

Community Housing Delivery – Capital Requirements

NOT FOR PUBLICATION

Appendix 1 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: **Hub Committee**

Date: **4 June 2019**

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

Portfolio Area: **Homes**

Date next steps can be taken: **Council 23 July 2019**

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RECOMMENDATION

That Hub Committee recommends to Council:

- 1)** To approve community housing development expenditure of up to £4.3 m to build out the first two community housing schemes delivering 29 residential units as set out in this report
- 2)** To approve funding of up to £4.3 m from a combination of internal borrowing and external borrowing (from the Public Works Loan Board)
- 3)** That specialist treasury management and legal advice is taken on the optimum way of financing the community housing schemes and the proposals within the report
- 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 two community housing projects (Brentor (12 units) and Lamerton (17 units) as outlined in the business case in Appendix 1.
- 1.4 That the Head of Assets, in consultation with the Head of Paid Service, the s151 Officer and the Lead Member for Homes is given delegated authority to approve expenditure of up to £4.3m 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

- 2.1 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.
- 2.2 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. Key to the delivery of exception sites is a demonstrable need for affordable housing and support of the community.
- 2.3 Design and planning work is being met through a Government grant of £250,000 paid to West Devon in 2017 to facilitate the delivery of community housing schemes across the Borough. These monies are financing a dedicated team (1.5 FTE employees who apportion their time between projects in West Devon Borough Council (WDBC) and across South Hams District Council (SHDC)) 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.

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- 2.4 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.
- 2.5 In March 2019, Council approved a Capital Strategy report for 2019/20. Section 2.10 of this report made reference to the fact that there will be a future recommendation to Council to fund approximately £4 million on Community Housing capital expenditure. Also in September 2018 Council approved an overall Borrowing Limit (for all Council services) of £50 million.
- 2.6 The commencement of construction of the Brentor project (12 units) is planned in 2020. Delivery of the Lamerton project (17 units) has been brought into question due to the Parish Council withdrawing its support for the project at a recent parish meeting (13th May 2019) and if this position is not reversed, WDBC will not be able to progress the scheme. If this were to happen a substitute site or sites will be identified.
- 2.7 The intention is that the affordable rented element of a community housing scheme will be acquired by WDBC 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
- 2.8 Government recognises that infrastructure costs to "open up" community housing projects are often high and hence has made available infrastructure grants. Additionally grants are available to qualifying community groups for the high risk pre-planning design stages of a project. Both grant schemes are being administered by Homes England. Homes England are minded to provide a £150,000 grant for the Lamerton project
- 2.9 WDBC is utilising modular build methods which will assist in delivering cost savings, reduce construction risk and improve delivery timetables.

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3 Community Housing Programme Update

- 3.1 The community housing programme strategy envisages a 4 year development pipeline of 51 completions as detailed in the table below.

	2019	2020	2021	2022	Total
Planning application (total units)	29	10	12		51
Commence construction		29	10	12	51
Completion		12	27	12	51

4 Proposed Funding arrangements to finance 2019 / 20 project development

- 4.1 There are three distinct funding stages in WDBC's community housing project development programme:
- 4.1.1 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
- 4.1.2 Construction finance over the construction term (detailed below).
- 4.1.3 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 around 2.5% 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.
- 4.2 The capital expenditure of the two projects is estimated to amount to £4.3 m. This sum includes a construction contingency, construction management / supervision and land purchase, where applicable (at circa £10,000 / plot)
- 4.3 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.

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4.4 A breakdown of the Capital expenditure, receipts from sales and development mix is detailed in Appendix 1. For the purposes of our financial projection an interest rate of 2.7% has been assumed. It is proposed that funding of up to £4.3m 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. Specialist legal advice will also be obtained on the issue of the legality / risk of the Council implementing the proposals set out in the report.

5.0 Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/ Governance	Y	<p>Procurement contracts by principle contractors and loan agreement</p> <p>The report is exempt from publication because it contains information relating the Council’s financial and business affairs. As defined in Paragraph 3 of the Local Government Act 1972. The public interest test has been applied and the public interest lies with non-disclosure of the information in the Appendix 1 because it includes information relating to the financial affairs of the Council which could prejudice the Council if disclosed at this time .</p> <p>Specialist Legal advice will be obtained on the issue of the legality / risk of the Council implementing the proposals set out in the report.</p>
Financial	Y	<p>It is proposed that WDBC will fund up to £4.3m for its first community housing scheme from a combination of internal borrowing and external borrowing (from the Public Works Loan Board). 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>WDBC will recoup this expenditure through the sale of market units, affordable housing for sale at discount and rented units.</p> <p>Funding for the first two schemes will be required in Q4 2019/2020</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>

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Risks	Y	<u>Risk</u>	<u>Mitigation</u>
		<p>Planning permission not achieved and development does not proceed</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 cost escalation</p>	<p>Project supervision contract with supervising engineers. The economic model allows a contingency sum for client's variations. Binding contractual protections will be put in place with liquidated damages to prevent overrun</p>
		<p>Shortfall in proceeds from sale of market, discount or rented units</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>
		<p>Reduced demand for discount purchase units or failure for purchasers to obtain mortgages</p>	<p>Delivering to demonstrable need with waiting list for property. Further contingency that units for purchase at a discount can become rented units</p>
		<p>Interest rate rise</p>	<p>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</p>

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Comprehensive Impact Assessment Implications		
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:

EXEMPT

Appendix 1: Cash-flow forecast

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted	Yes