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Ward(s) Affected: All
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NOT FOR PUBLICATION. Appendix C to this Report contains exempt information under paragraph 3 of schedule 12A to the Local Government Act 1972 as amended

Title: Housing Development Programme: Ph2 Sites Detailed Business Cases

Summary:

The Housing Development Programme (HDP) was approved in Jan 2018. The programme is for 207 homes within a budget envelope of c£22m. There are 3 delivery pillars; small sites, larger sites, s106 purchases. Phase 1 of the programme is now complete or committed.

This report presents detailed business cases for the small sites element of Phase 2 of the HDP. Following a report to Executive dated 12th July approval was given to proceed with the detailed business cases for these schemes using the approved feasibility budget. Six small sites and one larger site (30 units) have now been designed and costed. The costs at this stage are subject to the procurement and planning processes but represent measured cost estimates using the agreed procurement route.

The resultant estimates are outside the normal parameters and pro-rata budget however, officers recommend approval of all but one of the detailed business cases subject to the matters raised in the report to enable delivery of the programme to continue.

Recommendations:

- i That Executive approve the detailed business cases for the seven sites subject to Council's agreement to drawdown additional funding for the programme from the s106 reserve in the 2019/20 budget proposals.
- ii The Director of Economic Regeneration and Place be authorised to offer the sites most suitable for housing to the Selby and District Housing Trust at nil value along with a loan and s106 grant to fund the development of affordable housing on the usual terms and conditions.
- iii That officers be authorised to proceed to award contracts and seek planning consent for the sites in partnership with Selby and District Housing Trust.
- iv That final approval of the transfers and loan documents be delegated to the Chief Finance Officer in consultation with the Lead Councillor for Finance and Resources and the Solicitor to the Council.

Reasons for recommendations

To deliver the programme

1. Introduction and background

- 1.1 The HDP was approved in Jan 2018. The programme is for 207 homes within a budget envelope of c£22m. There are 3 delivery pillars; small sites, larger sites, s106 purchases. The January report noted that phase 1 had been built or committed for 50 units at £6.002m. Of those phase 1 sites, all are now complete with the exception of the 12 units being built at Ousegate. These are scheduled for completion at the end of January 2019.
- 1.2 In terms of Phase 2, the programme assumed that in 2018/19 we will build 10 SDC Units and 7 SDHT units on small sites, 11 units on larger sites and 27 properties will added through s106 acquisitions. Progress on the programme is shown in Appendix A.
- 1.3 Approval was given following a report to Executive dated 12th July to proceed to the detailed business cases for the phase 2 small sites using the approved feasibility budget.

2. Ph2 Sites Detailed Business Cases

Phase 2 sites

- 2.1 The table below shows Phase 2 sites that have been selected following due diligence work but is subject to a changes in house type and numbers

depending on planning and on any changes to housing demand and scheme viability.

Programme Year	Scheme Address	Approx No Units	Potential Type & Mix	Stage	Contract Type	
2018-21	PH2 Small SDC Sites	Sherburn				
		Highfield Villas	8	5 x 3B Houses	Feasibility	JCT D&B
		North Crescent		2 x 2B BUNG,		
		Beechwood Close/Eversley Avenue		1 x 2B BUNG		
2018-21		Station Road, Hambleton	3	3 x 2B BUNG	Feasibility	JCT D&B
2018-21		Barff View, Burn	9	4 x 2B Houses 5 x 3B Houses	Feasibility	JCT D&B
2018-21	Main Street, Kellington	5	5 x 3B Houses	Feasibility	JCT D&B	
2018-21	Land adjacent to the George & Dragon Site, West Haddlesey	5	5 x 2B Houses	Feasibility	JCT D&B	
		Total Units	30			

There is an option to extend the scheme at Highfield Villas to 15 units subject to releasing an area of open space. Should the Executive be minded to extend the scheme a further recommendation to delegate approval of the revised outline business case will be required.

It is expected that sites with houses will be offered to the Selby and District Housing Trust for development whilst the sites suitable for bungalows will be developed within the HRA in line with the previously approved Asset Transfer Policy.

- 2.2 The 7 Ph2 sites have now been designed and costed. The site Business cases are at Appendix B. The estimates show cost increases above the pro-

rata budget for Phase 2. However all schemes are considered viable, within a 30 – 40 year payback, if the budget for s106 support is increased to the maximum indicated in the Council’s policy (£50k/unit) instead of the £20k/unit is approved. An increase in the budget to add more s106 subsidy from the earmarked s106 Affordable Housing reserve will require Council approval. In addition, the sites will need to transfer to the Trust at nil value. For the HRA, Homes England grants need to be achieved (considered highly likely). Homes England grants above the £36k per unit modelled are considered achievable presently but grant funding at that level cannot be guaranteed into the future if there is delay in progressing the programme.

- 2.3 Officers have commenced working with Efficiency North on the selection of contractors for the schemes. It is intended to bundle up the schemes into larger contracts, subject to contractor advice where that will result in a lower price. The cost estimates (subject to planning and final site bundling) are shown in the table at confidential Appendix C. They provide the Executive with a financial picture of each scheme to assist in making an informed decision with regard to financial viability of each site depending on the future landlord. The business case for each development utilises cash flow models with appropriate capital cost assumptions and contingencies, rental income, void rates, and on-going maintenance of the homes.
- 2.4 As can be seen in the table in Appendix C the costs for the phase 2 schemes are above the estimate assumed in setting the HDP budget. The revised cost estimate for the Phase 2 sites is £5.076m which is £1.476m higher than the approved budget of £3.6m. This figure represents total scheme costs and not the build cost.
- 2.5 Officers have therefore considered whether the schemes still represent value for money. It must be recognised that the build element of the programme is designed to build additional affordable housing in the District which, in general terms, is not delivered by the market or through planning and requires an element of public subsidy.
- 2.6 The increase in costs is due to a number of factors. Build cost inflation is running at high levels as the high rate of house building is exacerbating a national shortage of staff with the relevant construction skills and (in some cases) of materials. In addition it must be recognised that the sites selected are challenging in terms of access and have disproportionate overhead costs in terms of site demolition and connection costs. The low number of units compared to a greenfield site means that the benefits from economies of scale are limited even when the sites are packaged in procurement.
- 2.7 A comparison with the phase 1 schemes shows how build costs have increased

Scheme name	Scheme cost	Subsidy per unit	Actual cost per unit
43 Kirkgate and St	£465,091	£9400	£94k

Josephs			
HRA Eggborough/Byram	£1.9m	£29,180	£125k
Riccall	£798,400	£30,380	£139k
Byram Park Road	£1.62m	£10,231 + £36,000 (HE)	£115k

Kirkgate is a conversion not a build scheme and the St Joseph's scheme was subsidised by 1 market sale unit the most comparable sites to the current schemes are at Eggborough/Byram and Riccall. The scheme at Byram Park Road indicates that the larger the sites, the greater the economies of scale.

- 2.8 The current procurement approach utilising the Efficiency North Framework, was adopted following a value for money (VFM) review of the costs and approach to procurement when similar issues were encountered in the tender process for Byram Park Flats and Riccall. Officers have reviewed the current approach and concluded that the framework approach is still more likely to deliver VFM than procuring each individual scheme separately.
- 2.9 Enquiries with Craven District Council confirm they have experienced similar housing construction cost issues in developing similar former garage sites for housing. Officers there sought member approval in January 2017 to procure a local framework agreement for building construction and development work that once in place the council could use to tender their schemes. A procurement exercise was conducted to set up the framework and contractors were appointed to the framework at the end of July 2017. Prior to the issue of tender documents in January 2017 Craven spent 3 to 5 months developing local interest in the framework including breakfast briefings and talking to local builders prior to issuing tender documentation. The Craven construction framework took approximately 12 months to set up, attracted 9 bidders and 7 contractors were appointed to the framework. Craven are currently developing three sites using the framework with an indicative development timeframe for each site of 9 months and costs estimates of £112,000-£142,000 per unit. There is no land value as the sites are being developed for the HRA and land is not being transferred to a third party. It is understood that the schemes are expected to complete by the end of the year.
- 2.10 If SDC were to take this route there would be a significant delay to the programme and an additional resource requirement as there is insufficient technical resource within the Commissioning and Procurement Service to undertake this work.
- 2.11 Having undertaken the VFM review, Officers recommend that the detailed business cases on the phase 2 sites should be approved with the exception of the single bungalow scheme at Beechwood Close Sherburn. A delay in

progressing phase 2 will threaten the expected delivery of the programme overall and the continued build cost inflation rates may actually overtake any gains achieved by a change in procurement approach.

3. Implications

Legal Implications

- 3.1 As the Local Housing Authority, the Council has powers under legislation to invest in the construction of properties within the HRA. Section 24 of the Local Government Act 1988 also provides the Council (as housing authority) with the power to provide any person with financial assistance for the purposes of, or in connection with, the acquisition, construction, conversion, rehabilitation, improvement, maintenance or management (whether by that person or by another) of any property which is or intended to be privately let as housing accommodation. The making of a loan to SDHT would fall within this definition as would the transfer of unused land at nil value. Accordingly there is a clear power for the Council to transfer the sites and make the loans to SDHT. The Council's investments can be protected by taking a first charge over the properties constructed by SDHT.
- 3.2 The final details of costs estimates and likely tender prices using the EN Framework are in confidential Appendix C. This information, if considered in public would result in the release of information relating the financial or business affairs of the Council, the Selby and District Housing Trust and Efficiency North. The Council is yet to finalise its procurement of schemes and the public interest in achieving best value outweighs the public interest in dealing with the information in the public report.

4.0 Financial Implications

- 4.1 A budget envelope of £22.385 million to develop the Housing Development Programme in the period up to March 2020 was approved by the Executive on the 4th January 2018 and by full Council on 22nd February 2018. The pro-rata budget for these phase 2 sites is £3.6m.
- 4.2 Phase 2 Detailed Business Cases have been prepared and a summary of this information is attached in Appendix B. Whilst there are cost increases above the pro-rata budget for Phase 2, all schemes are considered viable, within a 30 – 40 year payback (which is considered reasonable given the expected life of the assets), if s106 support is increased to the maximum indicated in the Council's policy and for the HRA, if Homes England grants are achieved.
- 4.3 The proposed HRA schemes assume a level of Homes England grant and should these be approved for tender, officers will continue to work with Homes England to maximise their contributions.

- 4.4 Subject to approval of the revised cost estimates the proposed funding package for the Trust schemes would require loans totalling £2.847m. Latest PWLB rates are around 2.6%, which when applying a 1% margin would mean a fixed loan rate of circa 3.6% for the Trust and interest income to the Council's General Fund of £51k per annum (average) over the life of the loan (£1.7m over the assumed 33 year average loan life).
- 4.5 S106 support for the Trust schemes would need to increase from £600k to £1.19m. As highlighted in section 4.6 above, this is within the maximum £50k per unit established for these receipts although £19.7k per unit over the estimates approved in January 2018. S106 receipts for affordable housing currently stand at £3.1m allowing for previously approved commitments, so there is sufficient to cover these Phase 2 requirements. It is therefore recommended that this increase is built into the 19/20 budget and is also applied to the pro rata budget for phase 3.
- 4.6 These loans contribute to the Council's General Fund savings plan. In 2017/18 these generated an income stream of £18.6k of interest. The savings target for 2018/19 is currently £17k and is forecasted to achieve £18.3k. For 2019/20 the target is £100k and these Phase 2 developments will contribute significantly towards meeting this, alongside the Riccall scheme which is now complete and the Ousegate and Ulleskelf purchases currently being progressed.
- 4.7 The HRA funding package requires a finance package totalling £804k. The borrowing headroom within the HRA, including these schemes is estimated at £10.4m at 31 March 2019 so there is sufficient borrowing capacity within the HRA to accommodate these schemes.
- 4.8 The final funding package will be determined by the Chief Finance Officer in order to optimise the application of any retained right to buy receipts and/or any s106 receipts within the overall subsidy levels approved, in accordance with the previously approved funding hierarchy.

5.0 Policy and Risk Implications

- 5.1 The revised Housing Development Programme approved by the Council's Executive on the 4th January 2018 was based on the delivery of 207 affordable homes for the Council and Selby and District Housing Trust by March 2021.
- 5.2 The Phase 1 sites are either completed or under construction and this report seeks delegated authority to proceed with the development of the Phase 2 small sites. As these sites will be subject to further more detailed design work and input from the Council's preferred contractor, there is a risk that individual sites may drop out of the Programme. This has been mitigated by early pre-application discussions with Efficiency North.

6.0 Corporate Plan Implications

6.1 The Housing Development Programme will provide over 200 new affordable homes in the District by March 2020.

6.2 This Programme supports the priorities identified in the updated Corporate Plan 2018-20 in the following ways:

To Make Selby a Great Place to do Business

- Supporting Training and Apprenticeships – a trainee on the Council's Graduate Training Programme is working with the Housing and Regeneration Team on the Programme and officers will be working with contractors and Selby College to deliver future construction apprenticeships and training opportunities as part of the new build schemes

To make Selby a Great Place to Enjoy Life

- The Programme will broaden affordable housing availability and choice for residents in the District

Resource Implications

6.3 The Housing Development programme is being managed by the Council's Housing and Regeneration Team in consultation with the Council's Chief Finance Officer, Solicitor and Head of Operational Services and the Managing Director and Chairman of the Selby and District Housing Trust

6.4 A multi-disciplinary team has been established to manage the Programme which meets on a regular basis.

Equalities Impact Assessment

6.5 The Housing Development programme will significantly increase the amount of affordable housing available in the District and will have a major impact on broadening housing choice.

6.6 The Programme will also deliver significant construction training opportunities in partnership with contractors and Selby College.

7.0 Conclusion

7.1 Despite the increase in construction costs the schemes are considered viable with a modest level of subsidy which remains within the maximum parameters established. It is expected that the terms of the loans offered to the SDHT will have to be extended to between 30 and 40 years which is considered reasonable given the expected life these assets. Accordingly it is recommended that the detailed business cases be approved.

8. Appendices

Appendix A: Progress on the Housing Development Programme

Appendix B: Business cases

Appendix C: Costs estimates for the 7 sites

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