

Report To: Cabinet

Date of Meeting: Monday, 7 March 2022

Report Title: Affordable Housing Development

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

Key Decision: Y

Classification: Open

Purpose of Report

To seek Cabinet and Council approval to progress the first phase of sites, Bexhill Road (south) and Mayfield E, within the 500 Affordable Rented Homes pipeline.

Recommendations

- 1. To bring 6 units of accommodation at 12/13 York Buildings into use as affordable housing**
- 2. That Cabinet recommends to Full Council that a detailed business case and initial surveys are commissioned to facilitate this for the development of land to the rear of 419 – 447 Bexhill Road at a cost of up to £75,000.**
- 3. That Cabinet recommends to Full Council that a detailed business case and initial surveys are commissioned to facilitate this for the development of land at Mayfield E at a cost of up to £75,000.**
- 4. That Cabinet recommends to Full Council that delegated authority is given to the Assistant Director, Housing and Built Environment, in consultation with the Lead Member for Housing to finalise the specification for the business case and procure these services**

Reasons for Recommendations

1. Delivery of new affordable housing in Hastings has failed to keep pace with rising demand. A shortage of affordable housing is creating additional pressures and costs to the council, particularly the rising use of temporary accommodation. The council has agreed a commitment to increase the supply of new affordable rented homes by 500 units over the next 5 years.

Introduction

1. In November 2021, Cabinet agreed a strategic commitment to increasing the supply of affordable rented accommodation by an additional 500 units over the next 5 years. This target will be achieved through a combination of direct delivery by the council and partnership working with registered providers and developers.
2. This report sets out the next steps for progressing the first phase of developments in the pipeline. The approach includes bringing existing empty properties back into use, as well as new developments on council-owned land. Full Council, at its budget meeting on 16 February 2022 agreed the inclusion of the council-owned sites at Bexhill Road and Mayfield E as two development projects in the capital programme. Before any capital project can commence the authorisation by Full Council is required.

12/13 York Buildings

3. The council has completed the development of 6 self-contained 1-bedroom flats at 12/13 York Buildings. The property is a grade II listed building where the upper floors had been empty for many years, and the building was in a very poor state, prior to the redevelopment. The flats are located above a retail unit in Hastings town centre.
4. The council has secured grant funding of £303,910 from Homes England, which will enable the units to be brought into use as affordable housing (with rents capped at local housing allowance).

Development of Council Land

5. There are numerous options available to the Council when looking to develop and/or dispose of its own land for housing. These are summarised in the table below.

Option	Advantages	Disadvantages
Disposal on the open market	<ul style="list-style-type: none"> • Capital receipt for the council • No ongoing cost liability to the council for development or management 	<ul style="list-style-type: none"> • No control over timescales for development • Lack of control over development e.g. in terms of environmental performance, social value, governance • Affordable housing contribution likely to be challenged on viability grounds • Loss of potential grant funding to support the development
Disposal to a Registered Provider	<ul style="list-style-type: none"> • Would contribute to 500 Affordable Rented Homes Target • Capital receipt to the council • Nomination rights for 75% of schemes 	<ul style="list-style-type: none"> • Reduced control over timescales for development • Lack of interest from Registered Providers in small scale sites • Unlikely to deliver an entirely affordable rent scheme • Lack of control over development

		e.g. in terms of environmental performance, social value, governance
Market development by council-owned company	<ul style="list-style-type: none"> • Council receives capital receipt for the sale of units, plus any development profit • Contribution towards the 500 Affordable Rented Homes Target (in line with planning requirements) • Housing company already established • Removes risk of right-to buy on affordable units 	<ul style="list-style-type: none"> • Additional borrowing costs to the company and council to fund the development • Additional risks associated with development and market sales
Direct development by the council	<ul style="list-style-type: none"> • Maximises number of affordable units on the site, by delivering an entirely affordable rent scheme • Maximises temporary accommodation savings • Opportunities to secure additional funding through Homes England's affordable housing schemes • Provides a model for ongoing development of council sites • Opportunities to improve the energy performance of the development and reduce energy costs for residents • Council will retain asset post development • Expands council's residential portfolio • Opportunities to enhance social value through appointment of local SME contractor & Employment & Skills Plan 	<ul style="list-style-type: none"> • Forego capital receipt from the sale of the land • Additional borrowing costs to fund the development of the site

Governance and sign off

6. Full Council is required to authorise new capital schemes and significant variations to projects or where additional costs will result in a net increase to the council's ongoing costs e.g. additional borrowing. Where a scheme is included in the capital programme as an un-asterisked item, they require a Cabinet report to Full Council to commence. In the case of the development of council land for housing the proposed process is:

Stage 1 (this report)

7. Cabinet recommends to Full Council new projects /sites for which further due diligence work is required before a decision on how best to proceed can be made e.g., business case/procurement options produced, initial surveys, architect. Full Council agree the proposal can proceed and an initial budget allocation is made (revenue monies funded from the General Reserve). If the scheme does proceed to completion these initial costs can be capitalised (not feasibility studies) – and money borrowed to finance the scheme or capital receipts used (if there are any). If it does not proceed these costs fall on the council's revenue account or must be permanently funded from the council's limited reserves

Stage 2

8. The outcome of this due diligence is reported back to Cabinet before a recommendation is made to Full Council on whether to proceed and on what basis. At this time the full project documentation should have been completed and risks assessed, and there will be a more informed view of the total costs. At this point Full Council determine whether the scheme proceeds further and determine a revised budget as necessary.

Land to rear of 419 - 447 Bexhill Road

9. This is a small council owned site for which the estates team has already gained outline planning permission for 16 units and the regeneration / upgrading of the car park. Development staff at Eastbourne and Lewes Council have modelled a scheme based upon a cost plan produced by a local modular housing company who has successfully delivered schemes nearby. This has been done at no cost to the council. The models demonstrate not just site viability, but also takes account of the cost of borrowing and impact of this on the council's overall debt and resourcing. The initial modelling estimates the cost of the development at £3,500,000. The council has allocated £3,575,000 in its capital programme to develop the site directly, with potential completion by the of March 2024.
10. The council will now commission the development of a more detailed business case and initial surveys to facilitate this, up to a total cost of £75,000, which will be reported back to Cabinet.
11. The council has secured funding of £142,000 through the brownfield land release fund (One Public Estate) to help remediate the site and will update the funding model to reflect this. To meet the funding requirements, the development must have begun by 31 March 2024. It is intended that the council will also apply to Homes England's affordable homes programme for further grant funding to offset the cost of the development.

Mayfield E

12. This council's estates team has obtained outline planning for up to 38 units. The council recently acquired specialist viability software Podplan via a grant from the Local Government Association. Initial modelling has been undertaken and the estimated cost of an all-affordable rent housing development is £8,785,000. The council has allocated £8,000,000 within the capital programme to complete the development. The project is earmarked for completion by the end of March 2025 in the capital programme.
13. The council will now commission the development of a more detailed business case and initial surveys to facilitate this, up to a total cost of £75,000 which will be reported back to Cabinet.

14. Again, the council will also explore funding opportunities with Homes England to bridge the funding gap and offset the cost of the development.

Financial Implications

15. The growing demand for emergency accommodation is creating an unsustainable financial pressure on the council. Increasing the supply of affordable accommodation in the town is key to addressing this trend and reducing costs in the longer term.
16. The development of York Buildings is now to be financed by borrowing from the Public Works Loans Board (PWLB) and from the grant funding from Homes England. This grant reduces the borrowing requirement for the project and the lower borrowing costs will be capable of being funded by rental income (capped at LHA rates).
17. The council included the potential to develop sites at Bexhill Road (South) and Mayfield E in its Capital programme in February 2022. The development to be funded through borrowing from the PWLB. The Council will need to consider the various options available e.g., to retain the properties and manage them, sell them and use the receipts to develop further sites, etc.
18. The council needs to be able to fund the projects through the feasibility and development stages and will need to have sufficient resources to do.
19. The council faces the potential for significant calls on its limited reserves and resources given the potential Towns Deal projects in the pipeline and its existing capital programme commitments. The council's Treasury Management Policy and capital strategy will need to be updated and approved by Full Council if existing limits on borrowing and affordability look set to be breached.
20. Alongside investment by the council, the council is exploring a range of grant funding opportunities to support the 500 Affordable Homes Programme. This includes Homes England funding streams and the Town Deal. The council is also able to invest Section 106 affordable housing receipts in the projects and will look to do wherever possible.

Risk Management

21. Some of the key risks associated with the project are set out below:

Risk	Mitigation	Residual Impact
Insufficient capacity in-house to carry out further due diligence	The council is outsourcing the due diligence for the project and will be working with East Sussex Procurement Hub to commission suitable services.	Medium
Insufficient capital funding	The council has provisionally earmarked sums within its capital programme. The further due diligence will establish if this is sufficient and if it viable for the council to proceed with the development. Additional borrowing costs will be offset by rental income if the council retains the	Medium

	completed units.	
Insufficient grant funding	The council is already a Homes England Investment Partner and is having ongoing discussions regarding links with the affordable homes programme. We have also successfully secured additional grant funding from other sources.	Low
Loss of grant funding	The grant funding the council has secured so far is time limited, there is a risk that this will be lost if the council is unable to meet the timescales for completing due diligence and then delivery.	Medium
Planning approval not granted	The sites at Mayfield E and Bexhill Road (South) have outline planning approval for residential development. The due diligence will explore planning matters in more detail.	Medium

Climate Change

22. Residential accommodation is the biggest source of carbon emissions in the town. The council is committed to achieving a high standard of energy performance from new developments in the town. The council will model design features to reduce carbon emissions from the development as part of the design process, alongside the viability assessment, to meet the zero carbon commitments.

Timetable of Next Steps

Action	Key milestone	Due date (provisional)	Responsible
Homes England bid in respect of 12/13 York Buildings	Outcome of funding bid	February 2022	Strategic Housing and Projects Manager
Progress development of land to the rear of 419-447 Bexhill Road	Due diligence completed	September 2022	Housing Development Manager
Progress the development of Mayfield E	Due diligence completed	September 2022	Housing Development Manager

Wards Affected

(All Wards);

Policy Implications

Reading Ease Score: 38.4

Have you used relevant project tools? Y

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

Equalities and Community Cohesiveness	N
Crime and Fear of Crime (Section 17)	N
Risk Management	N
Environmental Issues & Climate Change	Y
Economic/Financial Implications	Y
Human Rights Act	N
Organisational Consequences	Y
Local People's Views	N
Anti-Poverty	Y
Legal	Y
Climate Change	Y

Additional Information

Insert a list of appendices and/or additional documents. Report writers are encouraged to use links to existing information, rather than appending large documents.

Officer to Contact

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