

DECISION-MAKER:	CABINET COUNCIL
SUBJECT:	TOWNHILL PARK REGENERATION FRAMEWORK : FINANCIAL MODEL AND PHASE 1 CAPITAL EXPENDITURE
DATE OF DECISION:	16 APRIL 2012 16 MAY 2012
REPORT OF:	CABINET MEMBER FOR HOUSING

STATEMENT OF CONFIDENTIALITY

Confidential Appendix 1 contains information deemed to be exempt from general publication by virtue of Category 3 of paragraph 10.4 of the Council's Access to Information Procedure Rules as contained in the constitution.

The appendix includes details of a proposed transaction which, if disclosed prior to entering into a contract, could put the Council at a commercial disadvantage in the future. In applying the public interest test it is not considered appropriate to make public offers made as this could lead to a revision of bids.

Therefore, publication of this information could be to the Council's financial detriment.

BRIEF SUMMARY

On 12 March 2012 Cabinet approved a report on the regeneration of Townhill Park. Some of those recommendations were conditional on a further report on the outcome of an affordability assessment, the availability of Housing Revenue Account (HRA) and General Fund (GF) budgets and the completion of the assessment of delivery options. This report deals with these issues.

The "base case" analysis, which is based on the regeneration framework approved in March 2012 (the modified Central Park option), shows that there is a gross capital cost to the Housing Revenue Account of £10.7M (with a net cost of £8.1M after capital receipts) and that the 30 year HRA revenue surplus will be reduced by £21M. The General Fund (GF) will need to fund certain infrastructure improvements at an estimated cost of £2.8M, funding for which will need to be identified once the rules for the use of the Community Infrastructure Levy and the value of the GF capital receipts are known.

The report also sets out the implications of different redevelopment scenarios and options for the re-provision of the social housing. A scenario whereby 50% of the social housing is let at target rent has been recommended as the preferred approach. The subsidy from the council under this scenario, estimated at £3.9M, would be funded through a mixture of reduced HRA land receipts (£2.6M) and utilisation of uncommitted funding in the Housing GF capital programme (£1.3M). The net capital cost to the HRA would, therefore, increase from £8.1M to £10.7M, subject to legal advice.

RECOMMENDATIONS:

CABINET

Cabinet are recommended:

- (i) To agree that the HRA capital programme will fund the site preparation costs set out in this report, currently estimated at £10.7M, and:
 - To approve a virement of £10.7M from the uncommitted provision for Estate Regeneration which exists in the HRA capital programme and business plan to establish a specific budget for Townhill Park, the phasing for which is set out in appendix 2.
 - To approve, in accordance with Financial Procedure Rules, capital spending of £2.8M on phase 1 of the Townhill Park project, phased £0.3M in 2012/13, £1.6M in 2013/14 and £0.9M in 2014/15.
- (ii) To note that the General Fund capital programme will be required to fund highways infrastructure, open space improvements and replacement community facilities where appropriate, at an estimated cost of £2.8M with the method of funding this being agreed once the use of the Community Infrastructure Levy and the value of the GF capital receipts are known.
- (iii) To agree that the preferred approach for the provision of the new social housing is for this housing to be supplied by a Housing Association and that 50% of this new social housing provision will be provided for letting at target rents with a potential subsidy from the council, estimated at £3.9M, to be funded through a mixture of reduced land receipts (£2.6M) and utilisation of the uncommitted funding in the Housing GF capital programme (£1.3M), subject to legal advice on the potential financial implications for the HRA.
- (iv) To agree that the phase 1 regeneration of Townhill Park will be by way of a Development Agreement.
- (v) To agree to recommend to Council that:
 - £21M of the 30 year HRA revenue surplus is utilised to meet the long term revenue costs of the regeneration of Townhill Park which includes the requirement to repay the debt on the dwellings that have been disposed of from the general HRA revenue balance as there is no net capital receipt to fund this repayment.
 - The General Fund capital programme funds the highways infrastructure, open space improvements and replacement community facilities where appropriate, at an estimated cost of £2.8M with the method of funding this being agreed once the use of the Community Infrastructure Levy and the value of the GF capital receipts are known.

COUNCIL

Council are recommended to:

- (i) Approve the use of £21M of the 30 year HRA revenue surplus to meet the long term revenue costs of the regeneration of Townhill Park, which includes the requirement to repay the debt on the dwellings that have been disposed of from the general HRA revenue balance as there is no net capital receipt to fund this repayment.
- (ii) Agree that the General Fund capital programme will fund the highways infrastructure, open space improvements and replacement community facilities where appropriate, at an estimated cost of £2.8M with the method of funding this being agreed once the use of the Community Infrastructure Levy and the value of the GF capital receipts are known.

REASONS FOR REPORT RECOMMENDATIONS

1. To approve the financial implications of the regeneration framework for Townhill Park so that the regeneration proposals can proceed.

DETAIL (Including consultation carried out)

Background

2. On 12 March 2012 Cabinet approved a report on the regeneration of Townhill Park. Some of those recommendations were conditional on a further report on the outcome of an affordability assessment, the availability of Housing Revenue Account (HRA) and General Fund (GF) budgets and the completion of the assessment of delivery options. This report deals with these issues.
3. The financial assessment, covering affordability and budgets, can be divided into 2 distinct parts. One is the main regeneration activity involving the demolition of existing dwellings, the provision of new dwellings and other improvement works. The second concerns the provision of the new social housing and whether this is provided by the Council or a Housing Association and what rent levels are to be charged.
4. Trade Union representatives have been consulted on this report.

Main regeneration activity

5. The overall financial assessment of the redevelopment has been prepared by the consultants (CBRE). Confidential appendix 1 provides a detailed report on the redevelopment. The following paragraphs highlight the key conclusions. It needs to be emphasised that the redevelopment costings are high level and based on current regional cost indices and will need to be updated on a regular basis and particularly when development briefs are prepared for specific sites and phases.
6. The approved Regeneration Framework involves the demolition of 380 HRA rented dwellings and also the acquisition and subsequent demolition of a further 48 homes sold under the Right-To-Buy (RTB). There is also the acquisition and subsequent demolition of 5 shop premises, a public house and a community centre where the HRA is the freeholder. All these costs will be met from the HRA. The gross cost over the 10 year regeneration

period of all these items is currently estimated at £10.7M. A more detailed analysis is provided in appendix 2, showing the initial assessment of when the spending will take place.

7. There is no General Fund contribution required for this site assembly activity. There are two GF sites in the regeneration area but there are no costs involved in preparing these sites for redevelopment.
8. As part of the provision of 675 new homes the regeneration framework includes the re-provision of 380 new dwellings for letting at social rents so that there is no loss of affordable housing as a result of the regeneration activity. The “base case” assessment has been prepared on the basis that all these dwellings are provided by a Housing Association and let at affordable rents.
9. This base case assessment gives a capital receipt to the HRA of £2.6M from the sale of the redevelopment land, leaving a net cost to the HRA capital programme of approximately £8.1M once the costs of preparing the sites for sale have been taken into account. The HRA business plan and capital programme has an uncommitted provision of £20M to support Estate Regeneration activity. This would therefore leave a balance of £11.9M to support future schemes.
10. Estate wide regeneration also has capital implications for the General Fund. These cover highway works, improvements to open spaces and re-provision of community facilities. This expenditure is estimated at £2.8M. There is currently no provision in the GF capital programme to meet these costs. However, two of the sites to be sold are held under GF powers so the capital receipts from the sale of these sites would accrue to the GF. These receipts are estimated at £0.5M and it is assumed that they will be applied towards the GF funding of £2.8M.
11. The redevelopment costings have also allowed for payment of the new Community Infrastructure Levy (CIL). This has been assessed using the fee structure that is currently out for consultation. A provision of £2.3M has been included in the redevelopment costings. This means that the council will potentially receive income from CIL of £2.3M from this redevelopment. This represents non ring fenced additional resources for the GF which could be used to fund the type of infrastructure included in the Townhill Park redevelopment plans. At this stage it is not possible to formally ring fence this CIL income for funding the expenditure at Townhill Park because the CIL arrangements are still under discussion. However, the GF will need to fund infrastructure improvements estimated at £2.3M and, if it were possible to utilise the CIL income, there would be no net cost for the GF capital programme.
12. In addition to the CIL payments, a broad assessment has been made of the potential Section 106 developer contributions, which indicates that a site specific transport contribution in the region of £0.4M could be sought. This potential expenditure has been allowed for in the modelling work.
13. The new infrastructure is not expected to have any material impact on GF revenue budgets.

14. For the HRA however, the impact of the loss of 380 dwellings has been assessed over the life of the 30 year HRA business plan. This shows that the projected 30 year surplus of £76M would be reduced by approximately £21M. The main reasons for this are:
- The loss of 380 dwellings represents a reduction in stock of approximately 2%. This reduction is not sufficient to enable a number of the costs associated with the general management of the HRA to be reduced.
 - There is no net capital receipt from the sale of the sites so there are no resources to enable the debt on these properties of approximately £4M to be repaid. This debt therefore has to be repaid from the projected 30 year revenue surplus.
 - The capital spending requirements included in the business plan for these dwellings is less than the average for the stock as a whole.
15. Whilst the capital and revenue costs for the HRA associated with the regeneration of Townhill Park are affordable within the context of the 30 year business plan it is clear that careful consideration will need to be given to the impact on the HRA of future phases of Estate Regeneration as the financial model for Townhill Park is not sustainable in the long term.
16. The above financial analysis has been based on a number of assumptions regarding costs and income that will clearly need to be updated on a regular basis, particularly when detailed development proposals are prepared for each phase and site. Further reports will be made to Cabinet / Council as appropriate if this analysis shows that net costs to the HRA or GF have increased.
17. A number of alternative scenarios to the approved regeneration framework have been assessed to see what impact each has on the overall financial viability of the regeneration framework. The scenarios are:
1. Redevelop Dewsbury Court
 2. Refurbish the shop units and the Ark.
 3. No development on Frogs Copse
 4. Higher code for sustainable homes
 5. 50% of new socially rented homes let at target rents rather than affordable rent
 6. 100% of new socially rented homes let at target rents rather than affordable rent
 7. Allowance for price and construction costs growth
 8. Interest costs increase by 0.5%

It should be noted that the consultants model has treated interest costs on council spending as a capital cost in the same way that a developer would approach funding a new project. In practice this is not the case and appendix 3 shows the HRA and GF capital position excluding interest costs.

18. The conclusion from the analysis is that scenarios 1, 2, 3 and 8 do not have a material effect on the financial position of the redevelopment. These therefore remain viable options for the future when detailed designs are prepared. Scenario 4 would render the redevelopment financially unviable whilst scenario 7 shows a substantially improved position, although there is still a net cost to the HRA. Scenarios 5 and 6 are examined below.

Options for the reprovision of social housing

19. The regeneration framework includes the reprovision of socially rented housing on a one for one basis. Within this overall approach the key questions are:
- Will the reprovision be funded through the HRA or undertaken by a Housing Association?
 - What proportion of the newly rented homes will be made available at target rents as opposed to affordable rents?
20. The issue of what rent levels to charge is a significant one. In April 2002 the Government introduced rent reforms for tenants of all social landlords, which included local authorities and housing associations. Each property has a “target rent” calculated. Most housing association rents have now reached target rent but in the HRA, 2012/13 rent levels are still 5.5% below target. Over the next few years this shortfall will be made good, meaning that rent increases will need to exceed inflation for some time to come. By the time the redevelopment takes place most existing HRA rents will have reached their full target rent level (see table in paragraph 19).
21. In October 2010 the Government announced the introduction of a new social housing tenure called Affordable Rent as part of the Comprehensive Spending Review. Affordable Rent is not subject to the national rent regime but is subject to other rent controls that require a rent of no more than 80 per cent of the local market rent. Affordable rent applies to new build (and some relets) of existing Housing Association owned social rented housing. These homes continue to be let through the council’s Homebid scheme. As part of the proposals for Townhill Park properties developed for affordable rents would have substantially higher rents than target rents. The table below, which uses 2011/12 data, compares the current average rents paid by tenants in Townhill Park for different property types with the comparable rents a Housing Association would charge for a similar new dwelling and also with the new affordable rents:

	Average Actual Rents 2011/12	Target rent for new HA dwelling 2011/12 (^)	Affordable Rent 2011/12	% increase of affordable rent over target rent
	£ per week	£ per week	£ per week	%
1 Bed Flat	60.72	73.11	101.54	38.9%
2 Bed Flat	67.83	84.25	120.00	42.4%
2 Bed House	75.48	89.69	144.00	60.6%
3 Bed House	80.44	101.92	166.15	63.0%
^ - Target rents for HRA dwellings would be 2.96% lower for flats and 5% higher for houses.				

22. Affordable Rent is part of the new funding regime to provide new social housing development. Housing Associations (now known as Registered Providers) have, from 2011, bid for resources to develop social housing based on the fact that these developments would be at Affordable Rent. The introduction of Affordable Rent tenure is a resourceful way of achieving more with less, but the new rent levels are significantly higher. In general terms this means new clients having to pay significantly more for their accommodation than existing clients. If Affordable Rent is the only tenure available following Estate Regeneration, existing clients could be squeezed out of the area. This is significant for a regeneration project such as Townhill Park where it will be important that existing social tenants have the opportunity to remain in the regenerated area. At the same time it will be equally important that a range of tenures of properties are available to encourage the creation of a balanced and sustainable community that moves away from deprivation.
23. Given that the affordable rents model is now the one main vehicle for generating investment in new social housing supply, realistically there is no alternative way of providing the new social housing at target rents other than by the local authority providing some subsidy. It is proposed that regeneration in Townhill provides social housing at 50% Affordable Rent and 50% Target Rent.
24. The base case assessment undertaken by the consultants (CBRE) assumed that all the new dwellings would be owned by a housing association and let at affordable rent. If 50% of these dwellings were let at target rent the housing association would require a subsidy from the council. This has been estimated at £3.9M (scenario 5). If 100% of these dwellings were let at target rent the housing association would require a subsidy from the council estimated at £7.8M (scenario 6).
25. A direct contribution from the Council to a Housing Association for the provision of new social housing is a cost to the GF capital programme. This programme has an uncommitted sum of £1.7M available to support affordable housing. This funding must be used to help fund the costs of new housing provision so it would be possible to use it to help pay this subsidy.

26. An alternative approach could be for the development brief to specify that a certain percentage of dwellings must be let at target rents. This would mean that the housing association would pay less to the developer to acquire the properties. This in turn would reduce the capital receipt the developer would pay to the Council for the land. Care would be needed with this approach to ensure that the redevelopment did not become financially unviable. Legal advice would also be needed on the financial implications for the HRA as this course of action could reduce the HRA capital receipt by up to £2.6M. This would leave the HRA with no capital receipt and increase the net capital costs to £10.7M.
27. As the preferred way forward is for 50% of the new social housing to be let using target rents it would be possible, subject to legal advice, to adopt a mix of the above funding approaches so that the subsidy is funded through a mixture of reduced HRA land receipts and utilisation of the uncommitted funding in the Housing GF capital programme. Three funding options are set out below for meeting the £3.9M anticipated subsidy required to deliver 50% of the reprovision at target rent:
28. **Option A:** the General Fund capital programme funding of £1.7M for affordable housing is utilised, which would leave a gap of £2.2M to be met by the GF for which there is currently no funding available. There is no impact on the HRA from this option.
- Option B:** as option A, but a reduction in the HRA capital receipt is used to meet the £2.2M funding gap (so no GF pressure).
- Option C:** the full anticipated HRA capital receipt of £2.6M is utilised. The balance of funding of £1.3M would be met from £1.7M available in the General Fund capital programme.

Based on the current options presented above, the impact on the HRA and General Fund of each option is set out below:

Impact on GF: Housing Association 50% Target Rent

OPTION	A	B	C
	£M	£M	£M
Subsidy Required	3.9	3.9	3.9
Contribution from GF Capital Prog.	(1.7)	(1.7)	(1.3)
Reduction in HRA Capital Receipt	0.0	(2.2)	(2.6)
GF Funding Gap	2.2	0.0	0.0

Impact on HRA: Housing Association 50% Target Rent

OPTION	A	B	C
	£M	£M	£M
HRA Capital Cost	10.7	10.7	10.7
Capital Receipt (Base Case)	(2.6)	(2.6)	(2.6)
HRA Capital Receipt reduction to offset HA 50% Target Rent	0.0	2.2	2.6
Revised HRA Net Capital Outlay	8.1	10.3	10.7

Remaining HRA Capital Sum Available for Estate Regeneration: Housing Association 50% Target Rent

OPTION	A	B	C
	£M	£M	£M
HRA Capital Sum for Estate Regeneration	20.0	20.0	20.0
Capital Outlay Townhill Park	(8.1)	(10.3)	(10.7)
Revised HRA Capital sum for Estate Regeneration	11.9	9.7	9.3

29. Alternatively the new dwellings could be owned by the HRA. There would be no reduction in capital receipts for the HRA or use of GF budgets. It is however, necessary to assess the impact on the HRA business plan of the acquisition of these dwellings. This has been assessed using the current 30 year HRA business plan. The following variations are in addition to the £21M reduction in the 30 year surplus referred to in paragraph 12:
- If the HRA let all the new dwellings at affordable rent there is no impact on the HRA surplus – in other words the income covers the expenditure involved.
 - If the HRA let 50% of the new dwellings at target rent then the HRA surplus would reduce by £11M – in other words it would take longer than 30 years for the HRA to recover its costs.
 - If the HRA let all the new dwellings at target rent then the HRA surplus would reduce by £22M.
30. The above analysis has been done on the basis that the extra borrowing the HRA would need to undertake to fund the new build programme has been repaid by the end of the 30 year business plan. Therefore the new properties are debt free so there is a higher long term annual surplus for the HRA under any of the new build options but it takes longer than 30 years for there to be an increase in the cumulative surplus.
31. It is therefore proposed that all the new provision is provided by a housing association with 50% to be let at target rent. It is further recommended that **Option C** is adopted to fund the additional cost to the council, due to the need to avoid a further General Fund pressure and a desire to retain part of the GF capital provision for future affordable housing projects.

Other financial assumptions / issues

32. The financial assessment has assumed that there will be no grant from the Homes and Communities Agency towards the social housing provision. This is a prudent assumption as the new provision will take place after the current HCA grant regime has finished and there is no information available about what might replace it after 2015.

33. Similarly, no income has been assumed from the New Homes Bonus as beyond 2014/15 this will come from formula grant. Whilst the government have indicated this funding is intended to be a permanent feature of the local government finance system, given the current review of local government financing, there is no certainty as to the mechanism and methodology by which this will be calculated and distributed.
34. It needs to be emphasised that the redevelopment costings are based on current regional cost indices and will need to be updated on a regular basis and particularly when development briefs are prepared for specific sites and phases. These updates will also include the impact of Section 106 costs, final CIL arrangements and the availability of grant as these issues become clearer.
35. It has also now been possible to undertake a detailed “zone by zone” assessment of the master plan. This has shown that there are a few zones where the redevelopment costs are comparatively high compared to the number of new homes provided. As the detailed development briefs are produced it would be sensible to review the detailed plans for these zones to see if the financial position can be improved without compromising the regeneration of the area.

Assessment of Delivery Options

36. The delivery options are:
 - Using a development agreement,
 - Setting up a Joint Venture with one or more private sector partners
 - The council acting as a developer and undertaking all the work itself.
37. Confidential appendix 1 gives a full assessment of these options. In summary the option of the council acting as a developer is considered to expose the council to undue risks and this is not the council’s area of expertise. This option is therefore not recommended for further consideration.
38. The Development Agreement is the route the council has adopted in previous schemes and it is proposed that this route is adopted for phase 1 at Townhill Park. The option of a Joint Venture needs further consideration, particularly in light of the potential regeneration of further parts of the city, the master planning for which was agreed by Cabinet in February.

Planning Strategy

39. The consultants’ report recommends that the Council consider obtaining either outline planning consent or adoption of the Regeneration Framework as a Supplementary Planning Document (SPD). The Council will investigate the benefits of these approaches as the work moves forward.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

40. The option of not approving the financial contributions to meet the cost of delivering the regeneration framework has been rejected as it would not enable the regeneration of Townhill Park to proceed.
41. The option of the HRA providing the new social housing has been rejected as it would increase the impact on the 30 year HRA revenue surplus.

RESOURCE IMPLICATIONS

Capital/Revenue

42. The overall capital and revenue implications of the regeneration framework have largely been set out above. However, one of the principles agreed by council for developing the HRA business plan is that the debt outstanding on a dwelling should be repaid from the proceeds of the sale when it is sold. This is not possible at Townhill Park as there is no net capital receipt. The debt on these dwellings will need to be repaid from the projected 30 year revenue surplus which is one of the reasons why the 30 year surplus is lower than reported in the budget. This is a matter which needs the approval of Council.
43. In order to progress with phase 1 once a development brief has been agreed it is also proposed that Cabinet agree to the capital expenditure involved in getting the sites in phase 1 ready for development. A more detailed assessment of these costs is set out below:

	2012/13	2013/14	2014/15	Total
	£000	£000	£000	£000
Demolition	0	0	596	596
Tenant compensation	66	453	66	585
Leaseholder compensation	157	1,069	159	1,385
Project management	77	78	79	234
Total	300	1,600	900	2,800

44. It is therefore recommended that capital expenditure of £2.8M is approved, in accordance with Financial Procedure Rules, provision for which exists within the approved HRA capital programme.

Property/Other

45. There are no additional implications above those set out in the report to Cabinet in March 2012.

LEGAL IMPLICATIONS

Statutory Power to undertake the proposals in the report:

46. The capital receipt the council receives from the land sale will vary depending from the differing levels of social housing provision that is specified for letting at target rent. It will be necessary to seek legal advice on the accounting implications for the HRA of this approach before financial implications for the council can be fully assessed. It is also necessary to ensure that the sale represents best consideration for the Council; otherwise it would be necessary to obtain the Secretary of States consent to the disposal.

Other Legal Implications:

47. None.

POLICY FRAMEWORK IMPLICATIONS

48. The updated Housing Strategy 2011-15 and Housing Revenue Account Business Plan 2011-2041 approved by Cabinet on 4th July 2011 (and Council on 13th July 2011) confirm estate regeneration as a key priority for the Council. The proposals in this report will contribute towards the achievement of these objectives.

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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	Confidential – Detailed draft consultants report giving financial assessment of the regeneration proposals
2.	Townhill Park Capital Expenditure and Income – all phases
3.	Impact on overall Financial Position of different scenarios.

Documents In Members' Rooms

1.	None.
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Integrated Impact Assessment

Do the implications/subject/recommendations in the report require an Integrated Impact Assessment to be carried out.	Yes/No
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Other Background Documents

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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1.	None	
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Integrated Impact Assessment and Other Background documents available for inspection at:

WARDS/COMMUNITIES AFFECTED:	Harefield and Bitterne Park
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