

Key Decision Required:	Yes	In the Forward Plan:	Yes
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CABINET

23rd APRIL 2021

REPORT OF PORTFOLIO HOLDER FOR HOUSING

A.3 SME/SMALL HOUSE BUILDING PROJECT UPDATE

(Report prepared by Peter Russell)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To update Cabinet on the Small to Medium-sized Enterprise (SME) /Small House building Project and to seek approval for the acceptance of a proposal submitted.

EXECUTIVE SUMMARY

The Council’s Housing Strategy 2020-2025 “*Delivering Homes to Meet the Needs of Local People*” was adopted by Full Council on 15th September 2020. One of the key priorities in the strategy is to deliver up to two hundred additional Council homes in the district as set out in the Acquisitions & Development Policy adopted in October 2020.

The SME/Small Housebuilding Project presented an exciting albeit, brief, time-limited opportunity to engage with developers to deliver additional council housing in the district. The learning gained from this project has placed the Council on a much stronger footing to take forward engagement with the SME sector to achieve its housebuilding ambitions.

RECOMMENDATION(S)

It is recommended that Cabinet:

- **notes the contents of this report;**
- **delegates authority to the Corporate Director (Operations & Delivery) to continue a process of engagement with the SME sector to deliver Council housing in the District, making use of the learning from this project; and**
- **authorises the Corporate Director (Operations & Delivery), in consultation with the Assistant Director for Governance, to enter into a contract to purchase the three bungalows (as set out in the related private and confidential report) for housing purposes, subject to planning permission being granted for the dwellings.**

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The decisions will contribute to the following priorities in the Corporate Plan 2020-2024:

Community Leadership Through Partnerships

The project and the lessons learnt from it will contribute to the overall aims of the Housing Strategy by enabling the delivery of additional Council housing in the district and will help

to deliver jobs and infrastructure as well as tackling homelessness and improving the lives of households in need of high quality, sustainable, affordable housing. Working in partnership with the SME sector to deliver new housing conforms with the Council's Back to Business programme.

Building Sustainable Communities for the Future

The project and the lessons learnt from it will play a key role in enabling and delivering additional Council housing. Good quality housing contributes to positive health and wellbeing that are the key foundations of a sustainable community.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

Following the relaxation of borrowing headroom arrangements for the Housing Revenue Account (HRA) (these were the capping rules put in place following the changes to the HRA subsidy system) Councils are now in a position to, in theory, borrow above their previously capped limit.

At present the Council's HRA borrowing headroom is around £20m if the government's business plan methodology is applied and whilst this methodology is fairly conservative in terms of its risk profile, straying too far from that risk profile would not be prudent given the recent record of government intervention in the Council's ability to raise income from rents to repay any loans.

As Members will appreciate, the Council would not borrow capital to acquire existing property or to build out any specific scheme until such time as it was required and as such detailed financial breakdowns would be brought forward as and when decisions are sought on specific building projects as interest rates, income profiles, etc. will change over time as will potentially the source and terms of such loans.

This means that individual reports will come to Members for decision on any proposal to build or acquire homes in any location in advance of any new development or acquisitions coming forward.

Only one scheme has come forward for consideration through the SME/Small Housebuilding Project. The scheme would require the Council to purchase three x two bedroom bungalows at a cost of £255,000 each (£765,000 in total). Although borrowing may not be required to fund these purchases, there is a likelihood that borrowing will be required on future schemes and will require the agreement of Full Council on a scheme by scheme basis.

Risk

One of the complicating factors in considering overall viability of any acquisitions is the Right to Buy. Whilst the application of the "cost floor" (over the first 15 years after the build the Council can recover the capital cost of building the property) does protect the Council to some extent, if there are no changes to the current discount levels or other scheme parameters the Council will lose capital on every new unit if it is purchased. Right to buy levels and discounts are variables over which we have little control and so the best we can do is to make estimates of sales based on historic rates and projects of house prices utilising analysts such as Savills.

The Government has recently announced additional flexibilities over the spending of Right-to-Buy receipts, including an extension from three to five years on the timeframe for spending receipts and increasing from 30% to 40% the amount that can be used to fund the cost of a new home. Crucially, however, a limit will be placed on the use of receipts to fund acquisitions and therefore placing an emphasis on new build supply.

LEGAL

The Council has the necessary powers which enable it to build new Council housing and the powers to sell a limited number, currently up to five per year. Part A of the General Housing Consents 2013 provides consent for the disposal of land held for housing purposes within the HA 1985. Under A3.3.1 a local authority may dispose of an unoccupied dwelling house to a person who intends to use it as their only or principal home subject to paragraphs 3.3.2 to 3.3.4

Where a person (a) is not a secure tenant ... the local authority may dispose of the unoccupied dwelling house at a price which is not less than an amount equal to the purchase price defined in section 126 (right to buy purchase price) to which the minimum discount, as provided for by section 129, has been applied.

The commentary to the General Consent provides some further explanation for each part and states at clause 3:

“paragraph 3.3 permits local authorities to dispose of dwellings at discounts equivalent to the Right to Buy discount to existing council tenants and others who, the local authority has decided, need help accessing home ownership in the area (for example, key workers or ex-military personnel, although that is for the local authority to decide).”

If the Council has to acquire land to build new homes Section 17 of the HA 1985 (the 1985 Act) provides the principal power for acquisition of land for housing purposes (as defined in Section 9 of the 1985 Act) including land as a site for the erection of houses.

Section 9 of the Housing Act 1985 states a housing authority may provide accommodation for housing purposes by with erecting or converting buildings into houses, on land acquired by them or by acquiring houses..

Section 12 Local Government Act 2003 empowers the Council to invest if the purpose is relevant to its functions and consistent with the prudent management of its financial affairs.

Future engagement with the SME/small house building sector will follow the appropriate governance arrangements and the outcomes will require individual formal decisions to proceed.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder/Equality and Diversity/Health Inequalities/Consultation/Public Engagement/Climate Impact

Equality and Diversity

The submission received through the SME/Small Housebuilding Project proposes to deliver three x two bedroom dwellings which will be accessible for households with disabilities.

Health Inequalities

The delivery of new, affordable, sustainable homes will help to address health inequalities in the district.

Climate Impact

The Council's build specification encourages developers to deliver carbon-neutral and sustainable homes and requires the developer to provide energy efficient lighting, double glazed windows, electric vehicle charging point and air sourced heating.

Ward

All

PART 3 – SUPPORTING INFORMATION

Background

The Council adopted its Housing Strategy 2020-2025 in September 2020 and one of the key priorities is to deliver additional Council housing in the district for local households. An Acquisitions & Development Policy was adopted in October 2020 to facilitate this delivery. In November 2020, the Council was one of over fifty local authorities who expressed an interest in working with Local Partnerships (a joint venture between the Local Government Association, HM Treasury and the Welsh Government) to deliver a project aimed at increasing engagement with the SME sector to deliver additional Council housing locally. In late December 2020, the Council was advised that its bid for consultancy had been successful along with two other local authorities, Cornwall and Thurrock Councils.

The project commenced in January 2021. The aim of the project was to generate scheme proposals from our local SME's on land that they owned or could purchase to deliver Council housing. The SME's were required to commit to securing planning consent and developing new affordable homes which the Council would then purchase at fixed prices, with the Council making staged milestone payments to the builders.

As part of the consultancy package from Local Partnerships, the Council was provided with four templates to assist in engaging with the SME sector, namely:

Invitation to Submit Proposal (ISP) – an easy to understand document for the SME's to complete if they wanted to come forward with proposals and which set out the Council's evaluation criteria and guide/benchmark prices per unit.

Golden Brick Development Agreement (GBDA) – a sample contract with land and housing with title passing to the Council on the final stage payment. The agreement provides for staged payments to be made once certain aspects of the build had been completed and therefore ensures a regular cash flow to the builder.

Ready Reckoner – a financial viability model that uses local financial factors (e.g grant rates, local housing allowance, borrowing rates, social housing rents etc.) to produce a guide price envelope for each affordable house type and;

Base Specification – a sample building specification for the Council to adapt to its own requirements.

In return, the Council was required to identify the types of affordable housing required and a budget below approved EU procurement thresholds. The Council was also required to populate the Ready Reckoner with local information to establish pricing levels and develop and agree a promotional campaign to attract interest from local SME builders. The early weeks of the project were spent on adapting and amending the templates to meet our local requirements. It was agreed that the Council would look to purchase homes on sites delivering 3-9 homes in total as this would reduce the level of obligations

the developer would be required to pay through a Section 106 agreement.

The project went live on 1st February 2021 and as the project was time-limited in terms of the consultancy provided by Local Partnerships, the SME's were advised to return their ISP's by 5th March 2021. As part of the publicity campaign, 44 local SME's were contacted directly about the project, the project was promoted on Twitter and a press release was produced for the local press. The Portfolio Holder for Housing also took part in a local radio interview. Once the project went live, ten ISP's were sent to local SME's who expressed an interest in the scheme.

At the close of business on 5th March 2021, only one ISP had been received and the details of the submission are contained in the related Part B report proposing a development of three x two bedroom dwellings.

Although only one ISP was received, officers have been contacted by 5 local SME's who could not submit ISP's within the strict deadline for submissions but have advised that they would be interested in working with the Council on future sites. Officers are confident that there is an appetite from local SME's to work with the Council in the future and that the lessons learnt from the project and the template documents can be used to continuously engage with the SME sector to bring forward small sites for the development of Council housing but without the requirement for bids to be submitted within strict time-frames.

FURTHER HEADINGS RELEVANT TO THE REPORT
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None

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

None
