

**PART A – SUMMARY REPORT**

**1. SUMMARY OF MAIN PROPOSALS**

- 1.1 Whilst the Borough has experienced almost continual housing growth for the last 5 years, the effect of the economic recession in 2008/09 has left a legacy of stalled housing units. These unfinished or unoccupied properties and sites:
- Represent a financial loss to the Council in terms of income from Council Tax and latterly New Homes Bonus.
  - Have a significant and detrimental social and environmental impact on adjacent communities.
  - Are a missed opportunity, with the development of these properties often being key to the regeneration of priority areas for the Authority.
  - Are a missed opportunity in terms of our ability to meet housing need.
  - Are a missed opportunity for employment and the potential wider benefits on the supply chain, local community, etc
- 1.2 Many of these sites require external funding to overcome issues of viability due to falling land values, but are often not owned by mainstream developers with a line of credit to enable delivery. The usual lenders have withdrawn from the marketplace, unless the company has a major track record of delivery.
- 1.3 In this context, the report sets out arrangements for a pilot scheme which will be used to test a funding model to address stalled sites that have a detrimental effect on communities and require financial intervention to bring them back into use. The use of additional Council Tax and New Homes Bonus revenue generated from these sites will be used to provide gap funding to make these developments viable but would be cost neutral to the Authority. Where appropriate the provision of funding could, require commitments to be made by the developer, for example, nomination rights for rental properties, employment of apprentices, etc.
- 1.4 The report also sets out proposals for a scheme to support the conversion of vacant retail space to residential accommodation, with a pilot project being focussed on Dawley and Wellington Centres to complement other planned regeneration activity. This initiative is separate to the recently announced High Street funding of £1m and individual projects would not be eligible for both funds.

## 2. RECOMMENDATIONS

- 2.1 That Cabinet delegate authority to the Assistant Director: Development, Business & Employment, in consultation with the Assistant Director: Finance, Audit & Information Governance and the Cabinet Member: Housing, Development & Borough Towns, to implement the proposals and associated agreements to address stalled housing units, in line with the terms set out in this report;
- 2.2 That Cabinet delegate authority to the Assistant Director: Development, Business & Employment to enter into agreements to incentivise owners of vacant floorspace above retail premises to convert this for residential purposes, in line with the terms set out in this report;
- 2.3 That Cabinet recommend to Council that approval is given to increase prudential borrowing by £2,000,000 and for the capital programme to be amended as required to support the proposals within this report;
- 2.4 That Cabinet recommend to Council the investment of New Homes Bonus and Council Tax growth as required to support the proposals within this report;
- 2.5 That Cabinet delegate authority to the Assistant Director: Law, Democracy and People Services to approve and execute all necessary legal documentation in accordance with the Constitution required for the purposes of implementing the recommendations of Cabinet and Council arising out of this report.

## 3. SUMMARY IMPACT ASSESSMENT

<b>COMMUNITY IMPACT</b>	Do these proposals contribute to specific Co-Operative Council priority objective(s)?	
	Yes	<ul style="list-style-type: none"> <li>- protect and create jobs as part of a 'Business Supporting, Business Winning Council'</li> <li>- ensure that neighbourhoods are safe, clean and well maintained</li> <li>- regenerate those neighbourhoods in need and work to ensure that local people have access to suitable housing</li> </ul>
	Will the proposals impact on specific groups of people?	
	Yes	Communities and neighbours next to stalled sites suffer blight and anti-social behaviour which will improve dramatically when properties are developed and occupied
<b>TARGET COMPLETION/ DELIVERY DATE</b>	Funding for the successful pilot project would be pursued immediately following Cabinet Approval and the appropriate procurement process.	
<b>FINANCIAL/ VALUE FOR MONEY IMPACT</b>	Yes	<p>There are significant financial implications arising from the recommendations within this report and these are detailed throughout the report. In summary, the report requests:</p> <ul style="list-style-type: none"> <li>• Approval to increase prudential borrowing by £2m in 2015/16.</li> <li>• Approval to a pilot scheme which will offer a grant to the owner of a stalled housing site. Applications for funding as a pilot scheme must demonstrate, via a business case, that the investment will be recovered through New Homes Bonus and additional Council Tax Income over a 6 year period. Due to State Aid regulations the maximum amount that can be allocated as a grant is circa £156,000 based on current exchange rates. The proposal will require short term borrowing to cover the initial cost of the grant.</li> </ul>

		<p>This borrowing will be repaid via increased New Homes Bonus and Council tax revenue over a period of years.</p> <ul style="list-style-type: none"> <li>• Approval to pilot a scheme which will offer a loan to the owner of a stalled housing site. Loans will be funded from prudential borrowing and will be offered at market interest rates for a maximum of 5 years in order to avoid State Aid challenge</li> <li>• Approval to develop a scheme for unlocking empty floorspace above retail premises. This scheme will be piloted in Dawley and Wellington and will include a grant scheme funded from future years New Homes Bonus allocations, a 0% interest loan scheme up to a maximum of £20k per property and a market rate loan scheme up to a further £20k per property. A business case will be required for every application which demonstrates that the increase in Council Tax for the property equals or exceeds the loss of NNDR income and the costs of borrowing for the property. Finance advice will be provided in order to develop this scheme sufficiently before it is made available via the e-portal site.</li> </ul> <p>It should be noted that the future of the New Homes Bonus Scheme is uncertain beyond 2015/16 and there is a risk, therefore, that the additional costs of borrowing required to deliver the proposals as detailed within this report will add to current budget pressures. There is also a risk that the Council Tax base will be reset during the period and alter the assumptions within the business cases.</p>
<b>LEGAL ISSUES</b>	Yes	<p>The Council can develop the stalled site schemes as proposed in this report using its various powers to promote or improve economic, social and environmental regeneration, supported by the freedoms and flexibilities afforded by the General Power of Competency under the Localism Act 2011 under which it is able to support sustainable development, incur expenditure and give financial assistance. Advice has been given by the Council's Legal Services in respect of the powers and means by which the Council can promote corporate objectives and outcomes through supporting the development of stalled sites along with the associated risks. Formal funding and loan agreements will be drawn up by Legal Services to ensure that all necessary conditions are in place to minimise the risk to the Council.</p>
<b>OTHER IMPACTS, RISKS &amp; OPPORTUNITIES</b>	Yes	<p>The future of the New Homes Bonus Scheme is uncertain beyond 2015/16 and the Council Tax base may be 'reset', which may alter the business case assumptions for future years.</p>
<b>IMPACT ON SPECIFIC WARDS</b>	Yes	<p>The impact of the scheme will generally be limited to the Wards where the pilot schemes will be delivered.</p>

## **PART B – ADDITIONAL INFORMATION**

### **4. INFORMATION - UNLOCKING STALLED HOUSING UNITS**

- 4.1 The delivery of growth and new homes to meet need is a key priority for the Council and in the Service Delivery Plan for Development, Business & Employment 2014-17 (*'by direct intervention, and as part of our growth strategy, we will deliver more new homes as well as bring empty homes back into use'*). In addition, the generation of Council Tax and New Homes Bonus arising from housing development contributes directly towards the Council's

budget strategy. Whilst the Borough has seen year on year growth in new home completions since 2008 there remain a number of development sites that are not coming forward or remain partially built - often called, 'stalled sites'.

- 4.2 There can be many reasons why these sites are stalled, but the over-riding factors are usually that a planning consent was obtained prior to or during the recession with the development subsequently being deemed unviable, or lenders withdrew from the marketplace leaving the landowner/developer unable to access finance. These sites are usually located in areas that have seen property values reduce substantially since 2008/09 and without intervention they will remain undeveloped.
- 4.3 Although the housing market has improved considerably in the Telford area in the last 18 months, this has largely been due to the volumes of new homes, not a rise in property values. There has been some success with stalled sites, for example, the 52 affordable homes at the former Brindleyford School in Brookside were completed in February 2014 after six years undeveloped. Other sites, such as Dale End Garage in Ironbridge have started after a long vacant period and the former Summercroft nursing home site in Donnington has now been bought from the receivers. In these cases the Council has actively intervened through brokering a way forward with stakeholders, without needing to resort to any financial intervention.
- 4.4 However, there are a number of 'major' sites (defined as over 10 units) in the Borough, which are privately owned, with a planning consent, that remain undeliverable on viability grounds. It is no coincidence that stalled housing units are almost exclusively found on brownfield land mainly in our Borough Towns where intervention is even more vital to bring them forward.

#### **The Pilot Scheme**

- 4.5 To address this issue it is proposed that the Council launch a pilot scheme which will use income generated from New Homes Bonus and Council Tax to provide gap funding up to a maximum of approximately £156,000 as well as a loan to address viability issues. The chosen pilot scheme will need to meet the following criteria:
- **Scale** – the Borough has many single or minor sites (less than 10 units) with planning permission but the impact of intervention on these sites would be negligible for the return invested. Concentrating efforts on relatively large sites will see better outputs for a single investment.
  - **Legacy** - Although we may still see sites stall, the legacy of stalled sites was principally borne out of circumstances attributed to unique economic factors. Land for new development is generally acquired based on delivery rather than hope value, which was the case with previous consents. We will focus on those legacy sites where hope value remains an issue.
  - **Regeneration** – the Council uses its various general powers to promote or improve economic, social and environmental regeneration of the Borough. Potential schemes will be evaluated in terms of the improvements they will bring forward, including their contribution to meeting identified housing needs especially the impact of the bedroom tax.
  - **Procurement** – since the Authority is potentially assisting private sector companies there are issues around State-Aid and EU procurement legislation. There will be a need to ensure that the sites to which the pilot is applied have a robust business case for investment and satisfy these tests. This business case is likely to be more compelling on larger sites.

- **Speed of Delivery** – As New Homes Bonus is secure as an income stream for 2015/16, preference will be given to those scheme which show full or partial delivery in 2015/16 as these represent a lower financial risk for the Council.

- 4.6 The funding is proposed as a route of last resort, where a site would not be brought back into use for the foreseeable future without intervention. As part of the due diligence test for applicants, evidence of reasonable endeavours to secure alternative finance will be required with all options considered including opportunities to access HCA, Business Innovation & Skills and the Marches Local Enterprise Partnership funding as well as local grants/loans, before Council support is sought.
- 4.7 As stated above, the concept is based on stalled homes being brought into occupation and generating New Homes Bonus and Council Tax income for the Authority. The business case for investment will need to demonstrate that the capital investment can be repaid by revenue income from the growth in New Homes Bonus. It is important to note that the ongoing availability of the New Homes Bonus schemes cannot be guaranteed, and the Council Tax base may be ‘reset’, which may alter the business case assumptions for future years.
- 4.8 The proposal is to offer two options under the pilot, capital funding or a loan. Both will be based on pre-determined eligibility criteria including;
- 10 (ten) units minimum but preference for larger scheme
  - Extant Planning Consent granted before 1 January 2014
  - Brownfield site or PDL (previously developed land)
  - Stalled housing units either part built or requiring refurbishment located in the urban area of Telford
  - The scheme and the applicant are considered financially viable
  - Excludes sites where other funding from the Local Authority or any Government agencies has been offered.
  - Meets regeneration and housing priorities within the Borough

Capital funding/loan will be awarded to the pilot project which meets the above criteria and delivers the best return on investment for the council both financially and in terms of unit numbers delivered.

### **The Capital Funding Scheme**

- 4.9 Council approval is sought for capital funding towards the successful pilot scheme up to the EU de minimis threshold circa. £156,000 at current exchange rates but amount will change on a daily basis in order to comply with State Aid regulations.
- 4.10 There is currently no capital budget allocation to fund such a scheme and this will, therefore, require an increase in the capital programme and associated short term borrowing. Income from New Homes Bonus and Council Tax from the completed development will be used to cover the cost of short term borrowing (£33,000 pa for 6 years) and to ultimately repay the borrowing. As a result of this funding intervention, the Council will not only meet key regeneration and/or housing priorities but will also continue to receive additional New Homes Bonus and Council Tax revenues, once the capital funding is repaid. It is important that any scheme identified as a Pilot is not currently included in projections for Council Tax and New Homes Bonus so revenue can legitimately be used to support borrowing/repayment of funding without any impact on existing income targets. Eligibility, evaluation and monitoring arrangements, including legal and financial details of the capital funding scheme will be worked up following approval to proceed to the next stage, with implementation being subject to the approval of the Assistant Director: Development,

Business & Employment , in consultation with the Assistant Director: Finance, Audit & Information Governance and the Cabinet Lead for Housing, Regeneration & Economic Development. From a procurement perspective, capital funding will be issued via a contract route rather than a grant.

- 4.11 Where capital funding is approved as part of the pilot, the business case will need to demonstrate that the investment will be recovered through New Homes Bonus (within no more than 6 years) and the additional Council Tax income (within no more than 5 years) which without intervention through the proposed scheme would not be forthcoming in the near future or at all. A scheme of 20 units which received capital funding at the EU de minimis threshold (approximately £156,000) would take under 5 years to be repaid assuming occupation immediately upon completion, and less if the units were affordable, due to the enhanced New Homes Bonus premium.

### **The Loan Scheme**

- 4.12 Council Approval is also sought for a loan scheme to support the pilot. The grant of a loan to the pilot project will be dependent upon the agreement of a financially viable business case in each instance.
- 4.13 Any loan agreement will be subject to close scrutiny in terms of state-aid, procurement and financial due diligence. The Council will borrow from the PWLB in order to provide the loan. In order to satisfy State Aid requirements and to compensate the Council for the financial risk which they will be taking, it will be necessary for the loan to be offered at market interest rates. There will, therefore, be a premium received by the Council from the uplift in interest rates. This can be used to offset Council revenue pressures, or it may be that this premium can be set aside to provide a revolving funding source if a wider roll out of the scheme is approved subject to the successful delivery of the pilot project.
- 4.14 Any loan facility given will be subject to a formal Loan Agreement between the Council and the developer setting out the terms and conditions associated with the provision of the funding. This will typically include drawdown method, conditions precedent, costs, repayment/payment, covenants and default scenarios. This must include a Legal Charge being granted to the Council or some other form of acceptable security being provided by the developer for the full amount of the loan facility given. In the event that no first charge is available, the Council would seek other forms of suitable security. Loan lengths are to be a maximum of 5 years with most schemes re-financing after build completion to enable an earlier payback.
- 4.15 The granting of capital and/or loan funding under the pilot will be considered to be part of a deal with the chosen developer and as such there will be an expectation that the landowner/developer will also contribute beyond their own finance/borrowing. These elements will be negotiated with the successful pilot but may include:
- Letting of rental units via Telford Homefinder
  - Securing discounted prices ongoing using a resale covenant on open market sales to maintain affordability
  - Nomination rights for the Council for a percentage of rental properties
  - Potential equity stake for the Council
  - Use of local labour/apprentices in delivering schemes on the ground
- 4.16 The terms of the pilot scheme will include requiring adequate security in the form of land and/or property charges together with a viable build and sales programme to ensure delivery within an agreed timescale.

- 4.17 The council has experience of facilitating a similar scheme, providing assistance in the form of grants under the Market Intervention Fund for small stalled schemes. This has enabled 66 new homes to be delivered across seven sites funded from Government grant, provided in 2010 as part of the Council's Growth Point status. The scheme was targeted at the small builder/developer sector following the recession and enabled delivery without issue, following a rigorous due diligence process.
- 4.18 The Council's Development Delivery Group Specialist will lead on establishing any pilot project in relation to successful bids, working with officers from finance, legal and procurement.

### **Securing the Pilot Project**

- 4.19 The pilot will be advertised via TWC's e-tendering portal for bidders to propose schemes that will meet the eligibility criteria in 4.8 above. The evaluation process will mirror that used for the 'Deal for Business' with a business case based upon the developer's bid submission prepared by the lead officer. Bids received will be evaluated against agreed criteria to ensure that the capital funding available is allocated to deliver the greatest possible benefits to the Council and the community and, therefore, demonstrates value for money.
- 4.20 The preferred bid and therefore the pilot project will need to be approved by the Assistant Director for Development, Business & Employment and Assistant Director for Finance Audit & Information Governance in consultation with the Cabinet Members for Housing, Regeneration & Economic Development and Finance & Enterprise.
- 4.21 A legal agreement will be put in place with the pilot developer and the Development Delivery Group Specialist will monitor the terms in consultation with finance/legal officers and subsequent delivery on site.
- 4.22 The pilot project could be awarded to a private developers, builders or Registered Provider, provided their bid meets the eligibility criteria.

### **INFORMATION - UNLOCKING EMPTY FLOORSPACE ABOVE RETAIL PREMISES**

- 4.23 In addition to unlocking stalled sites, it is proposed to develop a similar scheme for incentivising landlords/owners to bring accommodation above retail premises into use for residential purposes. Such a scheme has the potential to:
- Meet housing need, especially for one and two bedroom units arising out of changes to the bedroom tax.
  - Help to discharge its duties around homelessness through the private rented sector.
  - Support regeneration objectives by revitalising high streets in our local centres and borough towns by bringing empty properties back into use.
- This initiative is separate to the recently announced High Street funding of £1m and individual projects would not be eligible for both funds.
- 4.24 It is proposed that the scheme, which will comprise of a capital and/or a loan element, is initially piloted within Dawley and Wellington High Street on the basis of forthcoming regeneration proposals for these areas. The pilot will be used to identify the level of interest from owners/landlords, the most appropriate package of support needed to convert retail premises into residential properties and sustainable management resources. Based upon the results of the pilot the scheme may then be rolled out to Hadley, Oakengates, Donnington, Newport and Ironbridge. Eligibility criteria for funding will be used to ensure that the commercial properties are suitable for conversion to residential, ensuring new homes are viable and do not create other problems. Although the reference is made to

premises above retail, ground floor accommodation could be included if deemed suitable and not detrimental to High Street vitality.

- 4.25 As with the proposals for stalled sites, the availability of funding will be advertised and bids invited which meet the council's eligibility criteria. Each application will be evaluated against agreed criteria to ensure that the funding available is allocated to schemes which deliver the greatest possible benefits to the council and the community and, therefore, demonstrates value for money.
- 4.26 A business case will be required for each investment which demonstrates that the revenue costs to the Council of the loan/capital investment is at least offset by the revenue income from loan interest, council tax and New Homes Bonus over the loan period.
- 4.27 **Capital Funding:** It is proposed to use up to the New Homes Bonus allocation (circ £6,000) arising when a property is brought into residential use to finance the capital funding scheme. This element will not be repayable by the property owner and therefore represents a loss of potential un-ringfenced income to the Council. However the proposals will bring in future council tax contributions that would otherwise not have been realised. We will also seek to secure match funding from the Town or Parish Council to provide an additional grant element. Preference will be given to those applications where the owner will provide match funding to bring the property into residential use.
- 4.28 **Loan:** Where more significant works are required we will consider using the existing empty property loan which offers 0% finance up to £20,000 for a maximum of 3 years or additional borrowing up to a cap of £20,000 which will be charged at the market interest rate. Where loans are approved, a charge will be placed on the property so as to protect the investment.
- 4.29 This scheme will be managed by the Homefinder Team who also operate the current empty homes programme. This will ensure that a comprehensive landlord support package is available to complement the conversion to residential letting. Properties that are converted under this scheme for rent must be accredited and advertised via Telford Homefinder and landlords must join the TWC Landlord Accreditation scheme. Nomination rights will also be used to allow homeless applications to take priority for relevant properties. In this instance consideration will be given to the vulnerability of clients and their suitability to accommodation above a retail premises.
- 4.30 There are a number of challenges to converting space above the commercial premises into residential including; the difficulty of identifying and engaging with the owners, many of which are distant landlords, the cost of conversion to residential, access to the property, as well as environmental health and health & safety considerations arising out of conversion, including compliance with the Housing, Health & Safety Rating scheme. The pilot phase will help to establish the true scale of this opportunity and the resources required to manage the scheme on a Borough-wide basis. Opportunities for engaging with other Council Services (e.g. Homefix) to carry out any renovation work required in the conversion of the property will be maximised.

## **5. IMPACT ASSESSMENT – ADDITIONAL INFORMATION**

### **LEGAL**

- 5.1 By inviting housing providers/developers to bid for financial assistance, there is a requirement that a robust, open, fair and transparent process (compliant with the Council's Contract Procedure Rules) is in place so that the Council's decision making processes can be defended if challenged.

- 5.2 The allocation of funds to successful applicants also needs to be compliant with State Aid rules. Applicants will be expected to confirm that their bids are State Aid compliant. In order to avoid the implications of unlawful State Aid, it is necessary to ensure that the allocations are within the provisions of the de minimis State Aid block exemption, which has a limit of circa. £156,000..
- 5.3 A loan could be offered above this value if it were to be made at a commercial interest s compliant with State Aid guidelines. As part of the regulations it is necessary for the company to complete a declaration stating that they have not received other de minimis State Aid over the last 3 fiscal years, which in aggregate would push the overall aid as a company beyond the threshold. However, if a company has received de minimis State Aid over the last 3 fiscal years, it will still be possible to offer a grant/loan if they are proposing a social housing scheme as this can be provided on the basis of Article 2.1(b) of the European Commission's 2005 "block exemption" decision in respect of services of general economic interest or "SEGI".
- 5.4 The Council will need to enter into contractual agreements with selected partners which may include taking a legal charge over the land being developed. There are ongoing legal implications for this process and Legal Services will be involved at each stage.

**6. PREVIOUS MINUTES**

6.1 None

**7. BACKGROUND PAPERS**

7.1 None

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