


REPORT TO CABINET

26 February 2020

Subject:	Options - To Develop a Council Wholly Owned Housing Delivery Vehicle
Presenting Cabinet Member:	Cabinet Member for Inclusive Economic Growth – Councillor Ali
Director:	Director of Regeneration and Growth – Amy Harhoff
Contribution towards Vision 2030:	
Key Decision:	Yes
Cabinet Member Approval and Date:	Yes
Director Approval:	Amy Harhoff – Director of Regeneration and Growth
Reason for Urgency:	The decision is not urgent
Exempt Information Ref:	Exemption provisions do not apply
Ward Councillor (s) Consulted (if applicable):	Not applicable
Scrutiny Consultation Considered?	Scrutiny consultation not required.
Contact Officer(s):	<p>Alan Martin Housing Partnerships Business Manager Alan_Martin@sandwell.gov.uk</p> <p>Tammy Stokes Growth and Spatial Planning Manager tammy_stokes@sandwell.gov.uk</p>

DECISION RECOMMENDATIONS

**That Cabinet:
Authorise,**

- (a) The Director – Regeneration & Growth, to develop a validated Business Plan for the creation of a new housing delivery vehicle to build on the options appraisal, the Financial Model and initial Business Case carried out by Savills external consultants.
- (b) The Director – Regeneration & Growth, in consultation with the Executive Director – Resources (Section 151 Officer), Director of Housing and Communities to prepare tendering documentation and thereafter, to procure, in accordance with the public procurement rules, the Council's procurement and financial regulations, and award a contract to consultant/consultants to develop, on behalf of the Council, a detailed business case for the development of a new housing delivery vehicle on terms and conditions to be agreed by the Executive Director - Resources;
- (c) The Executive Director – Resources to allocate adequate budget from the Land Development Fund to fund the appointment of consultants and the preparation of the Detailed Business Case

1 PURPOSE OF THE REPORT

- 1.1 The purpose of this report is to seek approval to develop a Business Plan for the creation of a new housing delivery vehicle and for the appointment of consultants to work with the council to externally validate the Business Plan.
- 1.2 In developing the Business plan there is a need for specialist advice around legal, financial and tax implications. The Council's internal teams will require external support from consultants specialising in these areas within the commercial sector. The Business Plan and Business case can then be validated by professionals that have a vast level of experience of developing and setting up this type of delivery vehicle having the effect of identifying and reducing risk to the Council.

2 IMPLICATIONS FOR THE VISION 2030

- 2.1 The proposals in this report contribute to achieving the council's ambitions set out under the Vision 2030:
- 2.2 ***People, Ambition 3 – Our workforce and young people are skilled and talented, geared up to respond to changing business needs and to win rewarding jobs in a growing economy.***
- 2.3 The creation of a Housing Company has the potential to support people and jobs through the creation of apprenticeships and training opportunities within the contractual arrangements and the council's social value policy for new construction projects.
- 2.4 ***Ambition 5 – Our communities are built on mutual respect and taking care of each other, supported by all the agencies that ensure we feel safe and protected in our homes and local neighbourhoods***
- 2.5 To speed up the delivery of housing and growth and to bring forward some of the more difficult sites that the market has failed to do in various economic climates over many years there needs to be more public-sector market intervention. The Council needs to be in a position where there are delivery options that are able to adapt and tailor delivery solutions to the various scenarios and difficulties that many of the sites within the borough face. There are also many emerging opportunities to access grant funding through, Homes England, LEP and the Combined Authority to address some of the viability issues, deal with site remediation and accelerate housing delivery.
- 2.6 A housing delivery vehicle has the potential to capitalise on these opportunities facilitating and accelerating redevelopment which would have a positive impact on the social, economic and environmental well-being in the borough. The visual transformation will also create a new sense of place thus offering a better environment for local people and remove the opportunities for the anti-social behaviour attributed to derelict, underutilised and vacant land.
- 2.7 ***Place Ambition 7 – We now have many new homes to meet a full range of housing needs in attractive neighbourhoods and close to key transport routes.***
- 2.8 Homes and jobs are the principal drivers of economic growth and as such are key drivers of the Council. Sandwell's population is growing and the number of households across the borough is increasing. Current forecasts suggest that Sandwell's population is expected to increase by a further 10% between 2016 and 2030.

2.9 The Black Country Plan (formerly the Black Country Core Strategy) is currently undergoing a review and it is proposed to submit a draft plan for consultation in Autumn 2020. The Black Country Urban Capacity Review, published in December 2019, sets out the housing need figure for the Black Country. This is calculated by summing the national standard method figure for each authority. The Black Country housing need figure is currently 3761 homes per annum which equates to 71,459 homes over the period 2019-38. For Sandwell the housing need figure is currently 28,044 for the period 2019-38. A Strategic Housing Market Assessment (SHMA) was undertaken in 2017 for the Black Country and South Staffordshire, it assessed the affordable housing requirement for Sandwell to be 244 dwellings per annum. The SHMA suggests the tenures required across the borough 2014- 2036:

- Owner Occupied – 16,664 units
- Private Rented Sector – 6,792 units
- Affordable rent/social rent – 5,413 units
- Shared Ownership – 1,601 units
- Starter homes – 1,114 units

2.10 The table below shows the levels of completions against targets the rates of completions are showing shortfalls against the overall targets and if the current trajectory continues Sandwell will not be able to keep pace with the housing market needs. The net completion figures for 18/19 are 794 against a target of 938 a shortfall of 144 this level of annual shortfall over the period to 2038 will result in a significant housing undersupply.

Year	Sandwell Gross Completions	Sandwell Demolitions and losses of residential units	Sandwell Net Completions	Black Country Core Strategy Indicative Phased Plan Target (2011)	Annualised Target
2006/2007	1514	352	1162	742	1074
2007/2008	1401	265	1136	742	1074
2008/2009	676	226	450	742	1074
2009/2010	596	91	505	742	1074
2010/2011	662	113	549	742	1074
2011/2012	771	172	599	742	1074
2012/2013	736	24	712	742	1074
2013/2014	564	28	536	742	1074
2014/2015	970	9	961	742	1074
2015/2016	575	14	558	742	1074
2016/2017	917	16	901	938	1074
2017/2018	692	16	676	938	1074
Total	10,074	1,326	8,745	9,297	12888
Shortfall				552	4143

- 2.11 The trajectory in the Strategic Housing Land Availability Assessment (SHLAA) 2019 sets out the projected total net completions up to 2026, this equates to around 14,000 homes, when this is compared to the target requirement in the Black Country Core Strategy, 21489 homes it is clear to see that there is a shortfall of around 7,000 homes.
- 2.12 The redevelopment of under-utilised sites with modern residential accommodation will improve the immediate surrounding areas, public realm, street scene and the asset base of the borough by providing much needed multi-tenure housing.
- 2.13 The creation of a housing delivery vehicle has the potential to provide housing choices that meet people's individual needs and aspirations in accordance with the local need and demand. Sandwell's population is growing and people need quality housing that fits their individual requirements.
- 2.14 The housing development will be in accordance with adopted planning policy but will also seek to achieve developments of a quality that sets the highest architectural standards and which provides energy efficient and environmentally friendly buildings.
- 2.15 ***Ambition 8 – Our distinctive towns and neighbourhoods are successful centres of community life, leisure and entertainment where people increasingly choose to bring up their families***
- 2.16 When examining the council's aspirations and objectives there are a number of words that are intrinsic and core to delivering a tool kit of responses to deal with any manner of development scenarios these are control, influence, leadership and interventions in-order to adapt, improve, accelerate and integrate. The creation of a development vehicle has the ability to create a step change in the manner that the Council approaches the wider Regeneration and Inclusive Economy deal and a Council owned company needs to be leading the way. The transformation of vacant underutilised sites through integrated multi-tenure and mixed use redevelopment proposals will contribute to creating a more sustainable community and offer improved environments to Sandwell residents.

3 BACKGROUND AND MAIN CONSIDERATIONS

- 3.1 In 2014, Cabinet approved the revised strategic plan for housing delivery in the borough, '*Changing the Housing Landscape in Sandwell*' (Minute no 75/14 refers) which set out the Council's intentions to:
- build new homes in the borough or buy homes 'off plan'
 - identify existing Council owned sites and premises suitable for conversion to residential use.

- Re - brand Sandwell, offering new rental packages at market rates and continuing to improve the overall private rented sector offer in the borough.
- Transfer the ownership of existing housing stock into the Council by exercising the Buy Back option, Mortgage Rescue, the purchase of properties at auction or through compulsory purchase.
- explore the designation of a Housing Zone and other ways to assist developers to bring sites forward.
- explore the purpose and viability to develop a self- financing delivery vehicle.
- explore the viability and potential for building new homes through a Partnership.

3.2 To date the Council has;

- purchased 38 (with a further 70 pending) homes off plan using S106 funding;
- purchased 58 homes on the open market using RTB Receipts
- purchased 66 homes through Right to Buy - Buy Backs
- is in the process of converting surplus to requirements council assets into living accommodation including emergency homeless accommodation
- developed 242 new Council homes (with a further 202 including extra care on site in progress) and in excess of a further 300 new Council homes in the pipeline
- secured Housing Zone Status for the Grove Lane, Smethwick area
- secured a Joint Venture arrangement with the Combined Authority to acquire the Severn Trent site in Friar Park as part of a site assembly with the Council for future housing development.
- In the process of completing a land asset review with the intention to create a pipeline of sites for future housing delivery

3.3 Sandwell's current approach of direct provision utilising the new freedoms within the Housing Revenue Account is currently making good progress in replacing stock lost through Right to Buy and increasing the council's social/affordable rented asset base. However, this approach is very limited in terms of delivering other housing options outside of affordable rent. Therefore, the Council needs to reconsider its approach to housing and wider regeneration delivery so that it is in a position where Sandwell maximises investment from various funding sources, can adapt and respond with a suite of delivery options, able to improve market perception and benefit from private sector and Housing Association expertise and experience through more collaborative and risk sharing approaches.

- 3.4 An increasing number of councils across the country have responded by delivering their own housing programme through their Housing Revenue Account (HRA) or via Local Housing Companies. Following reforms to the Housing Revenue Account (HRA) which took effect in 2012 and the ability to access grant funding via Homes England, councils (including Sandwell Council) have had the opportunity to build affordable homes for the first time in some 30 years.
- 3.5 In addition, some local authorities have established other vehicles for housing delivery via housing companies or joint ventures as illustrated in the research below.

UCL research into LA direct delivery – updated July 2019 – primary focus is on companies research

Key headlines...

- 78% of English LAs have some form of housing company – DevCo, PropCo, LHC (local housing company)
- 23% of the 22% without a company are actively exploring the options
- 119 new companies since January 2018
- 57% of LAs have some form of Joint Venture for new homes delivery.

4 THE CURRENT POSITION

- 4.1 Following a cabinet member briefing in August 2019 initial works were undertaken to look at the options available to the council, to deliver the ambitions sought by Cabinet. Savills were commissioned to provide an initial report into the issues and considerations for the council in creating a housing delivery vehicle, and to work with officers with a view to developing an Initial Business Case for the Council's cabinet to consider before moving into the Detailed Business Case stage 2.
- 4.2 This work has now been completed and Savills have reported that based on the initial assessment and modelling the creation of a Housing Development Company is a viable option.
- 4.3 The next stage is to move into Stage 2 Detailed Business Case to provide more detailed business plan for the next 3-5 years by challenging some of the assumptions within Phase 1 identifying potential risks and mitigating actions and providing recommendations on the constitution and governance of the company.
- 4.4 Subject to approval it is proposed to commence Stage 2 Detailed Business Case March 2020 onwards. The main areas of this work will include;

- 2a) Identify sites/potential acquisitions
- 2b) Research rental/ sales values, build costs, acquisition costs, management and maintenance costs
- 2c) Explore financial resourcing including debt, equity and grant subsidy
- 2d) Build business model using cost/value assumptions, test out commercial viability (profitability)
- 2e) Sensitivity testing to consider risk of variability in key assumptions (e.g. inflation)
- 2f) Evaluate and recommend suitable corporate legal form
- 2g) Evaluate and recommend a suitable governance structure.
- 2h) Draft a robust and detail Business Case and 3-5 year Business Plan.
- 2h) Report to Cabinet – Secure Political approval to proceed to Stage 3 implementation.

4.5 Many of the work packages identified in Stage 2 above will require expert specialist advice and it would be prudent to procure this advice externally. There are now many companies within the market with a vast amount of experience in supporting local authorities delivering similar commercial ventures. It is intended that the Stage 2 work package will be procured through competitive tendering process.

4.6 Subject to approval it is proposed to start procurement for consultants in March 2020 and report back to cabinet in August 2020 with a proposal to set up a development company.

5 CONSULTATION (CUSTOMERS AND OTHER STAKEHOLDERS)

5.1 There has been no consultation as part of this report as it is currently still in the strategic feasibility and development stages. Any potential consultation requirements will be taken into consideration as part of that decision-making process.

6 ALTERNATIVE OPTIONS

6.1 The objective of the options appraisal is to reconsider the Councils approach to housing and wider regeneration activity to;

- Accelerate housing growth and contribute towards the Regeneration and Growth Strategy and regional targets.
- Increase the council's asset base of quality affordable homes and replace stock lost through Right to Buy.
- Increase control over tenure, scheme density and property mix to align with needs and demand.
- Influence quality design to incorporate sustainability, social and economic benefits.
- Increase the housing supply to provide specialist accommodation to meet corporate objectives and strategies for Adults and Children's Services.

- Develop innovative ways and opportunities to maximise new housing delivery.
- Maximise the funding opportunities available nationally and regionally.
- Intervene in local markets to increase the scale and pace of housing supply.
- Income generation and an ability to influence the external markets
- To bring forward some of the more difficult sites that the market has failed to do.
- More public-sector market intervention as an enabler.
- Contribute towards achieving Sandwell's 2030 vision and the Regeneration and Inclusive Economy Deal.
- Develop a 'toolkit' of interventions and investment opportunities to increase the delivery of new homes.

6.2 Option Selection

Option Analysis – Alternative to creating a Housing Delivery Vehicle.

Option A – Do not proceed with a Housing Delivery Vehicle

This option would not give a net gain to the Council. The Council could continue with its Housing Revenue Account development programme but would be limited in response multi-tenure and wider regeneration and housing issues.

Option B – Enter into some form of strategic alliance or partnership.

This option would give the opportunity to operate in areas outside the financial restrictions of the HRA account but would limit or reduce the council's level of control. Any partnership or strategic alliance to some extent dilutes the council's level of control and influence as partners would want to ensure that the strategic direction was in-line with their own organisational direction and targets. Taking this into account and for a step change to happen the Council and a Council owned company needs to be leading the way.

- 6.3 From the option appraisal, the only option that will provide the step change sought by cabinet will be a Council owned company that can operate commercially but also achieve wider strategic goals of the council and make a significant contribution to all aspects of the 2030 vision and the Regeneration and Inclusive Economy Deal.

7 STRATEGIC RESOURCE IMPLICATIONS

- 7.1 The project cost of delivering Stage 2 has been estimated in advance of tendering. This figure includes the appointment of a lead consultant and all the professional consultant disciplines that will be required. The budget to fund the appointment of consultants and the preparation of the Detailed Business Case will be allocated from the Land Development Fund.

- 7.2 To safeguard the council's investment into a vehicle or subsidiary, the council will need to ensure that the Business Plan is viable, achievable and affordable and that the cashflow does not create a potentially unreasonable risk to the council's treasury.
- 7.3 When considering the viability of these proposal, it would be prudent to engage with Tax Advisors to get an opinion on tax related matters.
- 7.4 A detailed financial model will be included as part of the Stage 2 business case.

8 LEGAL AND GOVERNANCE CONSIDERATIONS

- 8.1 There are no specific immediate legal or statutory implications arising from the proposal outlined in this report.
- 8.2 Advice will be taken from the Council's Procurement Strategy Officer and Legal Services to ensure that the Public Contracts Regulations 2015 and the council's procurement and contract rules are complied with.
- 8.3 An Equality Impact Screening Assessment has been completed and has not highlighted any equality issues.
- 8.4 The Council has a wide range of powers available to set up certain types of housing delivery vehicles. The basic powers are contained in the 1989 Local Government and Housing Act and the 2011 Localism Act. The former provides local authorities with powers to establish a company to undertake any function that the council can otherwise carryout directly.
- 8.5 The Localism Act 2011 gives a General Power of Competence (GPC) allowing an authority to engage in activities to support the economic and community development of an area; this power is widely drawn and forms the basis of a reliance for most of companies being established by councils. The GPC suggests that any overtly commercial activity – e.g. the provision of market rented housing – should be undertaken by via a company.

9 EQUALITY IMPACT ASSESSMENT

- 9.1 An Equality Impact Assessment screening exercise has been carried out and a full Equality Impact Assessment is not required.

10 DATA PROTECTION IMPACT ASSESSMENT

- 10.1 The requirements of the General Data Protection Regulations will be observed in the management of any data collected during the preparation of the Detailed Business Case and the appointment of consultants.

10.2 This report does not relate to the collection of personal information and therefore a privacy impact assessment is not required.

11 CRIME AND DISORDER AND RISK ASSESSMENT

11.1 The Corporate Risk Management Strategy (CRMS) will continue to be complied with throughout, in identifying and assessing the significant risks associated with this strategic proposal. This includes (but is not limited to) political, legislation, financial, environmental and reputation risks. A project risk register has not been compiled at this stage as no initial risks have been identified. This position will be reviewed and updated on a regular basis but should any risks be identified, arrangements will be put in place to manage and mitigate these effectively.

11.2 There are no specific immediate crime or disorder implications arising from the proposal outlined in this report.

12 SUSTAINABILITY OF PROPOSALS

12.1 The challenging financial environment that local authorities are currently in has pushed for the identification of entrepreneurial and innovative approaches to generate income and realise savings and efficiencies. The key driver for setting up a company is to provide sustainable market led housing in both rental and ownership sectors to meet the needs of the borough's increasing population, to raise standards in the private rented sector and to retain the current level of Council stock provision.

13 HEALTH AND WELLBEING IMPLICATIONS (INCLUDING SOCIAL VALUE)

13.1 Social Value will be considered to ensure that as consequence of the construction build, there will be demonstrable and measurable social value commitment. Therefore, creating employment and skills opportunities, engaging with the local supply chain and bringing a positive impact on the social, economic and environmental wellbeing for the local area.

14 IMPACT ON ANY COUNCIL MANAGED PROPERTY OR LAND

14.1 Whilst there are no direct links to the Corporate Landlord Strategy at this stage the proposal has the potential to bring forward undeveloped land and assets supporting council demand for new housing at some point in the future.

15 CONCLUSIONS AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

- 15.1 When considering the numbers of additional housing need within Sandwell as identified in the Black Country Urban Capacity Review the Council's approach to housing and wider regeneration activity on its current trajectory will fall far short of the targets for 2019-38.
- 15.2 As a Borough if Sandwell is serious about accelerating housing delivery, achieving ambitions and delivering against regional targets Although the Council is performing very well with its council house build programme and is negotiating potential Joint Ventures with funding partners for major housing delivery it still needs to find innovative ways and opportunities to maximise housing delivery. Therefore, authority is sought to develop a Business Plan for the creation of a new housing delivery vehicle and for the appointment of consultants to work with the council to externally validate the Business Plan as the first stage of a new housing delivery approach.

16 BACKGROUND PAPERS

- 16.1 Report to the Cabinet Member for Strategic Resources and Jobs and Economy, 29th October 2014 Changing the Housing Landscape in Sandwell (Key Decision Ref. No. C043) Minute no 75/14 refers
- 16.2 Report to The Cabinet, 6th April 2016 Changing the Housing Landscape in Sandwell Summary programme for Council House New Build (Key Decision Ref. No. REI021) Minute no 61/16 refers

Amy Harhoff
Director – Regeneration and Growth