

BURCOT LANE REPORT

Relevant Portfolio Holder	Councillor Kit Taylor
Portfolio Holder Consulted	Yes
Relevant Head of Service	Sue Hanley – Deputy Chief Executive
Ward(s) Affected	All
Ward Councillor(s) Consulted	
Non-Key Decision	
This report contains exempt information as defined in Paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972, as amended	

1. SUMMARY OF PROPOSALS

This report follows the Cabinet report on 6th September 2017 providing members with an updated position regarding the funding applications for the Burcot Lane site as shown at appendix 1. It identifies the funding conditions and the development opportunity for the site in the context of these restrictions.

2. RECOMMENDATIONS

Cabinet is asked to RESOLVE that

- 2.1 The indicative plans and projected financial outcomes for the development project be approved and that provided the minimum financial projections are maintained, authority be delegated to the Section 151 Officer to agree the final details when these have been signed off by external advisors when appointed, and after consultation with the Group Leaders**
- 2.3 Agreement in principle is given to establishing a Housing Company to manage retained housing stock subject to the business case for the company being brought to Cabinet for approval;**
- 2.4 Officers proceed to implement the pre-development steps on the site, to include planning and building control applications, demolition of the existing building and the appointment of a Project Development Manager.**

3. KEY ISSUES

Background Information

- 3.1 At the Cabinet meeting on 6 September 2017 members considered the options available to the Council regarding the 1.47 ha (3.64 acres) development site at Burcot Lane being the former Council House and Burcot Hostel site.**
- 3.2 At the meeting members considered disposal through an open market sale thereby securing a capital receipt (option 1) , developing the site in partnership**

with a Housing Provider (option 2) , or the retention of the site whereby its redevelopment might achieve a medium/long term revenue stream for the council (option 3). Each of these options will deliver housing, but the number of affordable homes delivered, financial risk/returns and level of council involvement varies considerably across the three options. However, the outcome of the Homes England bid now reduces the level of risk in option 3.

- 3.3 In summary option 1 means selling on the open market, replicating the traditional developer led model which focuses primarily on home ownership, and where the proceeds of this activity go to the developer. In this context the report explored detailed professional appraisals from Place Partnership and Harris Lamb Property Consultants that indicated a top-end gross land value in the region of £k per acre (£m). This price reducing in the context of an affordable housing scheme to circa £k at best (£m)
- 3.4 The professional advice received confirmed that it would be 'best practice' and in line with market standards for the site to be offered with the building demolished and with the benefit of planning and building regulations approval. It is estimated that these costs would equate to approximately £m. Therefore the capital receipt would reduce to £m for market (in addition the grant funding would fall away) or £k for 100% affordable provision.
- 3.5 In option 2 discussions with Registered Social Providers have indicated their requirements would be a concentration of a high volume of shared ownership in order to be viable and generate an ongoing revenue stream from the site. This is a product that's beyond many households on low incomes.
- 3.6 In addition within this option the Council would essentially lose control of the letting arrangements on the site and the ongoing revenue stream would be limited to the extent to which a partnership arrangement could be found.
- 3.7 Whilst it may be possible for members to consider the option of entering into a development agreement/partnership with a registered housing provider this may be more difficult to achieve in the context of the challenging timescales that have been identified in the Funding Agreement with Homes England.
- 3.8 Option 3 identified that this model achieved the most properties for rent and keeps outright sales down to a minimum. The table attached as Appendix 4 summarises the variations contained within the three options originally set out in the September 2017 report to cabinet.
- 3.9 The report went on to outline that whilst there was no certainty in this context that officers had registered an expression of interest to the Homes and Community Agency (now Homes England) for financial assistance of £m, which was submitted to the Accelerated Construction Fund in February 2017. Officers had also lodged a bid for financial assistance with the Department of Communities and Local Government (now MHDCLG) via the Land Release Fund.

- 3.10 As the likelihood was that grant funding would come with conditionality and that until the outcome of the bidding was known it would not be possible for members to properly consider the option outlined it was agreed at the meeting that the decision with regard to the future for the site be deferred until the outcome of the funding applications was known.
- 3.11 Members are advised that whilst the Council's bid for Land Release Funding was unsuccessful the application to Homes England for support from the Accelerated Construction Fund has been confirmed.
- 3.12 As members will appreciate the achievement of grant funding for the site significantly influences the possibilities available to the Council in the scope of its development.
- 3.13 In addition the provision of the funding also comes with conditionality that the Council will be bound by in the context of its chosen development scheme.
- 3.14 It will be necessary for the Council to enter into a Funding Agreement to confirm acceptance of the funding offer, this is a legally binding contract which sets out the terms on which the Homes England funding is made available to the Council and it is important that this is set out for members consideration as part of this report.
- 3.15 The Funding Agreement contains a number of conditions precedent which need to be satisfied before the funding from Homes England can be drawn down and these include:
- the provision of evidence regarding the Council's constitution;
 - the satisfactory appointment or proposed appointment of suitable contractors;
 - the issue of a title report by the Council;
 - the registration of appropriate title restrictions and supply of the relevant office copies to Homes England; and
 - the achievement of any milestones that have been pre-agreed to be complete prior to draw-down.
- 3.16 Importantly the funding offer is predicated on the assumption of accelerated construction and as a consequence the focus for the Council's scheme will have to be the speed of delivery and the Funding Agreement contains termination rights in favour of Homes England should certain pre-agreed milestones/outputs not be achieved in the agreed timescale.
- 3.17 In addition the Funding Agreement contains a clawback mechanism where elements of funding can be clawed back by Homes England and will be available to Homes England in the event that certain pre-agreed levels of profit are achieved.

- 3.18 In short for the Council to take advantage of the benefits that the additional funding affords it will be necessary for a more focussed delivery model to be considered and agreed on this site.
- 3.19 Therefore, in the context of option 3 it is still possible for the Council to develop the site within the funding arrangements, and the Council can, in accordance with previous considerations, develop the whole site and then dispose of some or all of the units. Although it should be noted that 30% of the units would have to be affordable housing units and that in order to achieve economic viability on the scheme a number of higher value properties would need to be disposed of on the open market.
- 3.20 It is also important to note at this point that in addition to the provision of housing within the district, at the Cabinet meeting in September 2017 members also considered the importance of exploring the possibility of identifying a scheme that could deliver an ongoing revenue stream for the Council moving forward.
- 3.21 Again in the context of option 3 members are advised that it would be possible for the site to be developed in accordance with the Homes England requirements listed above and for the Council to create a Company into which the residual properties could be transferred.
- 3.22 As members are aware the Worcestershire Strategic Housing Market Assessment (WSHMA) analyses the current housing market and assesses future demand and need for housing within each local authority across the County. In determining the potential housing requirement for Bromsgrove a range of scenarios have been tested and have identified a net dwelling requirement for the period 2011-2030 of 6,980. At the end of September 2018, there were 2591 households currently registering an interest in affordable housing in Bromsgrove.
- 3.23 The WSHMA shows that Bromsgrove and the district has the smallest private rented sector in Worcestershire at only 8.8% compared with the national average of 16.8% and the highest levels of home ownership in the county. Given the above and the ability for a Company to set its own rent levels it would be possible for the Council to develop the site and create a company to manage the residual properties as a way of contributing towards tackling the imbalance of private rented accommodation in the housing market, and support the council's longer term sustainability agenda.
- 3.24 With this in mind officers have worked through a development model which would enable the Council to meet the funding requirements whilst continuing to deliver against the Councils wider strategic purposes for members' consideration and provide an alternative to a freehold disposal of the site and the uncertainty that exists with a partnership with a registered provider. Therefore taking both the financial information (Appendix 3) and the detail outlined in Appendix 4 – the option that offers best value for money is to set up a housing company.

- 3.25 As the site is currently identified as a housing site within the Council's Local Plan officers have considered the things that a planning application would require in this context and these include:
- a) Transport impact assessment
 - b) Arbocultural survey
 - c) Protected species and habitat surveys including brook dwellers.
 - d) Flood risk assessment and drainage strategy
 - e) Design drawings for dwellings
 - f) Engineering design drawings for all site development works
 - g) Contaminated land and site investigation
 - h) Demolition method statement
 - i) Design access statement
 - j) Planning statement
 - k) Residential travel plan.
 - l) Statement of Community Involvement
 - m) Statement of Significance (All Saints Church and Crabmill PH)
 - n) Utilities report
- 3.26 In the context of developing the site and in addition to obtaining planning permission it is likely that pre-contract works will be required including a building regulations application, demolition of the existing building and the appointment of a Development Manager. For this reason a recommendation is included for members to agree that these pre-development steps can commence on approval of the recommendation.
- 3.27 In addition, due to the complexity of the project, the appointment of a professional Development Project Manager is considered essential to its successful delivery and again members are being asked to approve this as part of the funding allocation relating to professional fees.

Financial Implications

- 3.28 Officers have undertaken financial modelling associated with each of the proposals detailed above with the financial implications associated with these detailed within appendix 3. These financial projections are based on the current indicative drawings with 61 properties on the site as set out in appendix 2 to this report). The remainder of the assumptions are driven from information provided from a combination of Place Partnership, council expertise and support from officers at Stafford and Rural Homes. All of these figures require more detailed work and investigation as the project is developed to ensure that the council is not exposed to undue financial risks as part of the delivery of this project.
- 3.29 Whilst it is expected that this project will achieve income opportunities, for the Council to ensure that the project does not become a financial liability, any designs drawn up must ensure that the project is effectively self-sufficient as a minimum, and is able to fund all necessary expenditure from future cash flows.

- 3.30 There is also scope for the company once set up to expand its operations, developing further sites or acquiring already built properties. As such, it would begin to achieve economies of scale and be able to generate greater surpluses, if the new properties were acquired at the “right” prices.
- 3.31 As per appendix 3, using the assumptions highlighted in it, the current financial models suggest that the project is financially viable. In scenario 1 a surplus of £k is generated over the 50 year life of the scheme and in scenario 2 a surplus of £m is generated. Further professional advice is being sought to try and increase the number of units on the site as well as reviewing that the assumptions being used in the model are robust as possible. Any increase in units on the site will increase the viability of the scheme, as long as costs are in line with current assumptions and units are not being sold at a loss. The model suggests that flats offer the lowest return on expenditure due to the relatively lower sale price in relation to initial capital cost. Advice about increasing the number of units beyond 61 is also being sought from Homes England. This is because doing so could lead to depreciation in clean land value, which could in turn reduce the level of grant being offered by Homes England.
- 3.32 The rents figures used for the retained properties are currently 100% of the market rent as seen in Redditch. This was used as the council has significant information about these rents, and they are lower than the current market rents in Bromsgrove. As such, they are at a discount to current market levels in Bromsgrove, with any increase in them bringing them closer to the actual market rent levels in the area again increasing the financial viability of the scheme.
- 3.33 Were the council to manage the properties itself, it would further “gain” as it is assumed that existing officers would be able to absorb these management duties therefore gaining a “new income stream” from the project (executive support and management lines in the tables in appendix 3), improving the councils yield on the project.
- 3.34 At present the affordable properties to be built are modelled as being sold at less than they cost to build. This is to enable the social landlord to ensure the future rental levels sustain the initial cost. It is worth stating that officers will negotiate this position with potential purchasers of the affordable properties. Were they to be sold for at least cost; this would improve the financial strength of the model.
- 3.35 The Council tax and potential New Homes Bonus generated are considered external to this model, so do not contribute to the viability of the scheme, they are there to demonstrate the total impact on the council.
- 3.36 The £m grant and all capital receipts generated from sales are to be used to reduce the borrowing costs of the project.

Capital considerations

- 3.37 The costs associated with the redevelopment are summarised in the table below. Should the final scheme not be delivered any fees already spent would be chargeable to revenue. Officers consider this to be of low risk as the overall redevelopment is financially beneficial to the Council.

It is proposed that approval is given to increase the capital programme by £m over the 3 year period as detailed in the table. The associated funding is recommended as £m from the approved grant funding with £m borrowed Public Works Loans Board. The financial projections have included the borrowing costs resulting from the project and have been offset by the potential capital receipt of £m from the sale of units as detailed in the Appendix 3.

Legal Implications

Best Value

- 3.38 The Council is required to comply with its overarching Best Value obligations in terms of income, capital receipt and social benefit. This Best Value duty must be factored into any decision regarding the preferred delivery model.

Funding Agreement

- 3.39 There are a number of risks associated with the Funding Agreement which members should be aware of:
- the conditions precedent referred to above which need to be satisfied prior to drawdown;
 - termination rights in favour of Homes England that crystallise if pre-agreed milestones are not achieved by the Council; and
 - a clawback mechanism where elements of funding can be clawed back by Homes England if certain pre-agreed levels of profit are achieved.

Members are advised that the formula for any claw-back is still in development with Homes England.

Procurement

- 3.40 The build element of the scheme would be subject to the Council's Contract Procedure Rules and Procurement Law.

Corporate Governance

- 3.41 Should the housing company be the agreed delivery model, the recommendation is that the Company is established as a company limited by shares with the Council as sole shareholder. This is a flexible, widely used and well understood vehicle that means that the Council can benefit from income.

Company Business Case

- 3.42 If it is established that the establishment of a Housing Company is the preferred model, a business case will need to be approved for the purposes of the Company.

Service / Operational Implications

- 3.43 These are outlined in the report and appendices.

Customer / Equalities and Diversity Implications

- 3.44 Increasing the supply of affordable housing in the district helps households on low incomes by providing them with good quality and secure accommodation options. Improvement in the market rent sector will help rebalance the private rented sector in the district.

4. RISK MANAGEMENT

- 4.1 It should be noted that the financial proposals are indicative at this stage and will require further work in order to satisfy the funding requirements. This is usual for a project of this nature.
- 4.2 The legal risks associated with the housing company delivery model have been set out above and include:
- Satisfaction of conditions precedent to enable drawdown of funds;
 - The triggering of termination rights by Homes England if milestones are not achieved ;
 - The availability of clawback rights to Homes England if certain levels of profit are reached.”
- 4.3 The project will be subject to planning approval and for this reason site plan included in this report is indicative only, as they may require to be changed on architectural / planning recommendation.
- 4.4 The Council will need to follow the Contract Procedure Rules and Procurement Law in building out the scheme.

5. APPENDICES

1. Site Plan
2. Indicative layout
3. Financial Modelling – *confidential appendix*
4. Options considerations

6. BACKGROUND PAPERS

Report to Cabinet Site Disposal Burcot Lane, Bromsgrove 6th September 2017

7. KEY

N/A

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Appendix 1

O.S Site Plan



APPENDIX 2 – Indicative layout



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**APPENDIX 4
OPTIONS TABLE:**

Option	Financial implications	Council involvement	Risks/threats	Opportunities	Anticipated Delivery	Strategic Purpose
Option 1 – Dispose on open market	<ul style="list-style-type: none"> Limited assuming successful disposal of site Estimated £m required to make site ready Cost of demolition to council Marketing and legal 	Limited and short term - getting the site clean and green	<ul style="list-style-type: none"> Unknown impediments on site and demolition costs as a whole Changes in economy affecting appetite amongst developers Reduction in affordable housing on viability grounds 	<ul style="list-style-type: none"> Capital receipt Reduce existing debt Overall, low financial risk to council assuming successful disposal 	<p>Predominantly open market housing - small proportion of affordable units - estimate</p> <p>43 open market sale</p> <p>18 affordable for purchase by housing association</p>	<p>Help me find somewhere to live in my locality</p>
Option 2 - Housing Company	<ul style="list-style-type: none"> Costs in setting up housing company and business plan Significant cost of demolition Planning and S106 requirements Cost of development 	Significant and long term	<ul style="list-style-type: none"> Unknown impediments on site and demolition costs as a whole Securing a development agent Changes in economy affecting appetite to purchase on open market Complexities of 	<ul style="list-style-type: none"> Catalyst for wider development role in district - opportunities for local businesses/constructors Projected ongoing revenue stream Council retains assets Rebalance the local housing market - first step Identify other local 	<p>6 open market sale</p> <p>18 affordable for purchase by housing association and</p> <p>37 market rent retained</p>	<p>Help me find somewhere to live in my locality</p> <p>Help me run a successful business</p> <p>Help me be financially</p>

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	<ul style="list-style-type: none"> agent and build • Subsequent marketing and sales/legal • Ongoing management 		<ul style="list-style-type: none"> company governance/tax arrangements • New area/limited expertise • Large financial investment • Is there an ongoing programme • Delivery of 30% affordable housing by RP to be factored in 	<ul style="list-style-type: none"> opportunities for development • Not required to be a Registered Provider¹ • Homes England assistance available via grant 		independent
Option 3 - Partnership with a Registered Provider	Minimal - RP takes these on from the outset but still costly to RP	Limited and short term	<ul style="list-style-type: none"> • Scale of demolition costs/unknowns may negatively impact on final revenue stream • Income stream time-limited • RP may pull out • Lack of guarantees about income for council • Public procurement process 	<ul style="list-style-type: none"> • Ongoing revenue stream • Maximises New Homes Bonus • Tried and tested method of delivery • RP can access HCA funding • Reduces s.106 obligations as all affordable housing 	100% affordable housing on site - RP modelling produced a mix of up to 50% shared ownership with remaining units going for open market sale or affordable rent	Help me find somewhere to live in my locality