

POLICY & RESOURCES

25TH JULY 2017

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

HOUSING DEVELOPMENT & REGENERATION INVESTMENT PLAN

Final Decision-Maker	Policy & Resources Committee
Lead Head of Service	William Cornall, Director of Regeneration & Place
Lead Officer and Report Author	William Cornall, Director of Regeneration & Place
Classification	Public
Wards affected	All

This report makes the following recommendations to this Committee:

1. That the Housing Development and Regeneration Investment Plan is adopted.
2. That Officers arrange a Members workshop in the new-year to explore the potential for the long term expansion of the Plan.
3. That the Housing Development element of the Housing Development and Regeneration Investment Plan is adopted as the renewed Business Plan for Maidstone Property Holdings Limited.

This report relates to the following corporate priorities:

- A home for everyone – the adoption of this plan is instrumental to delivering the Council's own housing building aspirations.
- Regenerating the town centre – the adoption of this plan will mean that some of the Council's own resources are targeted to direct investment in town centre projects that will bring about the physical regeneration of the built environment.

Timetable

Meeting	Date
Policy & Resources Committee	25 th July 2017

HOUSING DEVELOPMENT & REGENERATION INVESTMENT PLAN

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report builds upon the decision taken by the Policy & Resources Committee on 23rd November 2016, when it was decided to refocus the Council's Commercialisation Strategy upon housing and regeneration.
- 1.2 This direction of travel was cemented by the Policy & Resources Committee approving the Council's capital investment programme, with £28m ring fenced for housing developments over the rolling five-year Medium Term Financial Strategy (MTFS) period, commencing 2017/18.
- 1.3 This plan sets out the principles that will guide the Council's long-term "housing development" investment decisions. This will be the main thrust of the plan, setting out how to create a portfolio of market rented homes.
- 1.4 The second element of the plan will set out the need to create a "regeneration" revolving fund for short to medium term investment in land assembly and master-planning activities that will enable large-scale private sector led projects. As well as again setting the principles that will guide the Council's investment decisions, the plan will also set out six opportunity areas that may be suitable for this intervention.

2. INTRODUCTION AND BACKGROUND

- 2.1 Beyond this plan, the Council is already doing much to increase housing delivery through the Housing Strategy and Local Plan, but this plan focuses upon the Council's direct investment and interventions as part of the ongoing commercialisation agenda. Within this section, the two areas will be addressed separately.

Housing Development

- 2.2 The primary motive for this emerging area of work is for it to be commercially focussed, so as to maximise long term revenue returns to the Council through developing homes for market rent. This is a very realistic proposition as the Council can borrow to invest on extremely competitive terms (through the Public Sector Loans Board), so positive cash-flows (from new developments) should be possible from the outset together with an appreciating asset base that could be realised at a future date.
- 2.3 However, no new venture can be without risk, and so the following SWOT analysis sets out the Councils' current position in terms of embarking on this new area of work:

<p><u>Strengths</u></p> <ul style="list-style-type: none"> • Trusted brand. • Local property market. Intelligence. • Ability to borrow on attractive terms. • Ability to invest for longer term returns. 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Developing commercial focus. • Competing priorities (staff & funds). • Lost housing management infrastructure. • Limited land holdings, competition for sites.
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • To share risk & reward with private sector. • To diversify the Council's income streams. • Positive public perception on housing crisis. • Positive revenue returns and capital growth. 	<p><u>Threats</u></p> <ul style="list-style-type: none"> • Changing market conditions, BREXIT. • Construction skills shortage (rising prices). • Potentially more central government oversight of CAPEX. • Realistic delivery timescales.

2.4 Furthermore, in terms of evaluating the current operating environment, as a back drop for formulating this investment plan, the following PEST analysis has been undertaken:

<p><u>Political (Housing White Paper 2017)</u></p> <ul style="list-style-type: none"> • Seeks more council housebuilding. • Seeks to grow the private rented sector (PRS). • Seeks to raise PRS standards. • Seeks new developer entrants to the market. 	<p><u>Economic</u></p> <ul style="list-style-type: none"> • Housing delivery is falling short of demand • Private sector rental growth is stable • House price inflation is stable • There are high levels of employment
<p><u>Social</u></p> <ul style="list-style-type: none"> • Home ownership is not within reach for some. • PRS is attractive for those seeking job mobility. • There is an appetite for longer PRS tenancies. • A desire for sophisticated management services. 	<p><u>Technological</u></p> <ul style="list-style-type: none"> • Opportunities for off-site construction. • Eco enhancements could reduce running costs. • Digital services could reduce management costs. • Car sharing infrastructure could boost returns.

2.5 Having considered the context, in order to create mixed-communities and also to maximise financial returns, our housing development projects will generally be delivered with the following (approximate) tenure mix;

- 1/3 for market rented housing to be retained by Maidstone Property Holdings (MPH), the Council's housing company that was incorporated in September 2016.

- 1/3 for market sale housing to be delivered in most cases by the appointed development contractor (the builder) or by way of a joint venture between the appointed development contractor and the Council.
- 1/3 for affordable housing to be delivered by local housing associations (HA) via the Section 106 agreements attached to our housing development projects.

N.B.1 On smaller schemes the tenure will be typically be loaded to, or even exclusively, market rent, as these will fall below the affordable housing threshold, and owner occupiers will tend to prefer schemes where there is a critical mass (of owner occupiers).

N.B.2 It is also possible that some residential led schemes will have an element of commercial property in them too, so the Council will most definitely consider mixed use opportunities, which would grow the commercial property portfolio too.

2.6 Therefore, by developing homes for market rent, the Council will be leveraging in additional monies on top of the Councils' own investment, from contractor and HA partners. In approximate terms, the Council's £28m investment will yield a portfolio of around 140 market rented homes (a total scheme cost of circa £200k per home), as well as attracting a similar sum from contractor partners for the market sale homes, and a little less from housing associations (they will pay 80% of market value) for the affordable housing, so around £78m of investment in total.

2.7 The main focus will be to develop new homes for the portfolio, rather than acquire second hand stock, because:

- It will enable Council to bring forward some of its own sites for development.
- It will bring about the physical regeneration of the borough.
- It will show leadership in the delivery of the Local Plan.
- It will create new jobs and opportunities, some of which may be for local firms and people, and these could be contractually guaranteed through the Employers' requirements within build contract documents.
- It will maximise financial returns by taking the development risk.
- It will give the Council the opportunity to showcase exemplar housing developments.
- New stock will be more attractive to the customer for the long term, as it will be designed with market renters in mind.

2.8 However, the development of new homes is an area of work that the Council has not undertaken for several years. Therefore, in readiness for this plan, those skills have been replenished within the Corporate Leadership team, and a new “capital projects delivery” team has been created under the Head of Regeneration & Economic Development. The team is led by John Foster, Regeneration and Economic Development Manager, and comprises five further staff with the necessary skills and experience, brought together from other areas within the Council. This team has undertaken a programme of specialist training already, and is supplemented by external consultancy advice specific to each project, for; Architectural services, Employers’ Agent (cost, contract and project management) and Principal Designer (client Health & Safety), as well as internal expertise from the Property Team.

2.9 This new team has now carefully considered what the Council’s market rent offer should be, and this is presented as a “marketing-mix”, as follows:

<p><u>Product</u></p> <ul style="list-style-type: none"> • Apartments (predominantly). • High quality design. • Open-plan plus en-suite to master bedrooms. • Unfurnished (+ carpets, curtains, white goods). 	<p><u>Place</u></p> <ul style="list-style-type: none"> • Brownfield sites. • Predominantly town centre. • Regeneration areas. • Good public transport areas (reduced parking).
<p><u>Price</u></p> <ul style="list-style-type: none"> • Mid-price point. • Longer tenancies. • Affordable service charge. • Good quality management & maintenance. 	<p><u>Promotion</u></p> <ul style="list-style-type: none"> • Maidstone Property Holdings branding. • Local letting agents. • All Council media channels. • Housing Register.

2.10 In terms of identifying suitable housing development projects, the Council has now made positive decisions in respect of Brunswick Street and Union Street, and there are also other possibilities within the Council’s existing land holdings that are already being explored. Needless to say, where these are existing car parks, the emphasis will be upon maintaining the car parking income whilst facilitating residential development, either by building above or through consolidation of car parking sites (as per the Integrated Transport Strategy and the emerging results from the WSP study on town centre car parking, park & ride and bus station).

2.11 Realistically, given the Council’s limited land holdings, it will be necessary to secure new sites in the market too, either through our own enquiries, or by approaches made by developers / contractors that already own or control suitable sites, that would also be willing to build them out in partnership with the Council. On this front, the Council is now already receiving a stream of high quality opportunities from potential private sector partners, as they start to respond to the programme of engagement that has been put in place, in terms of the Council’s ambitions on this front.

2.12 In readiness for this new area of work, the Council is using a market leading software package to financially appraise new housing development opportunities, ProVal by Shelton Development Services (SDS). Within this software, the client organisation is required to enter their specific development assumptions and hurdle rates, under guidance by SDS, and this exercise has now been completed in conjunction with the Director of Finance & Business Improvement. These have been agreed by the Director of Finance & Business Improvement and are set out in **Appendix 1 of this report**.

2.13 Whilst the capital programme for the Councils' £28m investment into this sector has already been approved, each individual project will also need to be assessed and approved by the Policy & Resources Committee prior to the following milestones:

- Land acquisition, submission of Planning application (if required) and for approval to tender the construction works, and again prior to;
- Start on site, once prices are confirmed for the construction works and the price payable for the affordable housing by the housing association partner.

2.14 When seeking approval from the Policy & Resources Committee, the first report will provide full details of the development opportunity, to be considered under the following headings;

- Introduction (to include proposed accommodation / tenure schedule)
- Land ownership
- Partners
- Early ward member engagement
- Planning
- Programme
- Financial analysis
- Risks / unknowns

2.15 Prior to entering into binding commitments, the project delivery team will secure at the appropriate juncture, expert third party advice in respect of the following:

- The land value payable.
- A satisfactory Report on Title from the acting solicitor.
- A satisfactory Report on Contract from the Employers' Agent, being a detailed analysis of the proposed contract sum and programme, so as to evidence best value to the Council. This will include the details of an appropriate 10% Performance Bond in favour of the Council that the contractor will enter into prior to start on site, as well as details of an appropriate Housebuilder Guarantee scheme (such as NHBC, Premier or similar), details of the proposed defects liability period and retention arrangements, as well as the suitability and overall robustness of the proposed building contract or development agreement.

- A satisfactory assessment of the contractors' financial standing commissioned via Finance colleagues through an external agency such as Dunn & Bradstreet or similar.

2.16 In terms of the approved £28m capital investment programme for this area of work, the programme of projects is now starting to take shape as follows:

Project	Tenure	Start on Site	Practical Completion	Net Cost
Brunswick St	24 market rent (MPH) 10 market sale (developer) 13 affordable housing (HA)	Jan 18	July 19	£4,967,000
Union St	16 market rent (MPH) 17 market sale (developer) 14 affordable housing (HA)	Jan 18	July 19	£2,800,000
Lenworth House	14 market rent (MPH)	Oct 17	Oct 18	£2,579,000
				£10,346,000

2.17 Therefore, the Council has a maximum £17,654,000 of further projects to identify. However, the figures above assume that the Council will not take any sales exposure (by way of a joint venture with the developer / contractor) on the private sale elements of both Brunswick Street and Union Street. Were the Council to take a 50% stake in the private sale element of both of these projects, this would mean a further cash exposure of circa £4.5m, so leaving a further £13,154,000 to invest over the MTFs period.

2.18 When contractors are invited to tender for the construction of Brunswick Street and Union Street, they will be invited to bid under the following three scenarios:

- The construction of the projects only.
- The construction of the projects and the delivery of the market sale element of the schemes too (as an offer to purchase from the Council the market sale plots).
- The construction of the projects and the delivery of the market sale element of the schemes by way of a joint venture with the Council.

2.19 Therefore, in terms of Brunswick Street and Union Street, the Council's approach to the market sale element will be decided upon in the autumn when the tenders have been returned and evaluated. Larger mixed tenure projects such as this will be explored in a similar way. Accordingly, the Council will need to work with high quality progressive contractors that have market sale expertise as well as a commitment to partnership working.

2.20 Whilst it is not necessary to make any decisions in respect of market sale exposure at this time, the Corporate Leadership Team favour the joint venture scenario, for the following reasons:

- It will provide some exposure to the sales market.

- It will allow the Council to work alongside and learn from private sector partners.
- It will mean that all the available monies do not quickly become tied up in a small number of projects, which would ultimately slow the rate at which the market rented portfolio could be grown.

2.21 Having discussed already the approach to risk management, in terms of financial analysis and required returns, construction procurement and management, realistically, the largest area of risk would be around exposure to the housing market in terms of investment in the market sale tenure, either as sole investor or by way of a joint venture. In all instances, should sales values fall so that it would be unprofitable to sell, the exit position would be that the properties instead be retained and made available for market rent. This will present two further issues to consider:

- Homes designed for market sale will not be as high yielding as those designed specifically for market rent. I.e. typically homes for market sale will be houses, and homes designed for market rent will be apartments.
- Cash-flow, so the Council will always need to have sufficient borrowings in place to cover this eventuality (the event that market sale receipts do not materialise). Clearly this cannot be an open ended commitment, so a maximum Council contractual exposure to market sale activity will never exceed more than £5m/ 25 units at any one time, and also the availability of sufficient funds that could be drawn down to cover this risk will need to be monitored as part of the overall reporting regime around the capital programme.

2.22 In terms of external assistance in delivering new housing, the Homes & Community Agency (HCA) could well be a key partner to the Council too. At present the HCA are offering Council's tailored assistance packages (Accelerated Delivery Fund) to ramp up housebuilding, under the following themes:

- Subsidised development loans
- Market sale guarantees (underwriting sales risk)
- Subsidy to facilitate the use of modern methods of construction to accelerate delivery on site.
- Subsidy to meet abnormal site costs (in terms of contamination and ground conditions) on brownfield land.

2.23 The Council has already submitted a bid for an assistance package from the HCA, and a decision is awaited from them, but their announcements have been delayed because of the purdah period prior to the General Election.

2.24 Turning to the housing management service for the portfolio, this is at present (for the existing portfolio to include the 20 apartments at Granada House) contracted out to Sibley Pares. This could be a suitable arrangement for the first housing developments, or it might be appropriate to explore whether the selected HA partner could offer a compelling service offer for the Councils' market rented homes. Ultimately, the Council's portfolio of

residential property is now growing, especially when the temporary accommodation portfolio (soon to be 50 units) is taken into account, and so a report making recommendations on this matter will be brought to the Communities, Housing and Environment Committee in the next financial year. At this stage, it is clear that there is insufficient critical mass to consider bringing a housing management infrastructure back in house. Needless, to say the events recently at the Grenfell Tower illustrate the need for the Council to consider its housing management service in a strategic and consistent manner.

- 2.25 To conclude, this plan brings together a number of previous decisions, so is effectively in place and being delivered upon. It would be helpful however for the Committee to provide some further direction as to the future ambition for this area of work, both in terms of appetite for market sale exposure, and the overall size of the portfolio that the Council plans to develop in the longer term. For example, were there a desire to make a greater market impact in terms of the size of the portfolio, it could be possible to seek further external long term funding, perhaps from a partner Council or indeed a partner contractor/s, and so ultimately move the Council's portfolio into an arms-length joint venture type structure. If the Committee would like to more fully explore the opportunities for greater growth beyond the current capital programme commitment, a Members workshop could be organised to explore the opportunities and risks, pending a follow up report early in the next financial year.

Maidstone Property Holdings Limited

- 2.26 In order to fulfil its ambitions to acquire property for market rent, the Council set up a company called Maidstone Property Holdings Limited. This report asks the Committee to expand the business plan of Maidstone Property Holdings by adopting the Housing Development elements of the Housing Development & Regeneration Investment Plan as its renewed business plan.

Regeneration

- 2.27 The Council has broader regeneration ambitions that are of a scale and value in excess of what can be brought about by our own direct investment. However, the Council has a leadership role to play in signalling to partners and stakeholders as to what these regeneration opportunities could be and could also undertake activities or interventions that would make them more deliverable and viable for the private sector to take forward.
- 2.28 An example of this way of working is the Council working in partnership with Kent County Council at the former Royal Mail Sorting Office. The strategy for this site has been to tie in neighbouring land owners, and put in place a masterplan for the combined site, before bringing in development partners to take forward different phases of development. For this site, the interventions are around providing clarity around the vision for the site, and de-risking the future development for partners by forming a detailed understanding of the site constraints and opportunities, and so ensuring that the masterplan responds to these. Whilst it is possible that the Councils may ultimately choose to take a longer term investment stake in the

development, the starting position is that the Council's investment in the land and consultancy costs is returned in full, perhaps even with a profit, when the developers come forward to acquire plots for the different phases, possibly on a deferred payment basis.

- 2.29 The former Royal Mail Sorting Office was clearly an "opportunity area" for regeneration, and realistically the Councils seized a market opportunity to acquire the site. This approach would not be possible, viable or even necessary for all the opportunity areas to be brought forward in this way.
- 2.30 Realistically, the starting point for the Council is to identify what are its most important opportunity areas and what are the Council's aspirations for them. Once this work is done, a SWOT analysis of each can be undertaken, and this will ultimately inform what, if any, intervention from the Council would be required from the Council for each area, and the Council could then start to rank them in terms of deliverability and value.
- 2.31 To commence this process, the Strategic Planning team have started to explore what the main potential opportunity areas are for regeneration, and in no particular order, these are shown in **Appendix II**;
- 2.32 This list has also been informed by work undertaken by the Maidstone Town Centre 5 Year Investment & Development Plan, led by Dawn Hudd, Head of Regeneration and Economic Development. An update on the action plan arising from the plan can be seen at **Appendix III**. Whilst exploratory analysis has been undertaken on the above areas, they now need to be taken firstly through consultation with local Ward Councillors and then the strategic planning process, so that they can be more fully explored. Many of these opportunity areas will be largely mixed use, possibly with a residential emphasis, but others may be around the provision of improved public space and amenities or indeed improved green spaces.
- 2.33 Ultimately, identifying and facilitating the development of opportunity areas will put the Council in a strong position when it comes to the review of the current Local Plan in 2021 and also for the next Local Plan period too, as this work would in part, create a more structured and informed backdrop for subsequent "call for sites" exercises.
- 2.34 Therefore, in terms of the Council's regeneration aspirations, the first step will be for the Planning team to take a scoping paper on opportunity areas through the Strategic Planning Sustainability & Transportation Committee, and once the principal and broad locations of the opportunity areas is agreed, the Planning team can then go on to engage with landowners and other stakeholders with a view to creating an overarching opportunity areas document to contain design briefs / masterplans for each location within it. This document could ultimately be consulted upon and adopted as material planning policy.
- 2.35 Realistically, this will be a 24-month body of work, and once complete, the Council can then start to explore what if any interventions it intends to make to facilitate the delivery of the action areas, and these will ultimately need to be brought forward as a proposal to the Policy & Resources

Committee, as was the case with the Royal Mail Sorting Office.

- 2.36 Needless to say, market opportunities may arise before the exercise concludes, and these will be considered on a case by case basis, and intuitively, there may well be areas that will require a more immediate intervention from the Council.

In terms of creating a revolving fund for short to medium term investment in facilitating regeneration, the Council has already made a circa £3m commitment at the Former Royal Mail Sorting Office. Accordingly, the proposal is that the Council's existing infrastructure fund provision (within the existing capital programme) of £3m is ring-fenced for this type of activity, and so beyond a £6m exposure, the Council would not make further investments until proportionate incoming cash-flows are received.

3. AVAILABLE OPTIONS

- 3.1 Policy and Resources Committee could choose to adopt this Housing Development and Regeneration Investment Plan to include agreeing that officers arrange a Member's workshops in the new-year to explore the potential for the long term expansion of the initiative.
- 3.2 Policy and Resources Committee could choose not to adopt this housing development and regeneration investment plan.
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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The preferred option is 3.1 as this option provides a clear framework within which previous Council decisions can be delivered, in terms of the capital programme as well as more general regeneration aspirations.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 This plan has been developed jointly with the Director of Finance and Business Improvement and has been considered also by the Corporate Leadership Team, and the general thrust of this plan have been approved previously by the Policy & Resources Committee, when approving the refocussing of the Commercialisation Strategy as well as the current Capital programme.
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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The approved plan will be communicated to the teams that will be charged with its delivery, and the governance arrangements around new projects will also need to be agreed and understood by the different Committee Chairs. Furthermore, the work-stream around regeneration, in terms of

opportunity areas, will need to be added to the forward plan for the Strategic Planning Sustainability and Transportation Committee.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	<p>A home for everyone – the adoption of this plan is instrumental to delivering the Council’s own housing building aspirations.</p> <p>Regenerating the town centre – the adoption of this plan will mean that some of the Council’s own resources are targeted to direct investment in town centre projects that will bring about the physical regeneration of the built environment.</p>	[Head of Service or Manager]
Risk Management		[Head of Service or Manager]
Financial	<p>The Investment Plan set out in this report is consistent with the Council’s agreed Medium Term Financial Strategy 2017/18 – 2021/22 and with the capital programme agreed by Council at its meeting on 1st March 2017. Individual projects are subject to financial appraisal and must meet the investment criteria set out in Appendix I to this report.</p>	Section 151 Officer
Staffing		[Head of Service]
Legal		[Legal Team]
Equality Impact Needs Assessment		[Policy & Information Manager]
Environmental/Sustainable Development		[Head of Service or Manager]

Community Safety		[Head of Service or Manager]
Human Rights Act		[Head of Service or Manager]
Procurement		[Head of Service & Section 151 Officer]
Asset Management		[Head of Service & Manager]

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix I: Development Assumptions & Hurdle rates.
- Appendix II: Potential Opportunity Areas
- Appendix III: Maidstone Town Centre 5 Year Investment and Development Plan update.

9. BACKGROUND PAPERS

None.