

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	20 August 2014
DIRECTOR	Pete Leonard
TITLE OF REPORT	SIP New Build Housing Budget
REPORT NUMBER:	H&E/14/054
CHECKLIST RECEIVED	Yes

1. PURPOSE OF REPORT

This report advises on the investment opportunities for the Strategic Infrastructure Plan (SIP) Project to enable the delivery of affordable houses. The investment opportunities presented has two objectives; (1) to support the establishment of a delivery partnership; and (2) to support the undertaking of due diligence on the sites and the taking of the sites through the planning and design process to obtain Statutory Consents and Statutory Undertakings.

2. RECOMMENDATION(S)

It is recommended that the Council:

- 1) Approves the investment opportunities for the new build housing project
- 2) Authorises investment of up to £3 million to finance the cash flow enabling the delivery of this project which will be met from the Council's reserves and Non Housing Capital Programme.
- 4) Authorises the Director of Communities and Infrastructure to conduct any tendering or competitive quotes processes as may be necessary for the purposes of delivering the Strategic Infrastructure Plan housing project(s) and to award contracts following on from such tendering or competitive quotes processes, subject to this being contained within the £3 million budget envelope.

3. FINANCIAL IMPLICATIONS

The approval of the recommendations will have financial implications for the years 2014 to 2017. The expenditure required to undertake the due diligence on the sites and to take the sites through the planning process will be returned to the Council once a partner is procured and as development of the sites progress. There are some legal costs that

will not be returned. The estimated expenditure for all sites and other items is estimated to be up to a maximum of £3 million.

Funding for this project will be met from the Council's reserves and Non Housing Capital Programme in order to facilitate the necessary cash flow to take these critical projects forward.

4. OTHER IMPLICATIONS

The due diligence on the sites and the procurement of a development partner will have implications for the Council's legal, property, and finance teams. The process to deliver affordable housing and appoint a partner was approved through the SIP.

5. BACKGROUND/MAIN ISSUES

A SIP for Aberdeen has been prepared by the Council that is focussed on the enabling infrastructure needed to build on the positive economic position of the city. The SIP identified key goals, one of which was a step change in the supply of housing. To support this there is an objective to increase the supply of affordable housing to meet the city's housing needs.

The SIP identifies the availability of housing, including the cost, in both the rental and buying market as a fundamental problem and recognises it as one of the key priorities to support and underpin the economic growth of the city. Although sufficient land has been identified to address the housing requirements of the city, through the local plan process, there remains a greater demand across all sectors than the supply available in the market place and certainly in terms of development delivery timescale. This in turn impacts on rental costs as well as house values and acts as a constraint on the labour market.

The requirement for a continuing supply of 'Human Capital' to support economic growth is one of a number of key imperatives for the city. The cost of housing within the travel to work area is a major barrier to mobility for those seeking employment in Aberdeen, moving from parts of the UK where housing is more readily available or available at a lesser cost across all tenures. Removing the barriers and delivering the infrastructure to enable the delivery of new housing developments is vital for the economic growth of the city and supporting the upfront costs, which are reimbursable, is essential to this.

The SIP has committed to procure a suitable delivery partnership to help to meet its short and medium term affordable housing commitments of 2,030 by May 2017, and our forecast five year delivery pipeline of 2,430 units by 2019. In seeking to develop new affordable houses we are aware of the need for and the opportunity to increase the range, type and tenure of houses across the city. The developments will comprise of a housing mix of social rent, mid-market

rent, shared equity/ low cost home ownership and private sale, where some sites will have a greater or lesser mix of certain tenures depending on the individual requirements and site suitability. We will also endeavour to increase opportunities for some of our existing residents by enhancing options for them through different house types and tenures as their aspirations and family circumstances change over the years. By doing this it will free up their existing properties for others, meet their own housing requirements and enable them to continue to live in the area, providing stability for the community as well as their families.

The purpose of procuring a delivery partner(s) is to: bring in private sector experience and expertise in the delivery of affordable and private housing, bring in a partner or consortium that has a standardised product to assist in the speed of delivery, increase ability to lever in finance to fund development and for both parties to share in the development risk and profit.

The partnership will have both short and longer term objectives. In the short term there is an objective to deliver the 1,000 affordable houses. The long term partnership will have the objective of working together to develop sites for private development and maximise development returns for both parties together with capturing the planning requirement for delivery of affordable housing on site. At this stage all development is anticipated to be on Council owned land.

A New Build Housing Team has been appointed to meet these objectives. There are two separate processes to go through before sites can be developed.

1. Procure a Partner

As mentioned previously it has been decided that the best way to deliver the objectives for new build housing is to procure a partner to develop the sites. To procure a partner the Council is required to follow European Union procurement procedures and in setting up a joint venture there will be legal and financial input required. Some of this can be covered by the Council officers, but for some aspects external advice will be necessary.

2. Due Diligence

The successful development of affordable housing targets set out in the SIP necessitates due diligence being undertaken on the sites being transferred to any future partnership. This is essential to ensure the sites are deliverable, that best value is maximised for the Council and that the joint venture can proceed with as little delay as possible once established. The process of due diligence involves the following process:

- Identify available land
- Ensure mechanisms to deliver land
- Legal Title Reports

- Desktop Studies
- Topographical Studies
- Development Layouts
- Initial Viability
- Development Outturn Programme
- Site Investigation Reports
- Detailed design of roads, sewers, SUDS requirements and Statutory Undertaking requirements
- Statutory Consents (Planning, RCC & Drainage Consent)

These are normal development costs and therefore once a partnership is established and developments are completed the capital expenditure will be recovered. This will be in addition to a land receipt and share of development profit resulting from any private development.

3. Housing Sites

To deliver the affordable housing targets in the SIP a range of sites have been identified for delivery, see Appendix 1. It is likely that additional sites will become available for this project, and it is also possible that as due diligence on sites is undertaken, sites may be identified as unsuitable for development. Should sites be identified as unsuitable for development there will be no further expenditure on the site. Should additional sites become available for inclusion in the new build housing project and the Council decide that it is appropriate to include the site within the project it is important that the budget set in this report can be flexible to allow for expenditure without delaying progress on any new opportunities.

The sites confirmed at this stage as committed to the housing project are (as identified in Appendix 1):

- Former Bucksburn Farm
- Former Craighill Primary School
- Former Smithfield Primary School
- Former St Machar Primary School (Tillydrone)
- Former Aberdon Care Home (Tillydrone)
- Former Tillydrone Primary School (Tillydrone)
- East Woodcroft
- Kincorth Academy

6. IMPACT

The budget approval will support the delivery of significant numbers of affordable houses across a range of sites in the city, with a number located within the regeneration priority areas. This project will deliver much needed affordable housing across a mix of tenures, support regeneration through the improvement of the environmental quality of development sites and assist in increasing the supply of private housing.

This project supports the Community Plan and Single Outcome Agreement objectives to increase the levels of affordable housing in new developments and the housing projects will help to improve the quality of life in regeneration areas given the location of the potential development sites.

The delivery of affordable housing supports the key priorities of the 5 year Corporate Business Plan for Smarter Living and Smarter Economy through the priority to improve access to affordable housing. This project also fits with the aspirations of the Housing and Environment Directorate for new house building which increases the provision of affordable houses and regeneration of strategically important parts of the city.

Public – This report identifies expenditure related to the development of Council owned sites for affordable housing, which will be of interest to the public.

Equalities and Human Rights Impact Assessment – This report provides a budget to take forward an approved Council objective as published in the Strategic Infrastructure Plan. The budget will have no impact on other Council budgets and will have no impact on equality groups.

7. MANAGEMENT OF RISK

The return of capital expenditure as set out in this report will be reliant on the establishment of a joint venture and development of the sites for housing. There is a risk that the project does not go ahead and therefore costs cannot be recovered through the development of sites. This is an opportunity risk which in taking will help achieve the target set out in the SIP. A team has been established to manage this process and market research has been undertaken to ensure that suitable partners are interested in the project. In addition capital expenditure on due diligence will not have been lost as the work completed on the sites would be valid for an alternative project or enhance the site value should they be sold on the open market.

It is possible that in the process of undertaking due diligence on the sites that there are constraints identified on sites which will lead to them being undeliverable. These costs would then be unrecoverable, which is a financial risk. To mitigate this risk due diligence will be undertaken following a set process to ensure that capital is not spent on additional surveys, or gaining planning permission if the development is not considered to be viable. The lower value costs to establish development viability are an opportunity risk that may be lost, but are absolutely necessary to achieve the target for affordable housing set out in the SIP. The expertise of the officers within the SIP Affordable Housing Team is such that this risk will be nullified or mitigated to protect the Councils interests at all times.

8. BACKGROUND PAPERS

Strategic Infrastructure Plan

9. REPORT AUTHOR DETAILS

Paul Genoe
Housing Programme Manager
SIP Affordable Housing Team
Regeneration and Housing Investment