

COUNCIL
26TH NOVEMBER 2020

Report of the Director of Housing

SELECTION OF A CONTRACTOR FOR THE COUNCIL HOUSING PROGRAMME

PURPOSE OF REPORT

This report sets out the results of the procurement process to select a development and management agent together with a proposed implementation plan for the delivery of a modest programme of council housing.

RECOMMENDATION

1. To confirm the selection of Nottingham Community Housing Association as the development and management agent for the Council's housing programme,
2. That delegated authority is given to the Director of Housing, in consultation with the Chairman and Vice Chairman of the Community and Environment Committee, to agree housing investment to secure council housing subject to the parameters established in the summary Business Plan in Section 3 and as set out in Section 4 of the report.
3. That future reports are brought to Community and Environment Committee concerning the progress of the business plan and the performance of the chosen contractor.
4. That full Council receive an annual report concerning the delivery of council housing

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 SUMMARY

- 1.1 At the council meeting on 2nd July 2020, Council gave approval for the implementation of a tender process to select a development and management agent. The Tender process commenced on the 3rd July.

- 1.2 At the meeting on the 2nd July, Council approved the principles of the business plan which includes minimising risk and providing social housing tenancies. 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.
- 1.3 The business plan will see the Council deliver a modest programme of 52 Council homes for affordable rent (rents capped at Local Housing Allowance levels, i.e. within Housing Benefit limits) and shared ownership. These properties would sit outside the thresholds of a Housing Revenue Account, which currently stands at 200 homes.
- 1.4 The cost of the programme will be met 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. The Council's outline investment in this programme is approximately £3m.

2 PROCUREMENT

- 2.1 The procurement process has been supported by the expertise of colleagues at Derbyshire County Council. The initial stage of the process included a Pre Qualification Questionnaire (PQQ). The PQQ generated significant initial interest given the nature of the proposal. However only two PQQs were submitted, one from Nottingham Community HA and a combined bid from Peak District Rural HA and emh (previously known as East Midlands Housing). The tender was a 'restricted tender' given the need to focus on organisations that were able to both meet the requirements of Homes England to manage grant programmes and the requirement of the Regulator of Social Housing to manage social housing. Both PDRHA/emh and Nottingham Community HA are well respected in the housing sector and have a substantial track record of delivering affordable homes, both in the district and further afield.
- 2.2 The assessment of the PQQs took place by officers from the Housing and Legal teams, Derbyshire County Council and the Council's consultants, Altair. The PQQ sought to establish the suitability of the potential contractors across both the development of affordable homes and the management of social housing. The Assessment highlighted the experience and expertise of the two bidders in delivering both aspects of the proposed project. As such both organisations were invited to submit a full tender.
- 2.4 Nottingham Community HA and Peak District HA/emh responded to the Invitation To Tender (ITT) by submitting high quality bids for the Council Housing Contract. It is worth noting that both organisations are long term partners of the Council and have delivered many quality homes. They are also both known for their very high levels of housing management and work with the Council to support vulnerable households and the alleviation of homelessness.
- 2.5 The assessment process for the returned tenders took place on the 4th November and again comprised officers from the Housing and Legal teams, Derbyshire County Council and Altair. The assessment was weighted with 60% of the points focusing on quality and 40% on price. Both organisations scored the same points for their development services. This is unsurprising given the extensive development programmes of both organisations and the oversight that Homes England have of such organisations. Both organisations also fully met the Council's specification.
- 2.6 The assessment of the housing management process again highlighted the experience and good practice of two longstanding and socially orientated organisations. However

this part of the process was the area where the two organisations differed in the answers given. Ultimately the marginal difference in the scoring favoured Nottingham Community HA.

- 2.7 The Nottingham Community HA tender was lower in price than the PDRHA/emh tender. The combined effect of the scoring for both aspects of the tender gave PDRHA/emh a score of 69.75% and Nottingham Community HA a score of 92.8%.
- 2.8 Based on the scores derived from the assessment process, the Council's consultants Altair and officers, recommend that Nottingham Community HA are chosen as the contractor to deliver the council housing programme for the District Council.

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 latest programme of development is as follows:

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

- 3.3 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			Total
		Affordable Rent	Shared Ownership	Other Rent	
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

- 3.4 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.
- 3.5 In addition 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.
- 3.6 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.
- 3.7 The Council has completed its registration with the Regulator of Social Housing as a Registered Provider of Social Housing.

4 NEXT STEPS

Maximising outcomes from the Council housing programme.

- 4.1 The Council can achieve outcomes across several priorities through the development programme. Should Council agree to delegate investment decisions to the Director of Housing, the business plan assumptions and the list of opportunities and constraints set out below, will provide the framework within which such decisions will be made. There are several different opportunities, outcomes and constraints that will guide the council housing programme. It is also the case that the scale of investment will be limited. The focus is on small sites, typically less than 10 homes.
- Regeneration based investment: the Council has an active regeneration strategy focusing on Hurst Farm in Matlock. Investment in bringing empty homes back in to use will help to support the wider aims and objectives of the regeneration strategy.
 - Issue based: empty homes are a significant issue in the private sector. Bringing empty homes back in to use as Council housing will provide a useful option for landlords who are struggling to do something positive with their property.

- Addressing market failure: there are small developments on the market with planning permission which have not progressed. A review of such opportunities could generate a way to help stimulate the local economy and bring forward development.
- Opportunity based: remaining council land that can be developed and minimises the Council's liabilities as a land owner. Whilst these opportunities are limited in size, they will allow a high specification of homes to be built
- Social housing management changes: the district has affordable stock from several housing associations. In recent years some associations have sold their stock to other associations and effectively left the district. There is scope for this trend to continue and as such represents one way of adding stock to the Council's portfolio
- Homelessness: we anticipate increasing repossessions and evictions in the private sector due to the economic impact of covid19. Council investment can help prevent homelessness by buying properties, subject to a maximum price. It is possible that a government programme designed to specifically address mortgage rescue will be made available through Homes England.
- Area based: investing in popular residential areas in towns and villages. Buying back former Right To Buy homes (where it is financially viable) can help sustain levels of affordable homes in locations where it could take many years to deliver a new build scheme.
- Economy based: making selective purchases on new build schemes to support developers in financial risk
- Disability based: securing land or property to make provision for disabled people or families
- Environmental based: allocating an additional £10,000 of investment for new build homes and empty homes brought back in to use, to exceed the standards set out in the Building Regulations.
- Needs based: over 50% of the applicants on the Housing Register are single people. The purchase and conversion of suitable homes in to flats would help to meet housing need.

Constraints

- Value based: there are some schemes we will be unable to afford e.g. an empty home over £150,000
- Viability appraisals will inform the decision of each opportunity in much the same way that housing associations already use them to assess potential schemes. Some schemes will simply be too expensive and will not be taken forward
- Tenure based: standard tenures such as social rent and shared ownership attract grant funding from Homes England and in the case of social rent are affordable to all. Whilst there are emerging tenures around discounted sale, these are not part of the business plan and should not be considered.
- Undue competition with prospective first time buyers: the Council's business plan limits purchase of empty homes to a value of £150,000. This figure is within the realms of that which local first time buyers could afford.

4.2 It is often the case that private developers issue tenders for the purchase of affordable homes on S106 sites requiring a very quick turnaround by prospective housing providers. For the Council to be able to bid for these and other similar opportunities, a reasonable level of delegated authority needs to be provided to the Director of Housing. The Council's Development Agent will be able to advise on the merits of each opportunity. The Development Agent will produce a bid for any tenders set within the parameters of the Business Plan. Before bids are submitted, approval will be sought

from the Chairman and Vice Chairman of the Community and Environment Committee. The results of the bid will be reported to the next available Community and Environment Committee.

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.

Therefore the legal risk of this report at the current time has been assessed as low.

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

Council 2nd July 2020

9 ATTACHMENTS