

## **Community Housing Delivery – Capital Requirements**

### **NOT FOR PUBLICATION**

*Appendix 2 & 3 of this report contain exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (information relating to the financial and business affairs of the Council)*

Report to: **Executive**

Date: **14 March 2019**

Title: **Community Housing Delivery – Capital Requirements**

Portfolio Area: **Cllr Tucker - Assets**

Date next steps can be taken: Council 21<sup>st</sup> March 2019

Authors: **Rob Ellis**  
Community Housing Lead  
[Rob.Ellis@swdevon.gov.uk](mailto:Rob.Ellis@swdevon.gov.uk)  
**Lisa Buckle**  
S151 Officer  
[Lisa.Buckle@swdevon.gov.uk](mailto:Lisa.Buckle@swdevon.gov.uk)

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#### **To recommend to Council:**

- 1)** To approve community housing development expenditure of up to £8.5m to build out four community housing schemes delivering 55 residential units as set out in this report
- 2)** To approve funding of up to £8.5m to build the schemes from a combination of internal borrowing and external borrowing (from the Public Works Loan Board)
- 3)** That specialist treasury management advice is taken on the optimum way of financing the community housing schemes
- 4)** To delegate authority to Head of Assets Practice & S151 Officer to approve associated long leaseholds and disposals in consultation with the Leader of the Council

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#### **1.1 Executive summary:**

- 1.2 This Report sets out the following proposals:
- 1.3 To fund the construction of the first four community housing projects (South Brent (17 units), St Ann's Chapel (13 units), Brixton (8 units) and Kingsbridge (17 units) as outlined in the business cases in Appendix 2.
- 1.4 That the Head of Assets, in consultation with the Head of Paid Service, the s151 officer and the Lead Member for Assets is given delegated authority to approve expenditure of up to £8.5m from a combination of internal borrowing and external borrowing to fund the construction of each scheme in accordance with business cases. Borrowing would be drawn down following planning consent and linked to entering into construction contracts. Lending will be reimbursed upon sale of property (open market, rented and discount purchase units) following completion of the development (typically 12 – 18 months from commencement of the loan term)

## **2 Background**

- 1.1 The Community Housing Strategy was put in place to support the development of homes accessible to those with local connections for whom the cost of market housing (to purchase and rent) is beyond their reach. The lack of such housing is having an adverse impact on the underlying vitality and sustainability of local communities.
- 1.2 Most projects are being delivered via exception planning policy enabling affordable housing delivery through reduced land value (£10,000 / unit maximum) and cross subsidisation from the sale of a number of open market units.
- 1.3 Design and planning work is being met through a Government grant of £1.88m paid to SHDC in 2017 to facilitate the delivery of community housing schemes across the district. These monies are financing a dedicated team (1.5 FTE employees) and external consultants, as required. It is proposed that such costs will be reimbursed following completion of a development to enable the further projects to be funded.
- 1.4 Last September, Council approved a commercial property strategy and an upper borrowing limit of £75m. An illustrative appendix was attached to the covering report (accessible via modern.gov) which highlighted the need for PWLB borrowing to cover the construction costs and ongoing rental properties for

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the community led housing scheme. The indicative amount allocated at that time was a total of £8m. An extract from that appendix is shown below:

Other Borrowing Requirements		
Community Led Housing*	6,500,000	Example - Short term (2 Years) only to cover construction
Community Housing Affordable Rental	1,500,000	Long term borrowing for affordable rent (1st scheme example)
Leisure Fusion contract	5,500,000	Contractual Commitment
Leisure - Totnes	1,500,000	Based on delegated authority to fund Totnes improvements
Sub Total 'Other'	15,000,000	
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<b>TOTAL</b>	<b>75,000,000</b>	

\*GROSS REQUIREMENT, before any sales receipts

Borrowing already taken out (shown in Yellow) 5,500,000

- 1.5 The pipeline of projects is growing, with commencement of construction of the first four sites planned in the financial year 2019 /20 and further potential sites in the frame
- 1.6 Projects are required to meet identified housing need and actively involve a representative community body (Community Land Trust, Parish or Town Council). Housing needs assessments identify the mix of different types of affordable housing which will usually include discount purchase and affordable rented units as well as some open market units to cross subsidise the affordable element and ensure such housing is truly affordable to rent or buy for local people.
- 1.7 The intention is that the affordable rented element of a community housing scheme will be acquired by the SHDC upon completion and therefore contribute towards the authority's wider objective to build its' portfolio of rented housing stock. It is intended that such investment will be financed from borrowing. Specific proposals will include detailed business cases, and management proposals for such rented units
- 1.8 Government recognises that infrastructure costs to "open up" community housing projects are often high and hence has made available infrastructure grants which are being administered by Homes England. SHDC bid in for grant for two of the four schemes to be built in 2019/20 calendar year. Homes England have awarded capital grant of £400k for the South Brent project and an application for grant has been lodged for the Kingsbridge project (£530k).
- 1.9 South Hams is utilising modular build methods which will assist in delivering cost savings, reduce construction risk and improve delivery timetables.

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## **2 Community Housing Programme Update**

- 2.1 The table contained in Appendix 3 details the five schemes programmed for construction in 2019 / 20 which contributes towards SHDC's 5 year target (table below). It is proposed that the construction of 4 of these projects will be funded by SHDC and the fifth (Dartmouth) will be financed and owned by Dartmouth United Charities.
- 2.2 The community housing programme strategy envisaged a 5 year development pipeline of 82 completions as detailed in the table below. Due to the encouraging early interest from communities in partnering with SHDC to delivery housing projects, it is anticipated this target will be exceeded, subject to finance.

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Total</b>
Planning application (total units)	22	30	30	30	30	144
Commence construction		22	30	30	30	112
Completion			22	30	30	82

*Note: Figures provide contingency for re-design / unit number reduction*

## **3 Proposed Funding arrangements to finance 2019 / 20 project development**

- 3.1 There are three distinct funding stages in SHDC's community housing project development programme:
- 3.1.1 Scheme design and planning process up to the point a project has planning consent, has been fully costed and a contract is in place for the commencement of construction. This stage is being funded through the Community Housing Fund grant with costs incurred being reimbursed at the end of a project, such that these costs can be reinvested in subsequent projects thus providing revolving funding to enable the programme to continue
- 3.1.2 Construction finance over the construction term (detailed below)
- 3.1.3 Long term investment in completed rented property, where the net yield will cover the cost of the loan. Current rates for 50 year borrowing are 2.52% against a net yield of 3.5% - 4% (based on local housing allowance rental levels), thus providing a sufficient cushion against the cost of borrowing.

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- 3.2 The capital expenditure of the first four projects is estimated to amount to £8.37 m and these figures are based on comprehensive cost analysis by cost consultants. This sum includes a construction contingency of 10%, construction management / supervision and land purchase, where applicable (at circa £10,000 / plot)
- 3.3 Borrowing costs will be reimbursed through property sales upon completion of the development, comprising a mix of open market units, discount purchase affordable housing and rented affordable.
- 3.4 A breakdown of the Capital expenditure, receipts from sales and development mix is detailed in Appendix 2. For the purposes of our financial projection an interest rate of 2.7% has been assumed. It is proposed that funding of up to £8.5m to fund construction will be from a combination of internal borrowing and external borrowing (from the Public Works Loan Board). Specialist treasury management advice will be taken to ensure the optimum way of financing the schemes is deployed.

## 5.0 Implications

<b>Implications</b>	<b>Relevant to proposals Y/N</b>	<b>Details and proposed measures to address</b>
Legal/ Governance	Y	Procurement contracts by principle contractors and loan agreement
Financial	Y	<p>It is proposed that SHDC will fund up to £8.5m for the schemes from a combination of internal borrowing and external borrowing (from the Public Works Loan Board) to fund the construction of the first four community housing development projects, (South Brent (17 units), St Ann’s Chapel (13 units), Brixton (8 units) and Kingsbridge (17 units). Other sources of funding will be from any capital receipts yielded from open market sales and s106 affordable housing contributions or any other unallocated or available Council reserve or capital receipt. Funding will need to be sourced when it is required. Specialist treasury management advice will be taken on the optimum way of financing these schemes</p> <p>SHDC will recoup this expenditure through the sale of market units, affordable housing for sale at discount and rented units. In respect of the South Brent project, where affordable units are to be built as a custom build scheme by South Brent Community Land Trust (SBCLT), 12 serviced</p>

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		<p>plots will be sold to the SBCLT.</p> <p>Funding for the first two schemes (St Ann’s Chapel and South Brent) will be required in July 2019 with Brixton and Kingsbridge following on later in the year.</p> <p>The Council legally does not have the ability to borrow in advance of need. It is therefore not possible to guarantee the interest rate that will be achieved. Specialist treasury management advice will be sought on the approval of this report’s recommendations. Any borrowing decision is in line with the Council’s adopted Treasury Management Strategy and Affordable Borrowing Limits.</p>	
Risks	Y	<p><u>Risk</u></p> <p>Planning permission not achieved and development does not proceed</p> <p>Project cost escalation</p> <p>Shortfall in proceeds from sale of market, discount or rented units</p>	<p><u>Mitigation</u></p> <p>In all cases the developments are responding to demonstrable local need, in close collaboration with the community. Close dialogue with planning and compliance with policy. Work undertaken on an incremental basis</p> <p>Project supervision contract with supervising engineers. The economic model allows a 10% contingency sum for client’s variations. Binding contractual protections will be put in place with liquidated damages to prevent overrun</p> <p>Realistic market values within economic model providing contingency. Flexibility within planning consent to justify greater proportion of market units or flex level of discount (to a maximum of 80%). Such changes would need to be proven necessary through viability appraisal. Potential further grant through Homes England</p>

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		Reduced demand for discount purchase units or failure for purchasers to obtain mortgages	Delivering to demonstrable need with waiting list for property. Further contingency that units for purchase at a discount can become rented units
		Interest rate rise	PWLB rates fixed at the point of drawdown, such that the economic model will be fully verified based on the rate of borrowing at the time
<b>Comprehensive Impact Assessment Implications</b>			
Equality and Diversity	N	N/A	
Safeguarding	N	N/A	
Community Safety, Crime and Disorder	N	N/A	
Health, Safety and Wellbeing	N	N/A	
Other implications	N	N/A	

### **Appendices:**

Appendix 1: Community Housing Project Schedule

#### **EXEMPT**

Appendix 2: Cash-flow forecast

Appendix 3: Details of Community Housing Scheme Costs

### **Approval and clearance of report**

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	<b>Yes</b>
SLT Rep briefed	Yes
Relevant Exec Director sign off	<b>Yes</b>
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted	No