

ANGUS COUNCIL

**POLICY AND RESOURCES COMMITTEE – 9 OCTOBER 2018
COMMUNITIES COMMITTEE – 13 NOVEMBER 2018**

**APPROPRIATION OF SURPLUS SITE, DUNARN STREET, NEWTYLE
FROM GENERAL FUND TO THE HOUSING REVENUE ACCOUNT (HRA)
USING AN ALTERNATIVE VALUATION METHODOLOGY**

REPORT BY THE HEAD OF INFRASTRUCTURE

ABSTRACT

The site extending to 0.46ha at Dunarn Street, Newtyle is surplus to requirements of Angus Council and it is proposed to appropriate it to HRA for delivery of affordable housing.

1. RECOMMENDATIONS

1.1 It is recommended that the Policy and Resources Committee:

- i) approves that the site extending to 0.46ha at Dunarn Street, Newtyle shown outlined on the plan at **Appendix 1**, is declared surplus to Angus Council's requirements and appropriated from Education to the Housing Revenue Account (HRA) for delivery of affordable housing.
- ii) approves an alternative valuation methodology for the appropriation of surplus assets from the General Fund to the HRA.

1.2 It is recommended that the Communities Committee:

- i) approves the appropriation of the Dunarn Street, Newtyle site to the Housing Revenue Account for the delivery of affordable housing in the amount of £168,000.

2. ALIGNMENT TO THE ANGUS LOCAL OUTCOMES IMPROVEMENT PLAN/CORPORATE PLAN

2.1 The proposal contributes to the following local outcomes contained within the Angus Local Outcomes Improvement Plan 2017-2030 and Locality Plans:

ECONOMY

- An inclusive and sustainable economy.

PLACE

- Safe, secure, vibrant and sustainable communities
- An enhanced, protected and enjoyed natural and built environment

3. BACKGROUND

3.1 The site extending to 0.46ha at Dunarn Street, Newtyle shown outlined on the plan at **Appendix 1** was part of the former Newtyle School that was demolished. Part of the former school site was used for the replacement school in 2009, with the balance remaining as this site.

3.2 Members may recall that report No 509/13 established the current policy for the Appropriation of Surplus General Fund Assets to the Housing Revenue Account for Affordable Housing. This uses a valuation methodology for appropriations based on residual valuation/ discounted

cash flow. This method estimates the development value and deducts the various costs of development and financing etc., leaving any surplus as the land value. This method was considered appropriate for Angus Council as it would strike a balance between achieving a reasonable receipt for the General Fund, whilst still maintaining a level of viability for affordable housing. However, due to the enhanced specification required to ensure future proofing for sustainability and safety standards in the Council's affordable housing developments, compared to those of house builders, and costs associated with carrying out additional works in the surrounding community, the resulting values have been considerably lower than the open market value of sites. In addition this method does not take into account the level of grant and subsidy available to the HRA from the Scottish Government.

4. CURRENT POSITION

- 4.1 The availability of the site at Newtyle has been circulated to all Directorates of the Council with an interest being expressed from the Housing Division for the provision of affordable housing.

5. PROPOSALS

- 5.1 It is proposed that the site extending to 0.46ha at Dunarn Street, Newtyle is declared surplus and appropriated to the Housing Revenue Account.
- 5.2 In an effort to provide a more equitable return to the General Fund, whilst ensuring that the provision of affordable housing remains viable, it is also proposed that an alternative approach to valuation is now adopted that draws on commuted sum values set by the District Valuer as part of Affordable Housing Requirements in private housing developments.
- 5.3 These developments are guided by Angus Local Development Plan Policy TC3 on Affordable Housing which seeks to secure the delivery of 25% affordable housing on all residential sites of 10 or more units, or where the site area is equal to or exceeds 0.5ha. The affordable housing can sometimes be delivered by way of a commuted sum.
- 5.4 The commuted sum payment relates to the cost of providing serviced land for affordable housing. Assuming that Housing Association Grant (HAG) were available, the value is the difference between the affordable land plot which can be purchased using the subsidy' and the value of the site for private development i.e; the commuted sum is the additional amount the housing association or local authority would have to pay over and above the affordable housing land value to obtain an alternative site.
- 5.5 The valuation for affordable housing is based on a residual valuation where the costs of the development are deducted from the calculated income and housing grants as per the More Homes Division Guidance Note (MHDGN 2018/02). The valuations follow the guidance notes issued by the RICS 'Valuation of Land for Affordable Housing Scotland' GN1002013.
- 5.6 Details of the current commuted sums for the 4 Housing Market Areas can be found at **Appendix 3**.
- 5.7 The figures provided are on the basis of the following two tenures:
- Unrestricted plots for private sale
 - Social rent affordable housing plot
- 5.8 The commuted payment is the difference between the affordable land plot value and the value of the plot for private development multiplied by the number of Affordable Housing units required.
- 5.9 It is proposed that members agree the new methodology, that is: to calculate appropriation amounts by taking the mean of the residual valuation for the site, and the current commuted sum per unit (for the Housing Market Area the site is within).
- 5.10 The final appropriation amount for each site will be based on the number of housing units achievable and take into account the costs for demolition, decontamination, and / or

excessive development and infrastructure costs (such as for listed buildings), and will give cognisance to government funding available to the HRA for affordable housing.

6. FINANCIAL IMPLICATIONS

- 6.1 Designs and costings for the proposed affordable housing development have now been completed for the site at Dunarn Street, allowing a residual value for the site to be calculated in line with the current methodology. The resultant residual value for the property for affordable housing is £NIL. However, the open market value of the site is in the region of £300,000 had the site been sold on the open market rather than appropriated.
- 6.2 Appropriation of the property to the HRA using the existing methodology would therefore result in a capital receipt for the General fund of £NIL which is a loss of £300,000 from an anticipated open market sale.
- 6.3 Using the proposed new methodology (based on a combination of the residual value and the Commuted Sums) would result in a capital receipt for the General Fund of £168,000 which is £132,000 lower than the anticipated market value.

NOTE: The background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) which were relied on to a material extent in preparing the above report are:

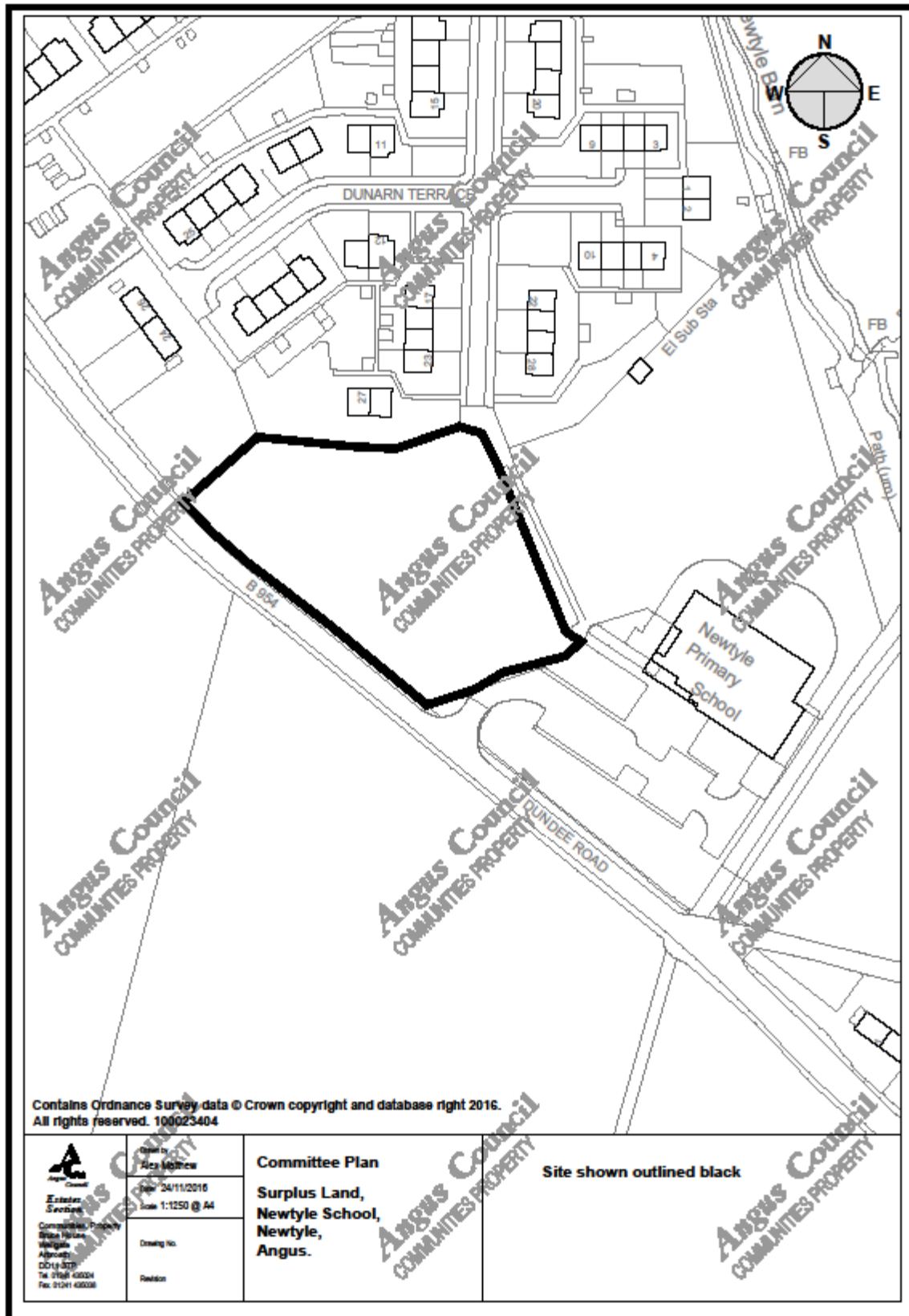
- Angus Council 13/09/13 Report No 509/13 – Appropriation of Surplus General Fund Assets to the Housing Revenue Account for Affordable Housing

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List of Appendices:

Appendix 1 - Plan Indicating Site extending to 0.46ha at Dunarn Street, Newtyle
Appendix 2 - Appraisal Criteria
Appendix 3 - Commuted Sums

Appendix 1 Plan Indicating Site extending to 0.46 ha at Dunarn Street, Newtyle



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|---|--|--|---------------------------|
|  Angus Council Estates Services Communities Property Blair House, Millgate, Aberdeen DD11 3DP Tel: 01224 40004 Fax: 01224 40008 | Drawn by Alex McInnes | Committee Plan Surplus Land, Newtyle School, Newtyle, Angus. | Site shown outlined black |
| | Date: 24/11/2016 Scale: 1:1250 @ A4 | | |

Appraisal Criteria

1. A plan of the property is contained at Appendix 1.
2. The site is owned by Angus Council with no restrictions to its future use.
3. The Open market value of the property has been assessed at £300,000
4. There are to be no restrictions placed on the HRA in respect of the development of the site.
5. 8 council houses for rent will be built on the site and remain on the HRA in perpetuity, and 4 affordable houses for shared equity will be built and sold to qualifying households, subject to demand and government approval of the scheme.
6. A discounted Cash Flow exercise has been carried out to determine the value of the site for affordable housing. The resultant land value for the proposed development is £NIL. Adopting the new methodology would result in a value for appropriation of £168,000.
7. The disposal of this site had been included in Report No. 495/12, Proposed Disposal of Surplus Land, Newtyle Primary School, PH12 8UJ to Corporate Services Committee 30 August 2012. The site is included in the Strategic Housing Investment Plan agreed with the Scottish Government as part of the Affordable Housing Supply Programme.
8. In terms of Regulation 4(2) the appropriation to the HRA (rather than sale on the open market) is justified because:
 - i. The Council's Strategic Housing Investment Plan projects that over 600 units could be delivered over the lifetime of the Plan to alleviate the shortage of affordable housing across Angus. A crucial element in helping to deliver this target is having access to land in the appropriate location, where development costs are affordable and achievable. The Council will work with partners to ensure good, quality affordable housing is delivered on such sites.
 - ii. The proposals promote economic activity within the locality and helps sustain the community by providing increased affordable housing
 - iii. It promotes regeneration by bringing into use an area of land which has sat dormant since the new primary school was built.
9. The proposal is to build 8 new council houses which would be available to existing council tenants in accordance with the council's allocation policy for new supply houses and 4 new affordable houses for shared equity which would be available to qualifying households. Current statistics from the Common Housing Register demonstrate a healthy demand in this area to accommodate this size of social housing development. Research has also indicated that this location would be well suited to intermediate tenures such as affordable housing for sale.

Commuted Sums

Valuations are provided by the District Valuer annually for the period July to June.

Valuations as at 30 June 2018 for period July 2018 to June 2019 (exclusive of VAT)

Date of Publication – 30 June 2018

| Housing Market Area | Value for Private Sale (£) | | | Value for social rent (£) | Commuted payment (£) |
|----------------------------|-----------------------------------|-------------------|----------------|----------------------------------|-----------------------------|
| | Range < | Range > | Typical | | |
| West | £23,000 | £29,000 | £26,000 | £1000 | £25,000 |
| South | £26,000 | £32,000 | £29,000 | £1000 | £28,000 |
| East | £23,000 | £29,000 | £26,000 | £1000 | £25,000 |
| North | £23,000 | £29,000 | £26,000 | £1000 | £25,000 |