

## BABERGH DISTRICT COUNCIL

<b>From: Head of Economy</b>	<b>Report Number: P62</b>
<b>To: Strategy Committee</b>	<b>Date of meeting: 16 October 2014</b>

### COUNCIL NEW BUILD DEVELOPMENT SCHEME APPROVAL PROCESS

#### 1. Purpose of Report

- 1.1 The report sets out for Member approval the financial parameters for the assessment of development projects.
- 1.2 The report seeks Member approval for delegated authority for the approval of new development or acquisition projects.

#### 2. Recommendations

- 2.1 That the proposed financial parameters as set out in paragraph 8.2 of this report ("Financial Parameters") be approved;
- 2.2 That the New Build Affordable Development Programme for Babergh as described in Appendix 1 to this report be approved. Further that the Strategic Director – Place in consultation with the Strategic Director – People be authorised to approve any variations to the New Build Affordable Development Programme that (a) are less than twenty percent of the scheme cost or (b) affect compliance with no more than one of the Financial Parameters;
- 2.3 That the Strategic Director – Place in consultation with the Strategic Director – People be authorised to submit bid(s) for affordable housing schemes that meet the Financial Parameters and, if bidding is successful, to progress such affordable housing schemes.

The Committee is able to resolve these matters.

#### 3. Financial Implications

- 3.1 The two Councils operate separate Housing Revenue Accounts (HRA). The ability to have a development programme pipeline within the HRA Self Financing regulations is dependent upon the HRAs having rental surpluses and borrowing headroom to fund new build assets. The financial position within the two HRA's is quite different.
- 3.2 Development capacity is limited to HRA borrowing headroom, the amount generated by rental income surpluses, right to buy receipts and any property/land disposals.
- 3.3 All development schemes that come forward with funding from the HRA will be new Council assets generating additional rental income and will be allocated by the Councils via the Gateway to Homechoice lettings system. The schemes will be built with the services and support of HHP with construction contracts awarded following a tender process.

- 3.4 All schemes will deliver the higher level of New Homes Bonus as affordable homes generate a premium of £350 on top of the standard payment. The new homes will also increase the Council Tax base for both Councils.

#### **4. Risk Management**

- 4.1 The Councils' bid for Homes and Communities Agency (HCA) funding in April via Havebury Housing Partnership (HHP) was confirmed at the end of July. The allocation of funding comes with conditions based on meeting key delivery timescales which cover areas such as site acquisition, planning permission granted, start on site and completion dates. The HCA monitors these key delivery timescales via HHP on a quarterly basis to monitor performance and spending against funding allocations.
- 4.2 There is a risk that serious delays to progress the 8 funded schemes could jeopardise any future grant funding applications and provide a reputational issue to either Council if delivery faltered for any reason. This risk can be mitigated if there is an efficient and effective approval process in place for development schemes.

#### **5. Consultations**

- 5.1 This report has been reviewed by the Lead Member/Portfolio Holder for Housing matters, the Corporate Manager – Legal Services, Corporate Manager – Housing Revenue Account, Head of Housing, Head of Corporate Resources and Corporate Manager – Asset Utilisation and the Head of Economy.
- 5.2 Each individual scheme will involve consultation with Ward Members and Parish/Town Councils and any affected local residents.

#### **6. Equality Analysis**

- 6.1 An Equality Analysis has not been carried out at this stage.

#### **7. Shared Service / Partnership Implications**

- 7.1 The development of new build schemes is one of the key strategic priorities for both Councils. As part of this work Babergh and Mid Suffolk Councils appointed HHP as their Development Agents in April this year, each sovereign Council having an individual contract with HHP.
- 7.2 Funding for the new build Council housing schemes will predominantly come from the two Housing Revenue Accounts and available spending will be limited by any rent surpluses and the borrowing headroom within each account.
- 7.3 Additional funding for affordable new build schemes may also be available from the HCA. HHP have Investment Partner status with the HCA and are able to apply for funding on behalf of Babergh and Mid Suffolk Councils. A new Affordable Homes Programme was announced by the HCA in January 2014 with a closing date of 30 April 2014.
- 7.4 Members will be aware that HHP applied for grant funding on behalf of both Babergh and Mid Suffolk by 30 April for approximately £1.2 m for 8 new build schemes (2 in Babergh and 6 in Mid Suffolk) to build a total of 65 new homes (27 in Babergh and 38 in Mid Suffolk). At the end of July HHP confirmed that the HCA had approved the bid application for the schemes they had submitted for us at the end of April.

- 7.5 Officers will now work with colleagues at HHP to progress the individual schemes to the planning application stage. The appointment of consultants such as architects and employers agents are being carried out using the Preferred Contractors Framework that Havebury has in place for its development programme. The HCA grant funding will be drawn down by HHP on the Councils' behalf; the timing of payments has yet to be confirmed by the HCA but at the latest, payment will be at the practical completion of each scheme.
- 7.6 Colleagues in Communities have been asked to assist the Strategic Housing team with the community consultation and engagement for some of the larger schemes.

## 8. Key Information

- 8.1 The overall premise of the report is to demonstrate that efficient and appropriate approval processes for development schemes or acquisition opportunities are in place. It is proposed that individual projects within an overall approved programme such as the Affordable Homes Programme would be delegated to the Strategic Director (Place) in consultation with the Strategic Director (People), providing that the financial position meets the required criteria and parameters. Larger, riskier or different forms of projects would be referred to Executive or Strategy Committee for approval.
- 8.2 The proposed level of delegation for the approval of new schemes is set out below:

### Delegated to the Strategic Director (Place) in consultation with the Strategic Director (People), to approve: -

Schemes that meet the financial parameters for new development –

- investment is paid back within 30 years (this is industry standard period for scheme appraisals) this will include development proposals on the Councils' own land, appraisals for offers on S106 affordable units and development opportunities on land owned privately (\* see note below)
- there is a positive Net Present Value (NPV)
- grant required is less than 125% of average with more than 100% left in the overall pot
- each scheme contributes to the delivery of strategic priorities

### Decisions reserved for Executive or Strategy Committee: -

- Projects that fall outside of the approved development programme
- Large projects where the total scheme costs exceed £4 million.
- Schemes not meeting the financial parameters of payback within 30 years, positive NPV and grant need of less than 125% of average with more than 100% left in the pot
- Schemes with unsatisfactory contractor credit assessment and no risk mitigations
- Schemes outside of the two Councils' operational areas
- Purchase of private land for housing development\* (for example purchase of land for Rural Exception sites)
- Land banking/land assembly sites without specific scheme details
- Expansion into new tenure types – for example development of a private rented new build scheme.
- Any scheme where problems are flagged up to Management Board during the construction phase of the development – this could be triggered by contractor performance indicating concerns about its financial viability.

8.3 All scheme appraisals will be carried out using the Proval appraisal toolkit which the Council purchased for this purpose. Proval is used by the majority of Registered Providers to appraise new schemes and is recognised as the development industry standard toolkit. Proval has been purchased by HHP for its development programme so there will be compatibility of appraisal systems between HHP and both Councils. This will help compare financial parameters and overall scheme costs to gain a greater knowledge of benchmark development costs over a development programme.

## 9. Appendices

Title	Location
1. Approved Development Programme for Babergh and Mid Suffolk District Councils	Attached

## 10. Background Documents

10.1 Members will be aware of the recent committee reports considered by Executive (X/33/14) and Strategy Committee (P23) and then by Full Council in June 2014 to convert a proportion of void properties to affordable rent levels in order to meet the requirements of the HCA bid criteria and to generate additional income to support the development programme in Babergh and Mid Suffolk. The proposals were approved by both Councils.

10.2 An Asset Disposal and Acquisitions Strategy is in the process of being written by the Corporate Manager – Asset Utilisation and will be reported to a future Strategy Committee meeting.

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**BABERGH AND MID SUFFOLK AFFORDABLE HOMES PROGRAMME**

<b>BABERGH</b>								
	Scheme name	Location	No. of Units	Tenure	Total scheme costs	HCA grant subsidy	Start on site date	Completion date
	Schoolfields	Glemsford	15	ART	£2.01m	£262.5k	1/6/15	1/6/16
	Meadow Close	Lavenham	12	ART	£1.14m	£210k	1/9/15	1/7/16
<b>TOTAL</b>			<b>27</b>		<b>£3.15m</b>	<b>£472.5k</b>		
<b>MID SUFFOLK</b>								
	Oakeyfield	Thurston	1	ART	£175k	£17.5k	1/6/15	1/4/16
	Kingfisher Drive	Great Blakenham	23	ART	£2.89m	£460k	1/9/15	30/9/16
	Acton Close	Bramford	2	ART	£260k	£35k	1/6/15	8/4/16
	Fox Meadow	Barking	3	ART	£350k	£52.5k	1/6/15	1/4/16
	Mill Road	Laxfield	3	ART	£405k	£52.5k	1/9/15	1/6/16
	Moyes Close	Laxfield	6	ART	£575k	£105k	1/9/15	1/7/16
<b>TOTAL</b>			<b>38</b>		<b>£4.655m</b>	<b>£722.5k</b>		

**Please note that the total scheme costs are likely to be amended as the development designs are refined and ground condition surveys provide additional details of any additional construction costs and when schemes are ultimately put out to tender.**