

SOUTH HOLLAND DISTRICT COUNCIL

Report of: Cllr Colin Johnson, Portfolio Holder for Corporate Delivery and Strategic Oversight

To: Cabinet Tuesday, 15 January 2019 & Council Wednesday 23rd January 2019

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Subject A report concerning a proposed HRA development at Small Drove, Weston

Purpose: To secure agreement for the delivery of 34 affordable homes by the authority at Small Drove, Weston. To seek member approval for the award of the build contract for the construction of the dwellings. To seek member approval for the acceptance of grant funding from Homes England, based on the proposed grant funding agreement appended to the report.

Recommendation(s) for Cabinet :

- 1) That approval is given for the construction of 34 new-build affordable homes by the authority at Small Drove, Weston, enabling the scheme to move towards delivery phase, subject to recommendation 4 being agreed by Full Council.
- 2) To approve the budget spend for the scheme, based on the financial business case contained within this report.
- 3) That approval be given for the council to enter into a build contract with the preferred contractor for the construction of 34 homes at Small Drove, Weston, and to delegate authority to the Executive Director for Commercialisation (s.151) to undertake any incidental amendments required to complete the contract.

Recommendation(s) for Council :

- 4) That approval be given for the authority to enter into a grant agreement with Homes England in relation to grant funding through the Shared Ownership Affordable Homes Programme 2016-2021 to support the delivery of 34 homes at Small Drove, Weston,

1.0 BACKGROUND

- 1.1 South Holland District Council currently owns 10 pre-fabricated two bedroom bungalows at Small Drove, Weston. As an asset, the 10 bungalows are held within the council's Housing Revenue Account and are currently used as short-term lets, as part of the council's wider stock of temporary accommodation. The 10 units on the site are of poor quality in terms of their condition, and the units occupy a large 'land take' by modern development standards (10 dwellings on an area of 0.818 hectares).
- 1.2 Due to the factors relating to condition, and the scope to make better use of the available land, the site was identified in 2015 as a potential redevelopment site for the council.

Following initial feasibility work, a planning application for 34 homes was submitted to the authority as Local Planning Authority for the site in April 2018. In July 2018, following consideration by planning committee, full planning consent was awarded for the site.

- 1.3 In August 2018 work commenced on a procurement exercise for a building contractor for the site as a means of securing a firm 'contract price' for the development, therefore supporting the refinement of a final business case for the scheme. Alongside the procurement exercise, officers engaged with Homes England in respect of a potential application for affordable housing grant to support the delivery of the site. This process included the authority formally applying for 'Investment Partner Status' with Homes England as a means of paving the way for a future formal grant application.
- 1.4 In October 2018, the window for tender submissions from the private sector to deliver the scheme closed. A period of tender analysis followed whereby the submissions were assessed against a 50% Quality and 50% cost criteria. The process has resulted in a preferred building contractor partner being identified. Details of the procurement exercise and the preferred contractor are included within exempt Appendix 2.
- 1.5 Running concurrently, South Holland District Council was granted Investment Partner Status by Homes England and a bid for grant funding was submitted and considered by the local Homes England Team and at a national level. This has led to Homes England providing the authority with a grant funding allocation to help subsidise the delivery of the site.
- 1.6 Having secured planning consent, undertaken a procurement exercise for a building contractor and having been awarded an allocation of grant funding through Homes England to support the scheme, this paper seeks to present to members the business case in respect of the proposed development at Small Drove, Weston. Should the business case receive member approval, the project will move into delivery phase with a view to the development commencing 'on site' in March 2019, with an anticipated 60 week build-out period.
- 1.7 **The development proposal**
- 1.8 The development proposed for the site consists of 34 homes, consisting of 20 homes for affordable rent and 14 homes for shared ownership (part buy, part rent). The scheme will provide a mix of property sizes and types, including one, two and three bed houses alongside bungalow accommodation.
- 1.9 The design, mix and specification for the properties has been drawn up in conjunction with a range of teams from across the council, including Property Services from an asset management perspective, Housing Management from an estate management perspective, and Strategic Housing from a housing need perspective. Other teams, such as the council's Environmental Services team, have also been involved in supporting the development of proposals for the site. The design has also been drawn up in conjunction with the Architectural Liaison Officer from Lincolnshire Police. The specification and layout of the scheme has been designed using the secure-by-design principles and the scheme is looking to achieve a 'secure by design' accreditation for prioritising safety and reducing the opportunity for crime within the new estate. A detailed building specification has been developed as part of the procurement exercise. All tenders adhered to this document as part of their submissions.

1.10 The exact proposed mix in terms of type, size and tenure is set out below;

- 4 x one bed bungalows for rent @ 50 m2
- 4 x one bed houses for rent @ 50 m2
- 10 x two bed houses for rent @ 73 m2
- 2 x three bed houses for rent @ 79 m2
- 4 x two bed house for shared ownership @73 m2
- 6 x three bed houses for shared ownership @ 79 m2
- 4 x two bed bungalows for shared ownership @ 66 m2

1.11 The site was awarded full planning consent in July 2018, following consideration by the council's Planning Committee.

1.12 **Procurement of a building contractor**

1.13 Following the conclusion of the planning application process, a procurement exercise for a building contractor has been carried out. The tender exercise opened on Tuesday 28th August 2018 and closed at 5PM on Wednesday 10th November 2018. The tender exercise was operated on an open basis (as opposed through a closed tender or through a framework agreement approach), and the details of the tender were promoted to local contractors. The outcome of that tender exercise has been as follows;

- A total number of five tenders were received. This includes tenders from small local contractors, through to both larger and regional contractors.
- A tender evaluation exercise, based around a weighting split 50/50 between price and quality, has identified a preferred contractor.
- The preferred contractor had the most economically advantageous tender, is a local contractor and the build cost submitted required no adjustments and contained no provisional sums.

1.14 The procurement exercise was run on the basis of the construction of the dwellings being governed under the terms of a standard JCT Design and Build Contract (2016 Edition). This is a standard contract commonly used within the construction industry and it is one that the council's employer's agent deems suitable for use as the contractual basis for the proposed development. It should be noted that the council has previously used JCT contracts in other construction projects, alongside 'live' construction projects involving Welland Homes Ltd; the council's wholly-owned housing company.

1.15 **Grant funding application to Homes England**

1.16 Alongside undertaking the process of advancing a development proposed for the site, officers have sought to explore the scope for the scheme to attract grant funding from Homes England as a means of subsidising the proposed development. Homes England have an active affordable housing funding programme (known as the Shared Ownership and Affordable Homes Programme 2016-21), under which housing associations and local authorities can apply for grant funding to support the financial viability of affordable housing development.

- 1.17 In order to access funding, applicants need both to hold status as a 'Registered Provider' and an 'Investment Partner' with Homes England. The authority has long held the status as a 'Registered Provider', and in November 2018 secured status as an 'Investment Partner', thus paving the way for the authority to apply for funding as part of the 2016-21 grant programme.
- 1.18 Having secured Investment Partner status, the authority submitted a grant application to Homes England for funding to support the delivery of Small Drove, Weston, subject to final approval by the Council. In November 2018, the authority received a grant offer from Homes England of £1,100,000 to support the delivery of the Small Drove scheme, subject to the authority entering into a grant agreement with Homes England.
- 1.19 The grant agreement includes a number of clauses and requirements to which the authority will need to adhere in order to draw-down grant funding throughout the lifespan of the project. The purpose of the clauses within the grant condition agreement are largely to ensure that the funded scheme is delivered as originally proposed at the outset, including being delivered to the timescales and tenures proposed in the original bid.
- 1.20 The authority has secured legal advice on the proposed grant agreement with Homes England (which is set out in Appendix 4). The key requirements of the agreement which are detailed below:
- **Timescales for delivery** - The grant offer has been made to the council on the assumption that SHDC will deliver the scheme as detailed in the original application and to the timeframe agreed. The bid has been submitted committing to a start on site by 17th May 2019 and achieving practical completion of the scheme by 17th July 2020. These dates align with the proposed dates for delivery agreed with the preferred contractor. Note that the grant agreement requires that any deviation from this has to be agreed by Homes England, with a long-stop date for delivery of March 2022. Officers are confident in the ability of the authority to deliver against the timescales set and agreed with Homes England.
 - **Reporting** – The grant offer is subject to the council keeping in regular and on-ongoing communication with Homes England as the scheme is built-out. Homes England require strict monitoring and reporting requirements and all data must be kept for a minimum of 10 years. Homes England require regular updates on progress and the submission of an 'Officers Certificate' confirming compliance at intervals through the life of the project.
 - **Penalties** - The Grant Agreement lists a series of potential 'grant withholding events', which are instances whereby Homes England may choose to withhold payment of the grant. These include a material breach of an obligation under the agreement or through not delivering the scheme within timescales.
- 1.21 Officers are confident in the council's ability to comply with the terms of the proposed grant agreement. Whereas the authority has not itself accessed Homes England affordable housing grant for a number of years, the council's Housing Development team includes officers with considerable experience of managing Homes England grant-funded projects, as does the council's 'employers agent' Focus Ltd. The authority has also enlisted the support of Longhurst Housing Association to assist with the administration of data returns to Homes England in respect of any grant funded schemes.

1.22 **The financial business case**

1.23 The council's approved capital budget includes a budget line consisting of £4,147,000 for the redevelopment of Small Drove, Weston. This figure is based on the total costs estimates for the scheme, excluding any form of external grant funding.

1.24 A financial evaluation has been completed on the scheme, based on the build contract price and the grant allocation from Homes England. This financial evaluation demonstrates the following;

- That when supported with Homes England grant, the proposed development will provide the authority with a positive and financially viable return on investment.
- That the scheme cost falls under the budget agreed for the scheme through the previous budget setting process
- That the scheme will generate a positive 'gross development value' (based on November 2018 prices)

1.25 The detail of this financial business case is set out in Appendix 1.

1.26 **Shared Ownership**

1.27 Members will note that the proposed development includes a number of units of 'shared ownership' housing. The authority already owns and manages a small number of shared ownership properties within its Housing Revenue Account, and therefore these units will form an addition to that existing small portfolio. Officers within the Housing Management team are presently undertaking a review of their processes and procedures in relation to the management of shared ownership housing to ensure that they are up-to-date ahead of any potential modest expansion of the council's shared ownership portfolio.

1.28 The inclusion of shared ownership housing on the scheme is designed to support the following;

- Providing a mix of tenures on the site, as opposed to a single tenure development
- To meet planning policy requirements concerning the mix of housing tenures on larger sites
- To meet identified need within an area where there is evidence of need and demand for accommodation aimed at first time buyers who require financial support.

1.29 The model works under a 'part buy, part rent' basis, whereby the purchaser acquires a share of the property through a lease arrangement (typically between 25% and 50%) with a mortgage and then pays rent on the unsold share. SHDC as the landlord retains the freehold of the property, and annual rent is usually calculated on the basis of 2.75% of the value of the unsold share, which is then paid as a monthly rent.

1.30 It is proposed that the homes will be sold on the basis that the purchasers will be able to 'staircase' to full ownership over time, if they are minded to do so. This will enable the owners to acquire full ownership of the dwellings if their financial capacity to own outright changes over time, whilst also providing the authority with a capital receipt to invest into further housing development.

1.31 Note, however, that evidence within the district on other sites where shared ownership exists suggests that, as opposed to 'stair-casing', shared-owners tend to use shared ownership housing as a means to build equity that funds their next purchase, typically in pursuit of a larger property further up 'the ladder', as opposed to purchasing the dwelling outright overtime. In a scenario where a shared-owner moves, the percentage of the property owned by the leaseholder is then re-sold to another eligible purchaser on a shared ownership basis, at the market value at the time of the sale, with the remaining percentage still subject to rent.

1.32 **Proposed next steps**

1.33 If formal agreement is to proceed with the scheme to delivery phase, officers will look to enter into the build contract with the preferred building contractor partner and complete the grant agreement with Homes England in order to draw down 75% of the grant at 'start on site', with the remainder being claimed at scheme completion. This will enable the scheme to commence on-site from March 2019, with an anticipated 60 week build programme to conclude the construction.

2.0 **OPTIONS**

2.1 **Do nothing** – Under this option, the authority will not proceed with the proposed development of 34 new affordable homes at Small Drove, Weston.

2.2 **Proceed as per the report recommendations** – Under this option, the council will proceed to contract and delivery phase for the 34 new affordable homes at Small Drove, Weston. The council will enter into a grant agreement with Homes England in respect of the 'affordable housing funding' to support the development, and will enter into a construction contract with the preferred building contractor as a means of enabling construction to commence. The scheme will then move into delivery phase, with a view to commencing 'on-site' in March 2019.

3.0 **REASONS FOR RECOMMENDATION(S)**

3.1 To enable the scheme to move into the delivery phase of the project. To formally enter into contract with Homes England and to secure the grant funding for the scheme. To formally enter into a build contract for the construction of the 34 homes.

4.0 **EXPECTED BENEFITS**

4.1 The expected benefits from the delivery of 34 homes at Small Drove, Weston are as follows;

- **The delivery of 34 houses into the HRA.** The proposed development at Weston will deliver 34 new homes into the HRA, supporting the delivery of the wider HRA business plan and providing a revenue stream for further investment in new housing.
- **Leveraging of external grant.** To bring national affordable housing funds into the district to support affordable housing delivery.
- **The replacement of homes sold through Right to Buy.** The proposed development at Small Drove Weston will support with the replacement of homes sold through Right

to Buy. It should be noted that a total of 19 properties were purchased through Right to Buy in 2017/18.

- **A competitive return on investment, and the generation of capital receipts.**
Please see the exempt financial Appendix 1 attached.
- **Meeting housing need.** The homes proposed will meet housing need in a location where there is evidence of a need for additional affordable homes, both in terms of homes for rent and homes for first time buyers who require support to access the housing market. This includes a small provision of bungalow accommodation for shared ownership, which will be aimed at supporting households who wish to access age appropriate accommodation but who lack the means to purchase a new build bungalow on the open market.
- **Replacing old for new.** The proposed development at Small Drove Weston will see 10 properties at the end of their functioning life replaced with 34 new build homes. Consequently the proposal will contribute to an improvement in housing conditions on the site, in addition to replacing assets with a high maintenance cost with units with a lower maintenance cost.
- **Supporting growth.** Through directly investing in the proposed development at Weston, the authority will be directly enabling the delivery of 34 homes which would not come forward without the council's intervention.

5.0 **IMPLICATIONS**

5.1 **Carbon Footprint / Environmental Issues**

- 5.1.1 The proposed development will see 10 existing and poor quality properties replaced with higher quality new build homes that meet the latest requirements in respect of building regulations with regards to energy and thermal efficiency.

5.2 **Constitutional & Legal**

- 5.2.1 Given the value of external funding sought through Homes England to support the scheme, Full Council approval is sought for the acceptance of such grant, on the conditions provided, in order to support the development of the scheme.

5.3 **Contracts**

- 5.3.1 If the scheme proceeds, the council will enter into a Joint Contracts Tribunal (JCT) contract with the building contractor to deliver the scheme. JCT contracts are the standard form contract for 'design and build' development schemes, and have been used by the authority to support the development of previous housing schemes. The council is being supported by both its internal contracts team and its 'employers agent' (Focus Ltd) in respect of the work on the contract for the development.
- 5.3.2 A common features of the standard form JCT contract (the contract type proposed with the preferred building contractor) include the following;
- JCT contracts provide the employer (e.g. the Council) with a single point of responsibility in respect of the construction
 - JCT contracts transfer a large proportion of the construction risk from the employer to the contractor
 - JCT provides a fix cost lump sum for the construction

- JCT contracts place the requirement for the contractor to develop the approved final construction design for works

5.3.3 The grant agreement with Homes England act as a contract between the council and Homes England in respect of grant received to fund the development. The authority has secured legal advice on the proposed grant agreement with Homes England, which has assisted in identifying the key requirements associated with the grant. Officers are confident in the council's ability to comply with the terms of the proposed grant agreement.

5.4 **Corporate Priorities**

5.4.1 The development of the proposed scheme supports a number of the council's corporate priorities, especially in relation to 'encouraging the local economy to be vibrant with continued growth', alongside 'to develop safer, stronger, healthier and more independent communities while protecting the most vulnerable'

5.5 **Crime and Disorder**

5.5.1 The scheme has been designed in conjunction with Lincolnshire Police's Architectural Liaison Officer, as a means of planning the layout of the scheme in such a way to reduce and limit crime and anti-social behaviour.

5.6 **Financial**

5.6.1 If the authority proceeds to contract and delivery on the scheme, this will seek the authority to commit to the investment as detailed in the Exempt financial Appendix 1. As set out within the appendix, the scheme will generate a long term positive return on investment, in addition to capital receipts through the sale of shares in shared ownership housing.

5.7 **Reputation**

5.7.1 The council's reputation in respect of this project will be managed as part of the wider 'risk management' approach detailed within the section below.

5.7.2 It should be noted that a communications plan is in place to support the delivery of the project throughout its lifespan.

5.8 **Risk Management**

5.8.1 It should be noted that the proposed development comes with a number of risks. These risk will be managed through the council's Housing Development team, utilising risk registers and other project management tools. Those risks are as follows;

- **Sales risks associated with shared ownership.** The proposed development includes 14 homes for shared ownership. The authority will seek to sell shares in these properties on the open market to qualifying purchasers. This introduces an element of sales risk. However, it should be noted that officers have sought to mitigate (and will seek to mitigate) this risk in the following ways;
 - **Market intelligence.** Officers have engaged in informal discussions concerning market demand for shared ownership for the type of properties proposed, and in the location proposed. This has returned a positive view that there is indeed a

strong market demand for shared ownership in Weston. In that sense, there is a good degree of confidence in the level of market demand.

- **Marketing allowance.** In addition to the estate agent fee allowed for within the scheme budget, the appraisal for the project includes a budget per shared ownership unit to support additional marketing activity of these homes.
- **Specification.** It should be noted that the specification for the shared ownership units includes enhanced requirements, to reflect the market nature of the product.
- **Phasing.** It is proposed that the delivery of the shared ownership housing will be phased to ensure an appropriate flow of properties on to the market for sale at any given time.
- **Construction risk.** The development will be overseen by an Employers Agent and a clerk of works, appointed by the council and independent of the contractor, as a means of inspecting the site throughout the build and ensuring quality. Key construction elements are inspected and signed off by NHBC. Subcontractors with design responsibility such as those providing the timber frame, plumbing, piling, and electrics, are subject to a collateral warranty which creates a contractual link between the council and a subcontractor responsible for design to safeguard the council's ability to claim directly if a fault occurs. In terms of post-construction matters relating to quality, the properties will be subject to a 12 month defects period and will come with a 12 year NHBC warranty including insolvency cover. The project budget also includes a contingency at 4% of build cost as a means of providing the financial means to address any unforeseen risks that arise during the construction period.
- **Dependency upon grant.** The scheme requires a form of external subsidy as a means of ensuring that the development is viable. Whereas the authority has not itself accessed Homes England affordable housing grant for a number of years, the council's Housing Development team includes officers with considerable experience of managing Homes England grant-funded projects, as does the council's 'employers agent' Focus Ltd. The authority has also enlisted the support of Longhurst Housing Association to assist with the administration of data returns to Homes England in respect of any grant funded schemes.
- **Vacant possession.** The site currently consists of 10 pre-fabricated bungalows, which are used by the authority as additional temporary accommodation for families at times when demand is high on the council's core temporary accommodation stock. It is anticipated that vacant possession of the remaining occupied properties will be achieved by the end of January 2019.

5.9 Stakeholders / Constitution / Timescales

- 5.9.1 The validity of the tender price provided by the council's chosen contractor for the scheme is time limited, and expires on February 7th 2019. If there is a delay in achieving the approval to proceed as per the recommendations, the authority will have to negotiate with the preferred contractor and request an extension to the validity of the build cost which is not guaranteed and therefore may be subject to change.

6.0 WARDS/COMMUNITIES AFFECTED

- 6.1 Cowbit, Weston and Moulton Ward

Lead Contact Officer

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Key Decision:	Y
Exempt Decision:	Partially

This report refers to a Discretionary Service

Confidential Appendices 1 – 4 attached to this report:

(Please note that the following appendices are not for publication by virtue of Paragraph 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information))

Appendix 1 – Financial details and modelling
Appendix 2 – Procurement and tendering report
Appendix 3 – Valuation Report (Longstaffs December 2018)
Appendix 4 – Grant Agreement with Homes England