

Report to: Cabinet

Date of Meeting: 8th July 2019

Report Title: Lower Tier Site Development

Report By: Andrew Palmer, Assistant Director Housing & Built Environment

Purpose of Report

To advise members of progress being made in bringing forward the Lower Tier site at Bexhill Road for residential development.

To advise members of the details of Homes England's Grant Funding Agreement.

To establish a budget to cover the Council's costs in advance of any grant monies due from Homes England.

Recommendation(s)

1. That the engagement of Harmony Homes for professional support and project co-ordination prior to planning permission being granted is agreed.
2. That the engagement of Ambiantal Technical Solutions for flood remediation modelling and works is agreed.
3. That the use of the Bloom Procurement Framework to engage professional services including architectural services up to the granting of planning permission is agreed.
4. That the Council agree expenditure of up to £6.9million capital (this expenditure to be funded by Homes England) and £90,000 revenue (interest) to fund development costs associated with the delivery of the Lower Tier residential development.
5. That a further report be produced for Cabinet and Council agreeing a revised Capital Programme for 2019/20 and beyond. This to include the potential development funding for the Lower Tier site.

Reasons for Recommendations

The Council intends to develop circa 190 new homes on part of the former recreation ground at Bexhill Road. Extensive remediation work is required to bring the site up to a marketable value, and the scheme would not be viable without external funding. Through the Homes England Local Authority Accelerated Construction (LAAC) fund, the Council has secured up to £6.9m to bring the scheme forward. This funding must be drawn down by the end of March 2021.

The resulting homes will make a significant contribution to meeting local housing need across a range of tenures and will include for 40% affordable housing. In addition, an opportunity exists to purchase properties through the Council's Housing Company for private letting, creating an ongoing income stream for the Council.

The terms of the funding agreement with Homes England require that claims against the grant funding up to the value of £6.9m are paid quarterly in arrears. Therefore, it will be necessary that payments are made in advance of receiving grant funding.

The funding of the development following the initial grant funding will need to be separately agreed as part of the Council's revised Capital Programme due to be considered in September 2019.

Introduction

1. HBC submitted a bid to the Homes & Communities Agency's (HCA) (now Homes England) Housing Infrastructure Fund (HIF) for its Marginal Viability Fund (MvF) in September 2017 for a project which involved the development of a new sports village and three separate residential sites, one of which was the Lower Tier site at Bulverhythe Recreation Ground. The main developer for this 4 site project was Keepmoat Homes.
2. HBC also submitted a bid to the HCA's Local Authority Accelerated Construction (LAAC) fund solely for the residential development of the Lower Tier site.
3. In December 2017, HBC was advised that it had been awarded £2.225m funding for flood remediation works to the Lower Tier via the HIF. Unfortunately, Keepmoat withdrew from the scheme to focus its business interests in other areas and another appropriate developer wasn't identified.
4. The Council continued to progress the LAAC application with Homes England. Following a significant due diligence exercise carried out by Homes England, the Council was awarded funding of up to £6.9m to take forward a residential development on the Lower Tier site. The scheme has now secured all of the necessary approvals from Homes England and a Grant Funding Agreement has been issued which is being reviewed by the Council's Legal team.
5. A requirement of the scheme is that it must deliver a proportion of homes constructed utilising Modern Methods of Construction (MMC) and do so at a specified pace that is faster than the normal local market average for similar developments. The grant funding of the scheme must also be spent by the end of March 2021. It is imperative therefore that once the funding agreement is signed that the scheme is progressed in line with the programme approved by Homes England.
6. A report to Cabinet on 1 October 2018 outlined the key elements of the proposal and authorised officers to procure a joint venture partner, submit a planning application for the comprehensive redevelopment of the site, and enter into a funding agreement with Homes England to fund remediation and other infrastructure measures to be undertaken. The report also recommended that a

further report be brought to a future Cabinet seeking the necessary development funding required to take the scheme forward.

Development Proposal

7. The site is currently identified for 192 homes, of which 40% would be Affordable Housing. At this stage, the Affordable Housing has been identified as a mix of Shared Ownership and Affordable Rent, which is rent that is up to 80% of open market rental value. At a local level the Council works closely with Registered Providers to maintain Affordable Rent within Local Housing Allowance (LHA) rates. This is supported by Optivo's Rent Setting Policy (2019) which confirms that Affordable Rent properties will not exceed LHA rates when they are let. Similarly, Orbit's Rent Review Policy (2015) confirms Affordable Rent properties are capped at LHA rates. There is also the option for the Council's Housing Company to purchase a number of units with the remainder to be sold on the open market.
8. A key outcome is to ensure the site's potential for housing delivery has been maximised whilst maintaining a high quality scheme and high quality urban design which connects and integrates with the surrounding uses and community to deliver a high quality public and private realm.
9. It's intended that where possible the site acts as an exemplar for local development and maximises social value; this being balanced with the financial considerations of the scheme. To this end, the development will seek opportunities for utilising sustainable energy and lifetime homes standards alongside wider community benefits linked to sports, leisure, play, accessibility and environmental factors. Throughout there will also be a commitment to providing local employment and training opportunities.
10. The completed development value of the scheme is circa £40m and there is a forecast profit of £8m (20% of development value), which would be shared equally between the Council and the Joint Venture (JV) partner. Detailed cost information is set out on the attached appraisal and the financing of the scheme is set out below under Scheme Budget.

Services and Procurement

11. Keepmoat Homes contracted Harmony Homes Development Services to assist with the planning for the three residential sites and the design and development of the new sports village under the original HIF bid.
12. As a result of the detailed knowledge Harmony Homes acquired working on the sports village proposal, they have been able to support the Council in progressing the LAAC bid. Their services will be commissioned as Project Coordinators to assist the Council in the pre-planning work necessary to secure planning permission for the scheme to proceed.
13. A key element of the scheme is the requirement to fully understand and mitigate any flood related issues. Ambiantal Technical Solutions worked on the initial Keepmoat proposal and other nearby sites which have required expert flood

advice. Given their knowledge of the area and site they will be retained to carry out hydraulic modelling and a detailed, site specific flood risk assessment.

14. Having consulted the East Sussex Procurement Hub, the Bloom Procurement Framework will be used to commission a multi-disciplinary team comprising Master planners, Architects & Lead Consultant. The services managed by the Lead Consultant will include: Planning Consultants, Land Use Consultants, Transport Consultants and Civil Engineering Consultants.
15. The Bloom Framework enables the Council to procure professional services more quickly than a traditional tendering process whilst still complying with procurement regulations. Through the use of the Framework and a Lead Consultant the Council will be able to meet the timescales imposed by the LAAC fund, which would not be possible through other procurement routes.
16. The original architects employed by Keepmoat Homes have not been used due to their lack of MMC experience. The architect firm, Metropolitan Workshop, have supported the Council in the bid stage and are likely to formally submit a proposal to be Master planners, Architects & Lead Consultant for the scheme when the Council puts the Project Brief to the Bloom Framework.
17. Metropolitan has a proven track record of delivering MMC projects, a good ethos of community involvement, affordable housing experience and an understanding of the importance of balancing viability alongside social value. Metropolitan has also delivered large scale residential projects and won a number of awards which evidence the quality of their work.

Delivery and Joint Venture (JV)

18. The Council will be solely responsible for taking forward the initial stages of the development until the site is fully remediated, planning is obtained and the land value has been maximised. The Council will then enter into a JV agreement with a Registered Provider (RP) for the housing development phase. This approach is in part due to the need to provide Homes England with the confidence that the Council, who has no recent track record of residential development, has the necessary expertise to take forward a site of the size and complexity presented by the Lower Tier.
19. The Council is seeking expert advice with regards to the JV structure to be adopted. It is envisaged that a 50/50 model will be adopted with both partners investing on a pound for pound basis with the Council's remediated land holdings contributing towards the Council's total investment. Profits would be shared equally with the Council having an option to take these in the form of completed housing units or financial receipts. The RP would be required to purchase the affordable housing element of the development.
20. Some discussions have taken place with Optivo as one of the Council's preferred provider development partners and they have confirmed their interest in working with the Council in terms of a JV approach. The Council is receiving legal advice on how best to contract with a RP partner and is exploring options for entering into a contract following a Voluntary Transparency Notice (VEAT) being published.

Key Risks

Flood Remediation

21. Flood modelling needs to be carried out to demonstrate to the Environment Agency that it is appropriate to develop the site. AECOM is in the process of finalising a Level 1 Strategic Flood Risk Assessment for Hastings. With regards to the site, they have confirmed that they plan to update the designation of Flood Zone 3b to be solely based on the 1 in 20 Year Undefended flood outline for the Combe Haven. Whilst this would keep the 3b designation it provides the opportunity for updated modelling to be used to revise the designation.
22. The Environment Agency has confirmed they are happy with the approach outlined above by AECOM. They acknowledge that the location hasn't been modelled in sufficient detail and that it is appropriate for Ambiental to carry out hydraulic modelling and a site specific flood risk assessment. Ambiental will be commissioned to carry out this piece of work as outlined above as part of the pre-application process. Given that this area has been the subject of historic flooding, how flood risk is addressed will be a key consideration in determining the application.

Rother Planning

23. Although the development site is wholly within Hastings Borough, flood remediation measures (balancing ponds etc.) are likely to be required on land in Rother. This will require the submission of a planning application to Rother and whilst we understand at present that they have no objection in principle to this, it will be a matter for Rother to determine.

Town and Village Green (TVG) Application

24. A TVG application was made last year by local residents for a portion of land on the Lower Tier site. East Sussex County Council (ESCC) is the Commons Registration Authority (CRA) and determined that the right to make the application had been lost by reason of a 'trigger event' occurring. Whilst the applicants have tried to challenge this decision, ESCC has upheld that there is no right to apply. There was also a case being heard at the Court of Appeal which could've impacted what constituted a trigger event. The appeal has now been dismissed and there is no longer an associated risk.

Scheme Costs

25. The total development cost of the project, including the cost of the Council's land and the profit built into the scheme, is estimated to be circa £47million. The LAAC grant is deducted from the development costs to provide a completed development value of circa £40million.
26. The total estimated costs needed to fund the development are circa £38.5million; this figure does not include profit or interest, but does include £4,450,000 for the site purchase, which will be used by the Council as its initial investment into the scheme.

Scheme Budget

27. There are two main funding stages to the project: 1) Pre-Development & 2) Development.

Stage 1: Pre-Development Phase

28. Stage 1 includes all of the work required to get the site ready for housing development, including stakeholder consultation, site design, flood modelling, planning permission and site remediation works.
29. The cost of Stage 1, including professional fees, planning and ecology costs and construction costs, is estimated to be circa £6million. The total value of Stage 1 is fully met by grant funding.
30. The grant funding is paid quarterly in arrears, so a budget will need to be established so that payments for LAAC eligible expenditure can be paid in advance of receiving the grant payment.
31. The annual financial year budget required to meet the initial £6.9million Homes England funding is as follows:

	2019/20	2020/21	Total
Capital	£815,677	£6,154,504	£6,970,181
Revenue (Interest)	£5,992	£84,209	£90,201
Total Budget	£821,669	£6,238,713	£7,060,382

Stage 2: Development Phase

32. Stage 2 is focused on developing out the site for new homes in accordance with planning conditions, and the sale of completed homes.
33. The cost of Stage 2, including professional fees, acquisition costs, construction costs and sale and marketing fees, is estimated to be £32.5million. Any remaining grant from Stage 1 will contribute towards Stage 2 costs. After grant, it's estimated that there will be circa £31.5million required to complete Stage 2.
34. On the basis that the delivery vehicle is via a JV on a 50/50 basis, each partner would need to invest circa £15,750,000. The Council would invest £4,450,000 as land equity and would be required to make a cash investment of £11.3million.
35. The first cash investment by the JV for expenditure post LAAC funding is forecast for January 2021 however as the Council will have put land equity into the scheme, the cash flow forecasts the Council's first cash investment for June 2021.
36. As seen in the attached cash flow, the scheme generates income before its completion; initially through grant and then through the phased sale of homes. Therefore, it's estimated that the maximum amount being borrowed at any one time by the JV peaks in August 2021 at approximately £11.8m.

Return

37. The JV is anticipated to begin to see a return on its investment from February 2023 onwards, when the cash flow becomes positive.
38. In addition to the value of the remediated land, which is approximately £4million, the Council would also see a financial return from the scheme profits, which are forecast to be in the region of £8million. As a JV, the Council would be entitled to a 50% share of the profits, which would be approximately £4million.
39. A full breakdown of the estimated income, expenditure and borrowing requirements for the scheme are set out in the scheme's appraisal and associated cash flow. These were submitted as part of the grant process and are available upon request. The appraisal will vary over time as scheme plans are finalised, but there is a contingency built into the appraisal to allow for variances.

Key Conditions of the Funding Agreement

40. The LAAC grant awarded by Homes England is based on the estimated abnormal costs of delivering the Lower Tier Site including flood remediation works, off site infrastructure and on-site abnormal. The LAAC grant has two primary objectives namely: 1) achieving delivery of a housing scheme using an agreed level of Modern Methods of Construction (MMC) and 2) achieving a higher rate of pace of delivery than a traditional housing scheme. The scheme also has to deliver the Council's required level of affordable housing as set out in planning policy which in the case of the Lower Tier site is at 40%.
41. In agreeing the terms of the grant the Council has agreed to deliver a minimum of 192 residential units of which 77 will be affordable. Of these, a minimum of 40 units must be delivered using MMC (a combination of SIPS (Structural Insulated Panels), panelised and modular construction types). This requirement has a direct impact on achievement of the second key target which is rate of pace of delivery which has been agreed as 6.5 units per month which starts to be measured after completion of the first houses on site.
42. The agreement will contain a number of milestones regarding progress of the scheme through the undertaking of surveys, preparation and submission of a pre-application, preparation and submission of a full planning application, selection and appointment of contractors for site preparation, flood remediation and off site infrastructure, selection and appointment of a contractor for the on-site works and residential development including MMC providers. The final major deadline is that all of the LAAC grant must be drawn down and spent by 31st March 2021.
43. The agreement contains a standard clause that Homes England can seek a repayment of all or part of the grant in the event that conditions of the grant are not met. Homes England has advised in writing that should the Council fail to secure planning permission that Homes England would act reasonably over any repayment of costs where an application is refused due to reasons outside of the Council's control. This would include factors such as flood remediation and a TVG application.
44. There is also a clawback mechanism within the grant agreement that will come into effect if the scheme makes a larger than expected surplus after all

development costs, including profit, have been met. If this occurs, Homes England will be entitled to 80% of the additional surplus and the Council will be entitled to 20%. This is not a concern to the Council as it would only kick in after the Council's forecast profit had been taken from the scheme and would result in additional profit sharing.

Financial Risk

45. Financial risks can be split between pre and post planning. Development risks post planning will be dealt with at a later date, as and when the Council considers capital funding for the construction phase.
46. The initial financial risk to the Council is linked to the costs for project coordination and consultant fees required for the flood modelling, architecture, planning, traffic and environmental requirements needed in advance of a planning permission. These fees are split between the pre-application and full application stages and are estimated to be as follows:
 - Pre-application: £492,208
 - Full Application: £402,300
 - Total Costs to Planning Permission: £894,508
47. On conclusion of the pre-application process there will be an opportunity for the Council to reappraise its position and any risks identified before proceeding to make a full planning application.
48. Once full planning is obtained the most significant risks will have been mitigated. However, should the Council not meet the remaining milestones and accompanying outputs set out in the Grant Agreement then Homes England could in theory still seek a repayment of some or all of grant monies expended to be repaid.

Next Steps

49. Once the funding agreement is signed, the Council will need to move forward at pace and make payments for work that has been done to progress the scheme to date. It will also be important to formalise procurement aspects of the scheme, progress the JV agreement and consult key stakeholders so that they have an opportunity to feed into the original design concept for the scheme.

Timetable of Next Steps

50. Please include a list of key actions and the scheduled dates for these:

Action	Key Milestone	Due Date	Responsible
Sign LAAC Funding Agreement	Title Report completed; Budget approved by Cabinet	July 2019	
Commission Project Coordinators	LAAC Funding Agreement signed	July 2019	

Action	Key Milestone	Due Date	Responsible
Commission Flood Modelling Experts	LAAC Funding Agreement signed	July 2019	
Commission Lead Consultant through Bloom Procurement Framework	Project Brief completed; LAAC Funding Agreement signed	July 2019	
Submit Planning Pre-Application	Public consultations; Flood modelling; Initial site designs	November 2019	
Submit Full Planning Application	Completion of site and flood designs	February 2020	
Obtain Planning Permission	Approval at Planning Committee; Completion of Section 106	May 2020	
Sign JV Agreement	Procurement process established; Heads of Terms agreed	July 2020	

Wards Affected

West St. Leonards

Implications

Relevant project tools applied? Yes

Have you checked this report for plain English and readability? Yes, however, the report involves complex development and financial language which impacts the use of plain English.

Climate change implications considered? Yes

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	Yes
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	Yes
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	Yes
Anti-Poverty	No

Additional Information

Report Template v29.0



Equalities and Community Cohesiveness

The brief being developed for the Lead Consultant sets out the requirement for the scheme to show appropriate consideration for the accessibility of the scheme and its integration into the existing community and environment.

Risk Management

See attached Risk Log

Environmental Issues

The project brief for the Lead Consultant sets out the requirement for the scheme to seek opportunities for utilising sustainable energy and the importance of delivering a high quality scheme, which has a low carbon footprint, minimises environmental impact and improves bio-diversity.

Economic/Financial implications

Financial risk up to planning permission is set out above in paragraph 46.

The JV will need to invest funding into the scheme to cover costs required to fund the housing development stage of the scheme as set out above in Scheme Costs and in line with the attached cash flow.

If a JV is not established, the Council will need to look at taking forward the scheme itself and therefore funding the scheme costs not covered by the grant funding on its own. This would also mean that the Council would be entitled to 100% of the profits.

Organisational Consequences

The development will require cross-council support from a range of teams including housing options, planning, legal, finance and estates.

Local People's Views

There are a group of residents who live near the Lower Tier who have some strongly held concerns about the development of the site. The Council will need to ensure that there is a robust communications strategy in place to take forward the development and that residents are consulted throughout.

Climate Change

Some elements, such as the importance of seeking opportunities for utilising sustainable energy and having a low carbon footprint, have been established in the project brief for the Lead Consultant. There will be further detailed consideration of climate change implications as part of the development design in consultation with the Council's Sustainability Policy Officer.

Officer to Contact

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