

COUNCIL
2nd JULY 2020

Report of the Director of Housing

BUILDING NEW COUNCIL HOUSING

PURPOSE OF REPORT

The report sets out a business case for potential investment in a modest programme of new Council housing. The initiative is designed to yield an ongoing rental stream and provide good quality social housing, whilst minimising risk to the Council. Management and maintenance services would be delivered by a third party such as housing associations or private agents.

RECOMMENDATIONS

1. That the principle of providing Council housing is endorsed and a tender exercise is undertaken to procure the services of a development and management agent,
2. That delegated authority is given to the Director of Housing to make applications to register Derbyshire Dales District Council with Homes England and the Regulator of Social Housing.
3. A further report is presented to Council detailing the outcome of the tender process

WARDS AFFECTED

All

STRATEGIC LINK

'Prosperity' is highlighted in the Corporate Plan 2020-24 as a District Council priority due to low local wages and high local house prices. With regard to the recommendations in this report, the District Council specifically aims to: *Promote housing development that meets the needs of the present and future population of the District.* Within this aim, there is an action to: *Build new Council homes to rent and continue to build social rented homes in partnership with Housing Associations.* There is also an action to: *Review opportunities as we strive to be a more commercially-minded District Council.* Delivering council homes to local people will help to meet housing need in the district and generate rental income to support the Council's wider strategic objectives.

1 BACKGROUND

- 1.1 The Community Housing Team made a successful bid to The Local Government Association Housing Advisers Programme 2018/19 for a grant of

£14,000. This funding was used to appoint consultants through the Local Government Association in order to establish the feasibility of developing a modest programme of council housing.

- 1.2 The Local Government Association appointed Altair, an experienced housing consultancy, and work began on the project. The Commercial Board received two reports on progress with the development of the business plan in March 2019 and November 2019. The Community and Environment Committee received a report on building new council homes on the 19th February 2020 and approved the referral of the council housing proposal to full Council.
- 1.3 The business plan is based on several principles including minimising risk and providing social housing tenancies. Housing development is not a risk-free undertaking and whilst there are different tenures and housing designs that could be adopted, getting the basics right first, is vital to guarantee a longer-term sustainable plan. Altair recommended a relatively low risk approach – both in legal and financial terms - to reflect the resource levels available and the Council's limited experience of building new homes to date. This is reflective of other Local Authority areas where housing stock has been transferred out of Council ownership in the past.
- 1.4 The Council has a key corporate priority to 'build new Council homes to rent and continuing to build social rented homes in partnership with housing associations' (Corporate Plan 2020-2024). Following confirmation of support for the direct delivery of new Council homes at previous Commercial Board meetings, this report outlines the refined business case and the project programme for appointment of a development and managing agent for the new homes.
- 1.5 The initial proposal would involve the Council identifying, developing and owning 52 Council homes for affordable rent (rents capped at Local Housing Allowance levels, i.e. within Housing Benefit limits) and shared ownership. The first phase (2020/21) would potentially deliver 7 homes, with the full programme reaching 52 homes. These properties would sit outside the thresholds of a Housing Revenue Account, which currently stands at 200 homes.
- 1.6 Initially, it is proposed to fund schemes from S106 income and Right to Buy (RTB) receipts, combined with Homes England (HE) grant and sales receipts (from first tranche shared ownership sales) as appropriate. Borrowing additional capital could supplement / speed up the delivery of the programme further if required and supported by a future business case. Such borrowing would be subject to further Council approval.
- 1.7 Altair have been supporting the Council with several activities in delivering the new Council homes including:
 - Review of the initial business plan
 - Support to produce a specification and tender documents for a development agent and a managing agent for the affordable homes

- Procurement advice relating to a development agent and managing agent
- Registration with Homes England and the Regulator of Social Housing as a registered provider and investment partner

2 BUILDING AND MANAGING THE HOMES

- 2.1 It is proposed that the Council will be the client and procure property development services from housing associations or from private practice. This is a common approach to development, with larger housing associations providing development management for smaller associations and councils. Larger housing associations have the in-house skills and capabilities to deliver not just their own housing programmes but those of others. The development service they provide brings income to the association and strengthens their partnership with local authorities.
- 2.2 Typically, a fee is charged per unit, payable 50% start on site and 50% on completion of the development. For a home delivered through the S106 process, (whereby affordable homes are purchased from a developer) the fee would be between £1000 and £2000, while a home built for the Council outside the S106 process, the fee would be between £2000 and £3000 per home (subject to tender processes). The development service typically covers all aspects of the development process including site finding, acquisition and planning, financial modelling, applying for Homes England (HE) grant, procuring tenders, management of the build contract, quality control, HE grant claims, handover of completed units and management of any defects.
- 2.3 As well as the development of the new homes, it is proposed that the Council seeks to procure a provider of housing management and maintenance services for the new homes. Under this model, once the homes are completed, the Council will allocate tenants (who will have tenancies with DDDC) to the properties, with tenancy management services and maintenance delivered by the managing agent. In effect, all day to day operations relating to the homes will be carried out by the Council's contractor.
- 2.4 The specifications for the Managing Agent and Development Agent are attached at Appendix 1 and 2. Contained within these specifications is a performance management framework designed to reflect the scale of the contract, utilising the contractor's existing performance systems rather than creating new systems. This will help to keep costs to a minimum and attract prospective bidders. The specifications will form part of the contract documentation to be signed by the Council and its chosen supplier following the tender exercise.
- 2.5 The specifications include key services to be provided by the supplier. These include a preference for use of local businesses and ensuring pre-application meetings with Development Management (where applicable) as part of the development agent service. Within the Management Agent specification there

is, for example, requirements for excellent customer services including tenancy management and dealing with anti-social behaviour.

- 2.6 The specifications have been developed with the support of the Council's consultants and using examples from other local authorities. Soft market testing has also taken place with 3 potential providers in order to ensure the specifications are deliverable and within the cost assumptions built into the business plan. Altair have revised and updated the specifications ready for the tender process.
- 2.7 The programme for procurement of a Development and Managing Agent is set out in para 4.2 below. This targets a Development and Management Agent on board and ready to support the Council by November 2020 with the first homes potentially handing over in quarter 4 2020/21. The intention is a single contract will be used to procure both services under a single provider (although partnerships bids could be acceptable).
- 2.8 The LGA published a paper on the 22nd June 2020, 'Delivery of Council Housing, Developing a stimulus package post pandemic' in which the financial benefits of social housing was highlighted. Every £1 invested in new social housing, generates £2.84 in the wider economy, with every new social home generating a saving of £780 a year in housing benefit.

3 UPDATED BUSINESS PLAN

- 3.1 One of the first pieces of work to undertake with the chosen contractor, will be to refresh the business plan, reworking the appraisals used currently, with the contractor's own appraisal systems. The business plan will be updated annually as schemes come through the programme and forecasts can be updated. It is also intended that quarterly reporting will take place on new projects or opportunities.
- 3.2 The business plan has evolved over time and been updated to factor in several changes since the original business plan including:
 - A property bequeathed to the Council and 7 new homes for affordable rent secured for £7;
 - An additional £10,000 of expenditure on Empty Homes and homes delivered on Derbyshire Dales' sites to deliver energy saving initiatives that respond to the climate emergency. The level and type of intervention will be determined on a project by project basis;
 - The first homes due to complete and handover to the Council in after November 2020;
 - Revised timings of delivery and size of potential projects.
- 3.3 The latest programme of development, following a further review of the programme to date includes:

Type	Affordable Rent	Shared Ownership	Other Rent	Total
Empty Homes	8	0	1	9
s106 Schemes	29	6	0	35
DDDC Led Schemes	6	2	0	8
Total	43	8	1	52

3.4 Altair and the Council have assessed the updated delivery profile of the programme and anticipate the following schemes coming forward. The completion year is in brackets. It is likely this profile will change over time as some opportunities come to fruition whilst others experience delays e.g. where the owner of a S106 scheme sells or delays starting on site. The programme also reflects the size of the Council's available funding, as S106 funds are received, and assumes the purchase of small groups of properties rather than investing in one or two large sites.

	Scheme Name	Unit Details			
		Affordable Rent	Shared Ownership	Other Rent	Total
1	Ph1 Bequest Home (19/20)	0	0	1	1
2	Ph1 S106 (20/21)	7	0	0	7
3	Ph2 DDDC site 1 (21/22)	4	0	0	4
4	Ph2 DDDC site 2 (21/22)	0	2	0	2
5	Ph2 Empty Homes (21/22)	2	0	0	2
6	Ph3 Darley Dale s106 (22/23)	8	0	0	8
7	Ph3 Empty Homes (22/23)	2	0	0	2
8	Ph4 DDDC site 3 (23/24)	2	0	0	2
9	Ph4 s106 (AR&SO) (23/24)	2	2	0	4
10	Ph5 Empty Homes (24/25)	2	0	0	2
11	Ph5 s106 (AR&SO) (24/25)	2	2	0	4
12	Ph6 s106 (AR&SO) (25/26)	4	2	0	6
13	Ph6 Empty Homes (25/26)	2	0	0	2
14	Ph7 s106 (AR) (26/27)	6	0	0	6
	Total	43	8	1	52

3.5 There are some resource implications for the Council to consider:

- The assumptions in the financial appraisal are based on the use of S106 income and grant from Homes England. The pace of delivery will, in part, be governed by the availability of grant and/or the Council's desire to borrow from the Public Works Loans Board (PWLB).
- Some services, such as Housing, Estates, Procurement, Legal and Finance, will need to provide support to the programme.

3.6 During the course of 2019, the Council was contacted by a solicitor acting for the estate of a former resident. The Council has been bequeathed a house in the district and capital funding (approx. £100,000) which will help to support the proposed development programme, ideally in the same village as the

existing home. The intention is to fulfil the wishes of the will and formally recognise the contribution made.

- 3.7 Delivering its own homes, on its own sites, will mean that the Council can specify and deliver exactly what is required to meet local need and to a standard that fully supports vulnerable households. This will include using the £10,000 per home (empty homes and DDDC direct delivery only) for energy saving measures such as inclusion of photovoltaics, fabric enhancements (i.e. fabric first building), reducing water usage to the properties, with the aim of exceeding building regulation minimum requirements for energy efficiency and carbon savings or an improved EPC rating for the property through retrofit of empty homes.
- 3.8 In addition, the indicative development programme is estimated to generate a Net Present Value (NPV) to the Council of £821,000 based on an outline total cost of £5.95m. Year 1 rental yields across the programme range from 3.5% for empty home purchase and repair schemes to 71.0% for the 7 S106 homes for £7. This equates to an additional net revenue stream for the Council of circa £200,000 per annum (assuming all 52 homes are developed and based on the key development assumptions set out in the detailed business case). Over the medium to longer term, up to 199 homes could be delivered (without the need to establish a Housing Revenue Account) providing a new and substantial revenue stream to the Council. Given the size of the programme, this will be monitored on an on-going basis against government policy and other Councils.
- 3.9 As part of a longer term maintenance plan, a small proportion of the rental income will need to be set aside each year, in a new Housing Major Repairs Allowance Reserve. This reflects good practice in the social housing sector and ensures the Council has sufficient resources set aside to cover the cost of works such as replacement of kitchens, bathrooms and windows. The exact level of Major Repairs Allowance funding will be determined in partnership with the chosen contractor and benchmarked against their own stock. The major repairs programme will be reviewed annually and amended as necessary.

4 NEXT STEPS

- 4.1 Altair and the Council have produced an initial programme for delivering the next phase of the project up until appointment of the development and managing agent in readiness for handover of the first homes.
- 4.2 Several of the key dates are highlighted below:
- 2nd July 2020 – Full Council report on tender and delegated authority to register with Homes England and the Regulator of Social Housing
 - 3rd July 2020 – issue tender for managing and development agent
 - w/c 6th July 2020 – register with Homes England and RSH
 - w/c 28th September – confirm successful tenders

- November 2020 – report to full Council
- November 2020 – appoint managing and development agent

4.3 Another key task is registering as a Registered Provider (RP) with the Regulator for Social Housing (RSH). The RSH have confirmed a local authority must notify the regulator when they provide or intend to provide social housing. (Councils are automatically registered). Once notified the RSH will issue a certificate and confirm when the Council has been placed on the register. This will place some regulatory requirements on the Council. However this is only the RSH consumer and rent standards that are applicable to Councils who are Registered Providers. The Consumer and Rent standards relate to risks to tenants e.g. health and safety. The Council will ensure through the management agreement that these standards are complied with. The rent standard is the level at which rents can be set at and how they should be set. This is again covered in the Management Agent specification.

4.4 In addition, the Council will have to sign up as an Investment Partner with Homes England (either direct or via an existing consortium of housing providers) to access grant funding.

5 RISK ASSESSMENT

5.1 Legal

Local authorities have statutory powers to develop housing to meet housing need in their area. The two main powers available are Section 9 of the Housing Act 1985 (relating to general housing need) and Part VII of the Housing Act 1996 (relating to temporary homelessness).

The provision of housing through properties owned by the Council provides a low risk to the Council as long as the successful tendered is a competent landlord with clear knowledge of how to manage social housing tenancies.

The tender will have to comply with the requirements of the Council's Contract Standing Orders.

5.2 Financial

The costs of the development and management agent were taken into account in the business case (that has already been approved by the Community & Environment Committee and the Commercial Board) and will be financed from rental income.

As stated in paragraph 3.9, a small proportion of the rental income will need to be set aside each year, in a new Housing Major Repairs Allowance Reserve, to finance future works such as replacement of kitchens, bathrooms and windows.

The financial risk of this report is assessed as low.

6 OTHER CONSIDERATIONS

In preparing this report, the relevance of the following factors has also been considered: prevention of crime and disorder, equalities, environmental, climate change, health, human rights, personnel and property.

7 CONTACT INFORMATION

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8 BACKGROUND PAPERS

Commercial Board Reports as follows

- November 2019
- March 2019

Community and Environment Committee 19th February 2020

9 ATTACHMENTS

Appendix 1: Managing Agent Specification
Appendix 2: Development Agent Specification