

## **Report to the Cabinet**

**Report reference: C/005/2007-08.**

**Date of meeting: 11 June 2007.**



**Epping Forest  
District Council**

**Portfolio: Housing.**

**Subject: Leader Lodge - High Road, North Weald.**

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### **Recommendations/Decisions Required:**

- (1) That the Council seeks the improvement and conversion of Leader Lodge, North Weald into four self contained flats, together with the development of an annexe comprising at least two self contained flats within the grounds of Leader Lodge in partnership with one of the Council's Preferred RSL Partners;**
- (2) That the new and converted flats be sold on a shared-ownership basis, as a low cost home ownership initiative for first time buyers in the District who are unable purchase a property on the open market;**
- (3) That, in order to ensure maximum value for money, the Housing Portfolio Holder selects one of the Council's Preferred RSL Partners to undertake the development following a competitive process, based on the plans formulated by the Council's architect and:**
  - (a) the proposed amounts to be paid to the Council by the RSLs; and**
  - (b) any other material considerations considered appropriate by the Housing Portfolio Holder;**
- (3) That the selected Preferred RSL Partner be required to;**
  - (a) produce and submit the detailed planning application at its own cost and risk; and**
  - (b) submit a bid to the Housing Corporation for social housing grant (SHG) funding, which the Council will support;**
- (4) That, subject to the receipt of planning permission and the RSL undertaking the approved development, the freehold of Leader Lodge and the associated land be sold to the selected Preferred RSL Partner, after the outcome of the Housing Corporation Bidding Round is known, for its tendered sum; and**
- (5) That any capital receipt be utilised to provide local authority social housing grant to an RSL to facilitate the provision of affordable housing on another site, and that the Housing Portfolio Holder be authorised to approve its most appropriate use, in terms of the site and RSL.**

## **Background:**

1. Leader Lodge was originally a detached house, within extensive grounds, purchased by the Council under Housing Act powers and converted into 2 two-bedroom flats (on the ground and first floor). The site area is approximately 0.19 hectares. Until 2002, the flats provided tied accommodation for the Manager and Deputy Manager of nearby Norway House, the Council's Homeless Persons Hostel, until it was decided, for operational reasons, that it was no longer appropriate for the hostel management staff to live "on-site". Since that time, the two flats have been used to accommodate two formerly homeless families on non-secure tenancies.

2. Following the vacation of the hostel management staff, a proposal to demolish Leader Lodge and redevelop the site to provide 10 new self-contained flats was formulated. An alternate proposal was also identified, retaining and converting the structure of the existing building to provide four flats and providing a small annexe of two new flats, linked with a communal entrance/stairway. In March 2004, a former Housing Portfolio Holder considered the issue and agreed to the submission of an outline planning application on the basis of the former option.

3. However, in June 2006, despite a planning officer recommendation for approval, the outline planning application was refused by the Area Plans Sub-Committee. This was because the Sub-Committee felt that "the proposals would result in a form of development out of character in this area of predominantly single-family dwellings and detrimental to the street scene" and "would result in an intensification of use out of character with the surrounding properties and likely to result in activity causing disturbance to the occupiers of adjacent properties". Although not forming part of the formal reasons for refusal, it was also apparent that a number of interested parties were concerned at the potential loss of a building considered to have historical links with former RAF North Weald.

4. It is therefore necessary to consider the future use of the site and, in this respect, the following three main options have been identified.

### **Option 1 – Maintain the Status Quo:**

5. Leader Lodge could continue to provide 2 two-bedroom rented flats, but occupied by secure tenants allocated in accordance with the Housing Allocations Scheme. However, in view of the desperate shortage of affordable housing within the District, the extensive grounds which are not being used to their full potential, and the belief that some form of development to increase the amount of affordable housing is possible (see Option 3 below), this option is not recommended.

### **Option 2 – Disposal of the Site on the Open Market:**

6. Since the current occupants do not have security of tenure, the building and grounds could be sold on the open market, realising a capital receipt for the Council, which could be used to help fund the provision of affordable housing elsewhere in the District, or for another housing use. If the capital receipt is used for "affordable housing purposes" the Council could retain 100% of the capital receipt. However, if used for any other reason, 50% of the capital receipt would have to be passed to the Government under the pooling arrangements.

7. In order to assess the market value of the site, the Valuation Office has provided a valuation report. However, the Valuer had some difficulty assessing the value, since she was mindful that planning permission had been refused for development, but that the site did have development potential. In summary, the Valuer advised that:

- In order to maximise the value and fulfil the development potential of the site, planning permission should be sought (for a different form of development than the previous unsuccessful outline planning application) before the property is marketed;

- However, reflecting the fact that planning permission has not been obtained for further residential development, but assuming that planning permission would be readily forthcoming for conversion back into one residential unit, the value would be around £500,000; and
- If the property was marketed without planning permission, but was perceived by a developer that planning permission would be granted for three or more detached houses, or if planning permission was given on appeal for the proposal that was refused permission to provide 10 flats, “potential bids could be made at over £600,000”.

8. However, if this option is pursued, although it would result in a capital receipt that could be used for an alternative housing purpose elsewhere, a potential opportunity to provide affordable housing on a site, of which there is currently a dearth in the District, would be lost. It should also be noted that the purchaser of the site could seek to undertake a similar, or more extensive, development to that considered appropriate and refused by the Area Plans Sub Committee, which may be successful on appeal.

9. If the site is declared surplus to the Council’s requirements under this option, the provisions of the Code of Practice on Surplus Land and Property within the Local Charter between the District Council and local councils will apply. Under the Code of Practice, the District Council must notify the local council of the Council’s intention to dispose of the land on the open market. The Parish Council would then be given 28 days to register their interest to purchase the freehold of the land. Where “the proposed use of the land is supported by the District Council”, the Code does make provision for a discount to be offered of up to £25,000, or 25% of the open market value (whichever is the lower).

### **Option 3 - Conversion and Provision of a new Annexe:**

10. As explained earlier, an alternative development proposal was previously identified by the Council’s architect in 2004, which would result in the retention and conversion of the existing building to provide 4 one bedroom flats (thereby overcoming the concerns about the loss of a historical building) and the provision of a small annexe of 2 two bedroom flats, linked with a new communal entrance/stairway.

11. Discussions with the planning officer have established that she would have no objections in principle but she emphasises that, in view of the previous refusal by the Area Plans Sub-Committee, members may have a different view. She has also suggested that any application for planning permission should be detailed, and not outline.

12. The budget costing for the proposed works is £513,000 (exclusive of fees, usually around 8%). However, it is emphasised that this is only a rough estimate and has not been provided by a quantity surveyor.

13. There are two potential ways of undertaking the proposed development. The Council could either:

(a) undertake the development itself, with the capital costs funded from the Housing Capital Programme, then manage and maintain the properties itself and receive the associated rental income; or

(b) sell the building and associated land to one of the Council’s Preferred RSL Partners, on the basis of an existing use valuation, for the RSL to undertake the development and then either let them at affordable rents, or sell them on a shared ownership basis, and receive the associated rental/sales income; the Council would receive nomination rights as usual.

14. To assess the most cost effective option, Enterprise BMWL consultants were appointed to undertake a financial appraisal of the two options, as well as a comparison with the status quo. The appraisal makes the following key assumptions:

- VAT on the works cost would be payable by an RSL, which is not payable by the Council;
- The RSL may be able to receive £60,000 social housing grant (SHG) from the Housing Corporation towards the cost of constructing the two new properties for rent, or £24,000 for the provision on a shared-ownership basis;
- The Housing Corporation would not fund an RSL for the conversion costs;
- The average initial equity shares for the shared ownership option would be 50%, with rents charged at 2.5% of the unsold equity per annum
- The ongoing housing management costs of an RSL for the rented option would be higher than the Council's

15. A summary of the outcome of the appraisal (showing the situation both with and without SHG from the Housing Corporation) is as follows. It should be noted that all figures are indicative and are subject to competition/negotiation, building costs and property values:

Option	Net Present Value (NPV) over 30 Years (*)	EFDC Capital Required
Status Quo	(Positive +) £33,000	Nil
EFDC Development (Rented)	(Negative -) £260,000	£513,000
RSL Development ( <i>Rented</i> ):		
<i>With SHG</i>	(#) (Negative -) £165,000	£165,000
<i>Without SHG</i>	(#) (Negative -) £225,000	£225,000
RSL Development ( <i>Shared Ownership</i> ):		
<i>With SHG</i>	(@) (Positive +) £100,000	Nil
<i>Without SHG</i>	(@) (Positive +) £76,000	Nil

(\*) NPV represents the value of income and expenditure received/incurred in later years as of today's date. As a simple example to demonstrate the effect of NPV, the NPV of £1 is the amount that needs to be invested now, in order to accumulate £1 over a given period at compound interest.

(#) The negative valuations under the two RSL Development Options (Rented) mean that, on transfer, the Council would need to pay the RSL a dowry, equivalent to the negative valuation

(@) The positive valuations under the two RSL Development Options (Shared Ownership) mean that, on transfer, the Council receive a capital receipt, equivalent to the valuation.

16. This appraisal shows that the RSL Development Option (Shared Ownership) is the most sound financially, since it would deliver a small potential capital receipt of up to £76,000 or £100,000, depending on the receipt of social housing grant. In addition, it would substantially improve the existing building as well as providing an additional four affordable properties to the existing provision of two (rented) properties. Furthermore, the NPV assessment is between £265,000 and £300,000 higher than the RSL rented options, depending on the availability of SHG.

17. The two rented options would require capital provision of £165,000, £225,000 or £513,000 depending on the option selected and the receipt of social housing grant (with

development by the Council requiring the most investment), but would provide additional rented housing (which always requires greater subsidy than shared ownership). These options would also bring Leader Lodge up to the decent homes standard, compared to the status quo option, which would require additional investment by the Council in the near future anyway.

### **Proposed Way Forward:**

18. Having considered the three main options, Option 3 is recommended. It is further recommended that the provision be in the form of shared ownership, as a low-cost home ownership initiative for first time buyers in the District who are unable to purchase a property on the open market. This is because:

- of the financial advantages;
- there is no capital budget provision to provide an RSL with a dowry; and
- there have not been any shared ownership developments completed recently in the District.

19. It is therefore suggested that Leader Lodge and associated land be sold to one of the Council's Preferred RSL Partners to undertake the development, in return for a capital receipt and the usual nominations rights, covered by the District-wide Nominations Agreement.

20. In order to ensure that the Council obtains maximum value for money, it is suggested that the RSL is selected through a competitive process, whereby each of the Council's four main Preferred RSL Partners would be asked to submit a tender on the amount they would pay to the Council to undertake the development, based on the plans formulated by the Council's architect (to ensure a "level playing field"). It is further suggested that the Housing Portfolio Holder be authorised to select the Preferred RSL Partner, based primarily on the amounts tendered, but also taking account of any other material considerations that the Housing Portfolio Holder considers appropriate (e.g. significant building quality issues).

21. One of the further benefits of the RSL Development Option is that the selected RSL would then be required to produce the detailed drawings for the submission of a detailed planning application, and to meet the associated costs, all at their own risk.

22. Since it will not be known whether or not social housing grant is to be provided by the Housing Corporation (and therefore the purchase price cannot be confirmed) until the outcome of the forthcoming bid round is known (around April 2008) it is suggested that the land is not sold until after this is known.

23. Since the Council can only retain 100% of any capital receipt if it is used for affordable housing (otherwise it must return 50% to the Government under its pooling arrangements), it is suggested that any capital receipt be utilised to provide local authority social housing grant to an RSL to facilitate the provision of affordable housing on another site, and that the Housing Portfolio Holder be authorised to approve its most appropriate use (in terms of the site and RSL).

### **Statement in Support of Recommended Action:**

24. Consideration has been given to three main options for the future of Leader Lodge, and the recommended action provides the most affordable housing, whilst providing a low-cost home ownership opportunity for first time buyers in the District who are unable purchase a property on the open market and a small capital receipt, which could be used to provide social housing grant to facilitate affordable housing on another site.

### **Other Options for Action:**

25. To continue to provide 2 two-bedroom rented flats, but occupied by secure tenants allocated in accordance with the Housing Allocations Scheme. However, in view of the

desperate shortage of affordable housing within the District, the extensive grounds are not being used to their full potential.

26. To sell the site on the open market, realising a capital receipt for the Council, which could be used to help fund the provision of affordable housing elsewhere in the District, or for another housing use. However, although it would result in a capital receipt that could be used for an alternative housing purpose elsewhere, a potential opportunity to provide affordable housing on a site, of which there is currently a dearth in the District, would be lost.

**Consultation Undertaken:**

27. The Council's Preferred RSLs have been consulted on the proposed way forward and consider it to be appropriate and would be willing to submit tenders on the this basis.

**Resource implications:**

**Budget provision:** Nil – Potential capital receipt.

**Personnel:** Nil.

**Land:** As set out in the report.

**Council Plan 2006-10/BVPP reference:** Meeting Housing Need.

**Relevant statutory powers:** Housing Act 1985.

**Background papers:** Housing Policy File H758.

**Environmental/Human Rights Act/Crime and Disorder Act Implications:** The environment should be improved through the improvement scheme.

**Key Decision Reference (if required):** N/A.