



<b>REPORT TO:</b>	Cllr G. Taylor, Deputy Leader (Council), Portfolio Holder for Strategic Housing, Leisure Centre Delivery and Spalding Town Improvement
<b>REPORT OF:</b>	Matthew Hogan, Assistant Director - Strategic Growth and Development
<b>REPORT AUTHOR:</b>	Caroline Hannon, Head of Delivery
<b>SUBJECT:</b>	Purchase of seven affordable homes
<b>PURPOSE:</b>	To set out details of the potential for the authority to acquire 7 S106 affordable homes on a development site in the district.
<b>KEY DECISION:</b>	Y
<b>WARD(S) AFFECTED:</b>	All Wards
<b>EXEMPT REPORT?</b>	Yes. This report is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 because it contains information relating to commercially sensitive information.

## SUMMARY

In March 2022, the Council approved the HRA capital programme which included capacity to deliver new homes. Following negotiation with the developer of a site in Holbeach, a scheme has been identified for SHDC to purchase 7 S106 affordable homes. The homes will meet evidenced housing need and will be owned and managed by the HRA. The homes, comprising a mix of 1, 2 and 3-bedroom houses, will replace some of the homes which have been sold to tenants exercising their Right To Buy (RTB). Four of the homes will be for rented tenure and three will be for shared ownership. The homes will be ready for purchase at the end of June 2023.

## RECOMMENDATIONS

1. To approve the business case and approve the acquisition of 7 affordable homes within Holbeach, for the HRA.
2. To delegate to the Assistant Director Strategic Growth & Development, in consultation with Deputy Chief Executive (Corporate Development) and S151, to agree the contractual matters (including the terms and conditions which may represent a minor variation to the scheme approved in the business case) such as signing the

contract/transfer documents and other incidental actions that may be required, and approving the associated due diligence and valuation required to purchase the properties, and to identify this scheme as a named scheme in the capital programme, in accordance with the approved budget.

## REASONS FOR RECOMMENDATIONS

1. To enable new affordable homes to be delivered which meet identified housing need in the district.
2. To provide a return on investment as set out in the financial evaluation provided at Appendix A.
3. To replace homes sold to tenants via right to buy.
4. To deliver housing solutions which meet local needs and aspirations to ensure that our residents have access to a range of housing options in the district.

## OTHER OPTIONS CONSIDERED

Do nothing. In this event, the authority would not proceed to purchase the properties. As a consequence, the expected benefits set out in the Reasons for Recommendations section of this report, would not be realised. Officers would seek to identify alternative, appropriate schemes for consideration by the Executive or Council.

## 1. BACKGROUND

- 1.1 In March 2023, Council approved the HRA Capital Programme which includes provision for the delivery of new affordable homes for the HRA. The provision of new affordable homes will support the authority to meet the Corporate Plan priorities to provide new homes to meet local needs; to reduce homelessness, to replace homes lost due to RTB; and to enable residents to live in high quality housing.
- 1.2 This report provides a business case for the purchase of 7 affordable homes in Holbeach and includes property details, a financial evaluation, and details of housing need.

## 2. BUSINESS CASE

- 2.1 Officers have liaised with a developer regarding the acquisition of 7 affordable dwellings on the development site off Fen Road, Holbeach. A price has been agreed as per the financial evaluation at Appendix A.
- 2.2 The development site has planning consent (H09-1261-21 and H09-0276-19) and accordingly, the layout and mix of dwellings and tenures has been approved by SHDC. The property mix is shown in the table below.

Plot	Property Type	Bedrooms	Tenure	Size (m2)	Target PC
29	Terraced house	2	Shared Ownership	68.00	30/06/2023
30	Terraced house	2	Affordable Rent	68.00	30/06/2023
31	Terraced house	2	Shared Ownership	68.00	30/06/2023

32	Semi-detached House	1	Affordable Rent	49.98	30/06/2023
33	Semi-detached House	1	Affordable Rent	49.98	30/06/2023
34	Semi-detached House	3	Affordable Rent	83.79	30/06/2023
35	Semi-detached House	3	Shared Ownership	83.79	30/06/2023

2.3

Construction of the homes has completed and accordingly SHDC will purchase the homes on 30<sup>th</sup> June 2023, on an 'off the shelf' basis, subject to formal approval, due diligence and contract.

2.4

The SHDC Housing Management team have been consulted regarding the scheme and are supportive of SHDC taking additional homes in this location. They have indicated that the delivery of these homes will replace homes lost through Right To Buy sales which will mitigate the impact of the RTB losses on the HRA business plan.

2.5

Building inspections were undertaken by SHDC's Building Control team which provides an additional layer of scrutiny over the build standard. Additionally, the homes will be handed over with the benefit of a 10-year warranty from NHBC.

2.6

A formal valuation has been obtained for these houses by a RICS accredited valuer, to corroborate the proposed purchase price. As part of the due diligence process, any variation to the agreed price will be subject to approval by Assistant Director Strategic Growth & Development.

2.7

The financial evaluation assumes that the four rented homes will be provided as Affordable Rent tenure and rent levels will be equivalent to the current Local Housing Allowance. In accordance with the S106 agreement the Affordable Rent charge could be equivalent to LHA or 80% of the value of market rents. The rental amounts will be established at the time of letting, informed by a RICS valuation.

2.8

Homes England stipulate a requirement to approve the charging of Affordable Rents on any site which is not grant funded. Consent to charge Affordable Rents on this site will be sought from Homes England as part of the due diligence process and is likely to be forthcoming (based on experiences of other similar requests). In the event that Homes England does not provide consent for the homes to be provided as Affordable Rent tenure, they will still be purchased but will be provided as Social Rent tenure instead. This will impact the financial performance of the scheme, as set out in section 7.6.4 of this report.

2.9

A management company will be responsible for the open space on the site. However, the developer has indicated that these seven homes will not have to contribute towards the management company cost. This will be confirmed as part of the due diligence process.

2.10

Officers will negotiate a contract for the purchase of these properties which seeks to provide the most advantageous position for the authority. A solicitor will be appointed to act on SHDC's behalf in order to ensure thorough due diligence will be undertaken, prior to entering contract. The process of due diligence may impact contract negotiations as more information is identified about the scheme. Any elements that are different to those assumed at approval will be reviewed as part of the due diligence review and approved by the Assistant Director Strategic Growth & Development.

- 2.11 The contract will include a specification for the homes and the nature of the warranty. It will include a requirement for the provision of all appropriate regulatory certification and relevant documentation to be provided at handover. A Buyer's Representative will be appointed to ensure all documentation and certification is provided and that the properties hand over in accordance with the contract.

## **1.0 SHARED OWNERSHIP SALES**

- 1.1 The proposed acquisition includes three shared ownership properties. The homes will be marketed by SHDC's appointed shared ownership sales partner.
- 1.2 The financial evaluation is based on current open market values, informed by a 'Red Book' valuation. The evaluation assumes that the shared-owners will purchase a 42% initial stake. However, as per the rules surrounding shared ownership sales, the actual sale price will be dependent upon each individual purchaser's financial situation and an up to date valuation at the point of sale. Therefore, the initial stake could be greater or less than 42% and the market value could go up or down. Sensitivity analysis indicates that the scheme will still provide a positive return on investment if the value of the initial stakes is lower than the modelling assumes.
- 1.3 Sale of the shared ownership dwellings is dependent upon timely registration of SHDC's ownership of the homes, by the Land Registry, upon completion of the acquisition. Delays with registration have been experienced previously. In order to mitigate this potential external delay, officers will seek to submit the application to register the sale immediately following purchase. If a dwelling has been reserved there is a route by which a request can be made to expedite the application at the Land Registry, and this will be requested if appropriate. This then gives time for the registration to occur concurrently with the onward conveyancing to identified purchasers.
- 1.4 Individual purchasers are likely to rely on mortgages to fund their acquisitions. SHDC's appointed shared ownership sales partner has advised that despite changes in the financial sector relating to interest rates and mortgages, they still expect these properties to be saleable. However, this does create a risk for this project.

## **5.0 CONCLUSION**

- 5.1 The delivery of 7 affordable homes on this site will support the Council's objective to deliver more Council owned housing. The homes will meet identified housing need. The developer has accepted SHDC's offer to purchase the homes. Extensive due diligence will be undertaken prior to entering into contract. The delivery of 4 rented homes will replace homes sold to tenants via RTB. This project has been financially modelled based on the assumptions set out in this business case and shows that the scheme will provide a positive return on investment.

## **6. EXPECTED BENEFITS TO THE PARTNERSHIP**

- 6.1 The recommendations will support the aims and ambitions of the South and East Lincolnshire Council's Partnership which include to deliver ambitious growth and regeneration plans. The partnership's Annual Delivery Plan 2023/24 includes a corporate priority to purchase homes and a local priority to progress housing delivery for HRA investment.

## **7. IMPLICATIONS**

### **7.1 SOUTH AND EAST LINCOLNSHIRE COUNCIL'S PARTNERSHIP**

7.1.1 None

### **7.2 CORPORATE PRIORITIES**

7.2.1 The SHDC Corporate Plan 2019-23 sets out the Council's vision for the district and its priorities for this period.

7.2.2 This project will support the agreed vision and priorities of the Plan, including:

- Maintain our commitment to Council Housing by building new council homes to replace those that have been lost.
- Providing good-quality housing that everyone in our community can call their home.
- Work to prevent and mitigate homelessness.
- Enable effective planning and delivery of housing solutions to meet local needs and aspirations to ensure that our residents have access to a range of housing options in the district.
- Ensure that our residents are enabled to live in high quality housing no matter the tenure.
- Deliver substantial and continued growth as proposed through our Local Plan.

### **7.3 STAFFING**

7.3.1 None

### **7.4 CONSTITUTIONAL AND LEGAL IMPLICATIONS**

7.4.1 The authority will be acquiring these units in accordance with section 9 of the Housing Act 1985.

7.4.2 Given the nature of the proposed contract, detailed legal advice will be obtained. This will ensure the contract protects the council's interests such as in the event that the developer fails to deliver the homes in accordance with the specification.

7.4.3 As per the decision of the Portfolio Holder for HRA and Private Sector Housing regarding Shared Ownership sales, which became effective from 3<sup>rd</sup> September 2019, the following delegations regarding Shared Ownership sales are already in place and will apply to this scheme:

- That authority be delegated to officers to fulfil all necessary activities concerning initial sales, purchase of additional shares and resales of individual shared ownership properties to leaseholders.
- That authority be delegated to the Executive Manager – Property and Development (*now Assistant Director – Strategic Projects*), to agree the value of shared ownership properties at initial sale, resale, and acquisition of additional shares.
- That authority be delegated to the Executive Manager – Governance (*now Assistant Director - Governance*) to approve and sign any mortgage offer.
- That authority be delegated to the Senior Legal Officer (as defined in the Constitution - currently the Assistant Director – Governance) and any officer authorised by the Assistant Director – Governance, to sign any contracts/agreements which form part of the Shared Ownership sale and stair-casing procedures which are not under seal.

## **7.5 DATA PROTECTION**

7.5.1 None

## **7.6 FINANCIAL**

7.6.1 Appendix A provides a detailed financial evaluation of this scheme.

7.6.2 There is c.£13m provision within the approved Capital Programme, for HRA housing development schemes which are subject to detailed approval, for the period 2023/24 to 2027/28.

7.6.3 A RICS valuation has been obtained which confirms the open market value of the properties. The Assistant Director Strategic Growth & Development will be delegated authority to review the valuation and agree the final purchase price.

7.6.4 In the event that Homes England does not provide consent for the homes to be provided as Affordable Rent tenure, they will still be purchased but will be provided as Social Rent tenure instead. The rental income for social rented housing is lower than for Affordable rent properties. Sensitivity analysis has been prepared which indicates that the scheme will still provide a positive financial return if the properties are provided as Social Rent tenure.

7.6.5 In the event that the onward sale of the shared ownership properties is affected by the current financial uncertainties and the availability of mortgages, a request may be made to amend the Planning consent and/or S106 agreement to alter the tenure of the shared ownership properties to Affordable Rented tenure. Sensitivity analysis has been prepared which confirms that the scheme will still make a positive return if all three homes are delivered as rented units.

7.6.6 A credit check on the developer will be undertaken prior to entering into contract. The results will be included within the due diligence pack to be signed off by Assistant Director Strategic Growth & Development.

7.6.7 The RTB will apply to the rented properties. In the event of a RTB application, the 'cost floor' rule will ensure that a tenant's discount does not reduce the RTB sale price below the amount that has been spent on the property in the 15 years prior to RTB; this includes the capital costs of acquisition.

7.6.8 The financial evaluation provided at Appendix A indicates the return on investment for this scheme assuming that RTB receipts are not utilised for purchasing these homes. However, in the event that RTB receipts are utilised for the delivery of this project, this will have a positive impact on the return on investment set out in Appendix A as the direct capital investment decreases. At the end of each financial year, the authority will confirm which development projects will benefit from the RTB receipts. Decisions will be made to ensure that the receipts are spent as quickly and efficiently as possible to prevent any receipts having to be returned to Government. Any decision to utilise RTB receipts, or not, is incidental activity which is delegated to Assistant Director Strategic Growth & Development, to approve.

## **7.7 RISK MANAGEMENT**

- 7.7.1 Acquisition and development activity has within it inherent risks. Officers strive to identify and manage risk at each stage of the project. Each project has a risk register that is reviewed throughout the lifecycle of a project by the project team.
- 7.7.2 Risks around acquisition activity are sought to be mitigated through regular review and the appointment of professional expertise to provide legal due diligence, and accredited valuation advice to ensure value for money, in terms of the cost of the project.
- 7.7.3 There are specific risks associated with the delivery of shared ownership. Given the current changes in the financial sector there is a risk that it could take purchasers longer to identify suitable mortgages and to complete the purchases. Officers will monitor property sales and the performance of SHDC's sales partner and will react quickly to poor sales rates. In the event of low sale rates, one possible solution may be to convert the shared ownership properties to rented tenures, subject to further approvals.

## **7.8 STAKEHOLDER / CONSULTATION / TIMESCALES**

- 7.8.1 Ward members have been informed of the proposal to purchase these properties and have not raised any objections.
- 7.8.2 Officers will consult Homes England on the proposal to charge Affordable Rents on the rented properties. The outcome of the consultation will be included within the due diligence to be signed off by Assistant Director Strategic Growth & Development.
- 7.8.3 The homes are due to be purchased from the developer on 30<sup>th</sup> June 2023, subject to formal approval, due diligence and contracts. The rented homes will be let very quickly following completion (if not the same day). Shared ownership homes will be marketed immediately.

## **7.9 REPUTATION**

- 7.9.1 Risks around reputation are mitigated through a robust project management structure. The Housing Delivery team work closely with colleagues in Communications on all projects and meet on a regular basis to ensure that a Communications Plan is in place where appropriate.

## **7.10 CONTRACTS**

- 7.10.1 A contract will be required between SHDC and the developer. The contract will contain a list of requirements and the homes will not be purchased until these requirements have been met. The contract will be reviewed by the Council's appointed external legal representative.
- 7.10.2 As per the recommendation, the Assistant Director Strategic Growth & Development will be delegated authority to agree the contractual matters such as signing the contract/transfer document, approving the associated due diligence and valuation required to purchase the properties, and any incidental actions that may be required such as agreeing an alternative tenure mix if necessary.
- 7.10.3 The Assistant Director – Governance has been delegated authority to approve and sign any mortgage offer and to sign any contracts/agreements which form part of the Shared Ownership sale and stair-casing procedures which are not under seal.

## **7.11 CRIME AND DISORDER**

7.11.1 None

## **7.12 EQUALITY AND DIVERSITY/ HUMAN RIGHTS/ SAFEGUARDING**

7.12.1 New affordable homes contribute towards meeting housing need in the district. The delivery of 7 affordable homes for the HRA will enhance equality within the district and support the Corporate Plan ambition to ensure that residents are enabled to live in high quality housing no matter the tenure.

7.12.2 The Strategic Housing Market Assessment identifies a need for 282 new affordable homes to be provided in the district each year. The provision of both rented and shared ownership housing ensures that the authority is meeting the needs of residents with varying financial circumstances, including those who cannot access market housing and those who aspire to home ownership.

## **7.13 HEALTH AND WELL BEING**

7.13.1 This project and the continued delivery of new council-owned homes will deliver housing solutions to meet local needs and aspirations. This will contribute towards improving health and wellbeing in the district by ensuring that residents have access to a range of housing options in the district and are enabled to live in high quality housing.

7.13.2 Analysis of the SHDC Housing Register, in June 2023, indicates that there were c.450 households on the housing register requiring General Needs accommodation. Of these, 84 applicants need 1-bedroom accommodation; 65 applicants need 2-bedroom accommodation; and 33 applicants need of 3-bedroom accommodation, all of whom have a preference to live in Holbeach.

## **7.14 CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS**

7.14.1 The homes will be delivered in accordance with the appropriate building regulations relating to sustainable construction. At handover, each property will have an energy performance certificate illustrating the energy efficiency of the property and the efficiency rating.

## **7.15 LINKS TO 12 MISSIONS IN THE LEVELLING UP WHITE PAPER**

<b>MISSIONS</b>	
<b>This paper contributes to the follow Missions outlined in the Government's Levelling Up White paper.</b>	
<b>Housing</b>	By 2030, renters will have a secure path to ownership with the number of first-time buyers increasing in all areas; and the government's ambition is for the number of non-decent rented homes to have fallen by 50%, with the biggest improvements in the lowest performing areas.

## **8. ACRONYMS**

8.1 None

## **APPENDICES**



Appendices are listed below and attached to the back of the report: -

APPENDIX A

Financial Evaluation

### BACKGROUND PAPERS

No background papers as defined in Section 100D of the Local Government Act 1972 were used in the production of this report.

### CHRONOLOGICAL HISTORY OF THIS REPORT

A report on this item has not been previously considered by a Council body.

### REPORT APPROVAL

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