include homeless households, armed forces personnel, those with an employment offer in the district or neighbouring areas(s), those who have not previously owned a property, occupiers of tied accommodation provided in all cases they would not, in the opinion of the local authority, be able to afford to purchase a suitable home on the open market.
49. The General Housing Consents 2005 – Section 25 Local Government Act 1988 covers disposal of properties to a Registered Social Landlord (RSL) at less than best consideration for refurbishment purposes provided it remains as affordable housing accommodation once works are completed. However, Circle Anglia has advised that this option is not financially viable for their organisation.

### **Staffing Implications**

50. None.

### **Risk Management Implications**

51. There are expectations amongst affected residents and local communities that the Airey sites will either be redeveloped or refurbished.



52. In the event of retention and refurbishment of any of the Airey non-traditional housing stock eg Teversham and/or those adjoining sold units this could have an adverse impact on the HRA Business Plan unless additional funding could be identified to ensure that existing capital budgets available works to non-traditional properties could accommodate the programme.
53. The financial modelling undertaken as part of the housing options appraisal process included assumptions regarding the future of the Council's non-traditional housing stock including the Airey properties where decisions pre-dated the process.
54. A pilot refurbishment programme incorporating some potential shared ownership units will enable the risks associated with a refurbishment scheme to be managed within budget. This is because any units that cannot be sold to eligible applicants and/or if any capital receipts would be subject to pooling because the necessary adjustment to the Capital Finance Regulations have not been made then these units could be sold on the open market to provide a minimum level of cross subsidy to cover the major proportion of the refurbishment costs with the remainder being met from the existing capital programme budget for improvements to non-traditional housing stock.

### Consultations

55. A meeting was held with Teversham Parish Council and affected residents on 12 October to seek their views on the options at which their support was given to the refurbishment of the 8 Airey homes in the village with 3 of these being designated for shared ownership to cross subsidise the associated costs. They did, however, express concern about the fallback position of sale of 3 units on the open market and would wish to be consulted further should it prove necessary to explore this option at a later date.
56. The Local Members and Parish Council's who represent the other affected villages have all been consulted on the options and their preferred options are summarised from the responses received in the following table:

	<b>Parish Council</b>	<b>Local Members</b>
Bassingbourn	Refurbishment with 100% rented units	
Impington	Refurbishment with 100% rented units but if redeveloped then new provision should also be 100% rented and, in any event, would wish to be consulted again first to review the position	Refurbishment with 100% rented units
Coton	Refurbishment with 100% rented units	
Fulbourn	Refurbishment with 100% rented units	
Gamlingay	Refurbishment with 100% rented units but if redeveloped then new provision should also be 100% rented	

## Conclusions/Summary

57. The Airey redevelopment programme left 15 properties within the Councils housing stock which require modernisation and/or improvement in order to meet the Decent Homes Standard (DHS). In addition there are 5 properties that are not to be demolished as part of a redevelopment scheme as they adjoin sold properties that are excluded from the proposals that also need to be taken into consideration
58. Further the proposed redevelopment scheme for Teversham has been unable to be progressed because of local concerns that the site is unsuitable for redevelopment given the narrow access road and surrounding development.
59. The Council has set a target date of 2006 to meet the DHS for its housing stock against a national target of 2010. The Council's ability to meet these target dates will be compromised unless a financially viable solution is identified that is acceptable to the affected residents and local communities. There are potential options that can be investigated prior to a final decision being made including a refurbishment option that will enable some cross subsidy through provision of shared ownership as well as rented homes as outlined in this report.
60. An options appraisal has been carried out to reassess the available options for the future of the 29 Airey homes as follows:
  - vi) refurbishment and retention
    - as 100% rented accommodation
    - as part rented and part shared ownership accommodation
  - vii) disposal to a Registered Social Landlord
  - viii) disposal on the open market
  - ix) disposal to existing tenants and or applicants on the Housing Register
  - x) redevelopment
61. It is clear that the costs of refurbishment and retention as rented housing stock of the remaining 29 Airey homes would not be considered value for money and in any event the capital costs of around £1.6m exceed the monies available within the housing capital programme in both the short and longer term.
62. However, it is considered that if around 50% of the units were to be refurbished for shared ownership then the capital receipts generated could provide cross subsidy for the remaining Airey homes to be refurbished and relet to existing and new tenants.
63. This option assumes that the existing anomaly within the Capital Finance Regulations in terms of the proceeds from equity share/shared ownership sales being caught by the capital receipts pooling requirements being rectified by the Department for Communities and Local Government (DCLG). It is anticipated that amended regulations will be issued although this is still subject to Ministerial approval.
64. The housing capital programme for 2006/07 includes £300,000 for the refurbishment of non-traditional housing stock and this is not yet fully committed mainly as a result of the options appraisal for the residual Airey units that has been undertaken in recent weeks/months. However, the net cost of the refurbishments would still need to be accommodated over more than one financial year ie 2006/07, 2007/08 and 2008/09. This would still enable the target of 2010 to meet the DHS to be achieved.
65. An average capital receipt of £100,000 would be required to ensure an adequate level of cross subsidy to make the scheme viable. It is suggested that under this

option any existing tenants who express an interest in the shared ownership option be able to acquire initial shares of between 30 and 50% depending on their financial circumstances. An indicative costing for this approach is illustrated in paragraph 24 of this report.

66. The results of local consultation indicate:

- (a) support from Teversham PC and affected residents on the option to refurbish rather than redevelop the 8 Airey homes within the village on the understanding that 3 units will need to be designated for shared ownership to provide cross subsidy.
- (b) that the preferred option within other affected villages is refurbishment with 100% rented units

67. If the properties designated for shared ownership cannot be sold to eligible applicants and/or any capital receipts would be subject to pooling because the necessary adjustment to the Capital Finance Regulations have not been made then these units could need to be sold on the open market to provide adequate cross subsidy to cover a significant proportion of the refurbishment costs with the remainder being met from the existing capital programme budget for improvements to non-traditional housing stock.

68. If the shared ownership model proves successful then this should be rolled out as a programme across the remaining 18 Airey units at Bassingbourn, Fulbourn, Gamlingay and Impington.

**Recommendations**

69. Cabinet is recommended

- (a) that a pilot refurbishment programme be agreed for the following Airey homes:

Location	Number of Units	Shared Ownership	Rented
Teversham	8	3	5
Sawston	3	2	1
Elsworth	1	1	
<b>Totals</b>	<b>12</b>	<b>6</b>	<b>6</b>

- (b) that if the Capital Finance Regulations are not amended to allow for retention of 100% of the capital receipts from shared ownership sales then a this matter will be referred back to Cabinet at a later date for further consideration of the available options, including open market sales.
- (c) that if the shared ownership model proves successful within the pilot programme then, subject to the outcome of further local consultation, a wider programme for the remaining 17 Airey units at Bassingbourn, Fulbourn, Coton, Gamlingay and Impington be approved.

**Background Papers:** None.

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