

COMMUNITIES, HOUSING AND ENVIRONMENT POLICY ADVISORY COMMITTEE

17th January 2023

Property Acquisition for 1,000 Affordable Homes Programme

Timetable	
Meeting	Date
Communities, Housing and Environment Policy Advisory Committee	17 th January 2023
Executive	25 th January 2023

Will this be a Key Decision?	Yes
Urgency	Not Applicable
Final Decision-Maker	Executive
Lead Head of Service	William Cornall – Director of Regeneration & Place
Lead Officer and Report Author	Philip Morris – Housing Acquisitions Consultant
Classification	<p>Public Report with Exempt Private Appendices</p> <p>The information contained within the Appendices has been considered exempt under the following paragraph of part 1 of schedule 12A to the Local Government Act 1972:-</p> <p>3 = Information relating to the financial or business affairs of any particular person (including the authority holding that information)</p> <p>Public Interest Test</p> <p>On applying the public interest test, the public interest in non- disclosure of the appendices to the report outweighs the public interest in disclosing this information. The reasons in favour of disclosure are the public interest in ensuring value for money and the reasons against disclosure are the harm to the Council’s financial position in respect of a commercial transaction. Any disclosure of</p>

	such information may compromise the negotiating position of the Council. Keeping the information exempt is therefore in the public interest.
Wards affected	Bridge Ward

Executive Summary

The development strategy to deliver 1,000 new affordable homes was agreed by the Policy and Resources Committee on 19th January 2022. As part of the agreed strategy, there is an expectation that 50% of affordable homes delivered will be from non-council owned urban brownfield sites.

As part of this programme an opportunity to purchase a town centre site has arisen. The site has an existing planning permission in place for the development of 19 residential units to include 6 x 1 beds and 13 x 2 bed apartments along with associated parking and landscaping.

Once built it is the intention to let the units as Affordable rent units set at 80% of market rent and capped at Local Housing Allowance levels.

The Committee is being asked to consider the freehold acquisition of the site, before being passed to the Executive to approve the purchase of the proposed freehold acquisition.

Purpose of Report

Decision

This report makes the following recommendations to the Committee

That the Executive be recommended to:

1. Approve the financial returns for the proposed acquisition as shown in Exempt Appendix 2 of this report, which supports the Housing Development and Regeneration Investment Plan and overall Development Strategy.
2. Agree that the Director of Finance, Resources and Business Improvement is granted delegated authority to:
 - a) Negotiate terms for the purchase of the proposed acquisition for the sum as shown in the Exempt Appendix 2 of this report.
 - b) Procure and enter into all such deeds, agreements, contracts and documents which may be required to facilitate the purchase of the site, and the subsequent redevelopment works required to deliver the scheme referred to in this report. Including (but not limited to)

any related appointments such as a suitably qualified consultants and Contractor.

- c) Subject to satisfactory conclusion of all due diligence to negotiate and finalise and complete all legal formalities, deeds and agreements which may be required to facilitate the purchase.

3. Agree that the Head of Mid Kent Legal Services is authorised to appoint Solicitors to negotiate and complete the necessary contract documentation, deeds and agreements associated with the purchase and construction works on the terms as agreed by the Director of Finance, Recourses & Business Improvement.
4. Agree that Post completion of the procurement process to appoint a contractor to bring forward for approval a detailed project delivery and investment plan (prior to the development itself commencing).

Timetable	
<i>Meeting</i>	<i>Date</i>
CHE PAC Committee	17 th January 2023
Executive	25 th January 2023

Property Acquisition

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<p>Impact on Corporate Priorities</p>	<p>The four Strategic Plan objectives are:</p> <ul style="list-style-type: none"> • Embracing Growth and Enabling Infrastructure • Safe, Clean and Green • Homes and Communities • A Thriving Place <p>The purchase of the homes described in this report supports the Councils Development Strategic plan in building 1,000 Affordable Homes, within the agreed capital spend of 200m.</p> <p>Accepting the recommendations will materially improve the Council’s ability to achieve and support Embracing Growth and Enabling Infrastructure and Homes and Communities.</p>	<p>Director of Regeneration & Place</p>
<p>Cross Cutting Objectives</p>	<p>The four cross-cutting objectives are:</p> <ul style="list-style-type: none"> • Heritage is Respected • Health Inequalities are Addressed and Reduced • Deprivation and Social Mobility is Improved • Biodiversity and Environmental Sustainability is respected <p>The report recommendations support the achievement of the Deprivation and Social Mobility is improved cross cutting objective by delivering a high-quality development of affordable homes.</p>	<p>Director of Regeneration & Place</p>
<p>Risk Management</p>	<p>Already covered in the risk section.</p>	<p>Director of Regeneration & Place</p>

Financial	Development of the site is not currently included in the draft capital programme, with monies allocated for indicative schemes. This scheme would therefore draw upon those resources already allocated, subject to the risks set out in this report and to the initiatives described in the report to close any potential viability gap.	Adrian Lovegrove and Paul Holland-Section 151 Officer & Finance Team
Staffing	We will deliver the recommendations with our current staffing. However, we will employ external consultants to help facilitate and oversee the redevelopment works with the appointed contractor.	Director of Regeneration & Place
Legal	<p>MBC has statutory power under section 1 of the Localism Act 2011 to do anything that individuals generally may do and under section 111 of the Local Government Act 1972 MBC has power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.</p> <p>S120(1)(2) of the 1972 Act also enables MBC to acquire land to be used for the benefit, improvement or development of their area or for the purpose of discharging MBC's functions.</p> <p>MBC must follow its internal procurement rules as detailed in the Constitution and comply with all legal requirements as may be applicable from time to time.</p> <p>Acting on the recommendations is within MBC's powers as set out in the above statutory provisions.</p>	Rob Harris (Contentious and Corporate Governance)
Information Governance	The recommendations do not impact the personal information (as defined in UK GDPR and Data Protection Act	Lauren Connett-Policy and

	2018) that the Council processes.	Information Team
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	Nicola Toulson-Equalities & Communities Officer
Public Health	We recognise that the recommendations will not negatively impact on population health or that of individuals.	Philip Morris -Head of New Business
Crime and Disorder	The recommendation will not have a negative impact on Crime and Disorder.	Philip Morris -Head of New Business
Procurement	On accepting the recommendations, MBC will then follow procurement exercises for commissioning consultancy advice to secure the works contract. We will complete those exercises in line with financial procedure rules.	Philip Morris -Head of New Business
Biodiversity and Climate change	Providing 1,000 new affordable homes will have a significant impact on the Council's carbon footprint and 2030 Net Zero commitment. Highly thermally efficient, low carbon heating, and climate adapted housing, as well as consideration for shared heating solutions, renewable energy, active travel, and biodiversity enhancements as part of the development strategy will ensure alignment with the Biodiversity and Climate Change Action Plan.	James Wilderspin-Biodiversity and Climate Change Manager

2. INTRODUCTION AND BACKGROUND

2.1 As covered under the planning section an application was submitted by the vendor in 2020 and subsequently approved in 2021 to build 19 residential units to include 6 x 1 beds and 13 x 2 bed apartments together with associated car parking, cycle storage and landscaping.

2.2 The site lies on the western edge of the Town centres close to Maidstone West Railway station. The site is considered a highly sustainable location with good access by foot and cycle to a number of services in close proximity.

There are also a high number of easily accessible bus services just a short walk from the site.

- 2.3 The surrounding area is a mix of uses, including commercial, retail, leisure, healthcare and residential. The site itself is relatively small at circa 0.12 ha and currently comprised of a retail store at ground level with fitness use at first floor and to the rear. All tenants have now vacated the premises. A surface car park is located to the west of the site which provides parking for around 29-30 cars in unmarked bays, used for staff and customers and is accessed directly off Tonbridge Road. At this point the carriageway is one way westbound.
- 2.4 The proposal seeks to demolish the existing site and provide a part 3/4 storey building providing 19 apartments with 14 car parking spaces, two of which will be electric vehicle charging spaces. The development will benefit from the use of photovoltaic panels which will be fitted to the roof. There are 20 Cycle parking spaces proposed with secure storage area. Six of the two bed units have access to private amenity space in the form of balconies although the remaining units do not. An offsite contribution towards improvements to existing open space has been secured through the S106. The planning site layout for this development is shown at Exempt Appendix 1.
- 2.5 The existing planning permission for the site has no requirement for the provision of affordable homes. The S106 does contain a viability review mechanism which is to be carried out during construction and prior to completion of the 2nd floor slab. This review mechanism will determine if any affordable homes can be delivered on site or a commuted sum payment required.
- 2.6 It is proposed the development will be delivered as 100% affordable housing, comprising of affordable rent. Also contained within the S106 is a maximum threshold of affordable units to be delivered on site which is only 6 units. This is not in line with our proposals as outlined above. We are therefore intending to seek a deed of variation to remove this cap on the number of affordable homes being delivered on site.
- 2.7 Should the deed of variation not be obtained then the fallback position would be to proceed with the purchase and deliver 14 market rented units and 5 affordable rented units (all located on a separate floor to the market rented units) which would be allowed under the existing planning permission and S106. The scheme has been designed to national space standards. The homes will be built to MBC standard specification for Affordable Rent.
- 2.8 The Council's offer for the proposed acquisition for the freehold of the site has been accepted (subject to committee approval, satisfactory contract, and RIC's Valuation). The offer was based on a desktop valuation based on Market Sales values and Market rents in the area.

Plot	Accommodation	Unit Size		Market Rent PCM	Total Gross Rent per unit /per annum capped at LHA rates	Mixed Tenure Gross Rents
		M2	Sq Ft			
1	1B2P	50	538	£ 700	£ 7,850	£ 7,850
2	2b4P	70	753	£ 900	£ 9,843	£ 9,843
3	2b4P	70	753	£ 900	£ 9,843	£ 9,843
4	2b4P	70	753	£ 900	£ 9,843	£ 9,843
5	1B2P	50	538	£ 700	£ 7,850	£ 7,850
6	1B2P	50	538	£ 700	£ 7,850	£ 8,400
7	2b4P	70	753	£ 900	£ 9,843	£ 10,800
8	2b4P	70	753	£ 900	£ 9,843	£ 10,800
9	2b4P	70	753	£ 900	£ 9,843	£ 10,800
10	2b4P	70	753	£ 900	£ 9,843	£ 10,800
11	1B2P	50	538	£ 700	£ 7,850	£ 8,400
12	2b4P	70	753	£ 900	£ 9,843	£ 10,800
13	2b4P	70	753	£ 900	£ 9,843	£ 10,800
14	2b4P	70	753	£ 900	£ 9,843	£ 10,800
15	2b4P	70	753	£ 900	£ 9,843	£ 10,800
16	2b4P	70	753	£ 900	£ 9,843	£ 10,800
17	2b4P	70	753	£ 900	£ 9,843	£ 10,800
18	1B2P	54	581	£ 700	£ 7,850	£ 8,400
19	1B2P	54	581	£ 700	£ 7,850	£ 8,400
Totals		1218	13111	£ 190,800	£ 175,063	£ 186,830

2.9 A full schedule of accommodation along with the estimated market rent per unit, per calendar month (PCM) and subsequent total gross rent per unit, per annum (PA) capped at Local Housing Allowance Levels, is summarised below:

2.10 All the affordable housing will be let as Affordable Rented Homes with rents set at 80% of market rent but capped at the local housing allowance levels as shown in table above. The homes will be let to households on the Councils Housing register in accordance with allocations scheme policy.

2.11 The Council have recently concluded the procurement process to appoint suitably experienced and qualified companies to carry out a number of professional specialist consultancy services to support our ambitious housebuilding programme. Part of these specialist services comprise of Employers Agent, Cost Consultancy, Principal Designer and Clerk of Works all of which will be required for this project. The Council will therefore utilise the services of the appointed consultancy firm (Calfordseaden) for these areas of works.

Financial Returns and Commitments

2.12 Option 1 -All Affordable Rent

For the all affordable rent option the total Gross Rent for the Scheme and subsequent total Net rent for the scheme after the deduction of allowance (before inflation and interest) is £175,063 and £161,419 respectively. Exempt Appendix 2 shows the relevant scheme financial summary.

2.13 The overall returns are reasonable, especially in terms of affordable housing. However, the costs ratio is above the required level mainly due to the unprecedented increase in build costs seen recently in the Southeast which has been seen on a number of site appraisals recently.

2.14 It is proposed the part of the total scheme Costs (£5,408,753) will be funded with £950,000 coming from Homes England grant funding through continuous market engagement bid process for the affordable homes programme 2021-2026, and a sum of £304,000 from the Brownfield Land Release Fund (BLRF).The remaining estimated total works cost would be funded from the existing approved capital programme to support delivery of affordable housing. This would provide a TSC /MVS of 103.9% after deduction of the BLRF monies from the works costs.

2.15 The acquisition is financially viable and meets the Councils minimum internal financial parameters. It will provide much needed high quality affordable homes in the area.

2.16 These properties will be managed by MBC Housing Management Team, which is within the Housing and Community Services Department. The team will be responsible for all tenant contacts including repairs, voids, maintenance compliance and rent management.

2.17 Option 2- 14 Market Rent and 5 Affordable Rent Units

For the mixed tenure option, the total Gross Rent for the Scheme and subsequent total Net rent for the scheme after the deduction of allowance (before inflation and interest) is £186,830 and £181,134 respectively. Exempt Appendix 3 shows the relevant scheme financial summary.

2.18 The Council is in receipt of off-site s106 contributions for use towards the provision of affordable housing. It is proposed that part of the Total Scheme Cost (£5,500,493) will be funded with £225,000 coming from the aforementioned off-site contributions pool of monies and a sum of £304,000 from the Brownfield Land Release Fund (BLRF). The remainder of the estimated Total Scheme Cost would be funded from the existing approved capital programme to support the delivery of affordable housing. This would provide a TSC /MVS of 105.7% after deduction of the BLRF monies from the works costs.

2.19 The acquisition is financially viable and meets the Councils minimum internal financial parameters. It will provide 5 much needed high quality affordable homes and add to Maidstone Councils existing PRS stock in the area.

2.20 These properties will be managed by MBC Housing Management Team, which is within the Housing and Community Services Department. The team will be responsible for all tenant contacts including repairs, voids, maintenance compliance and rent management.

Proposed Delivery Timescale

2.21 Details of the proposed delivery timescale are given below. The dates should be regarded as indicative at this stage as the Council may need to extend and /or amend the timetable as necessary

Activity	Finish Date
Exchange and Completion of Contracts	February 2023
Procurement of Contractor	April 2023
Start On Site	September 2023
Practical Completion	April 2024

3. AVAILABLE OPTIONS

3.1 **Option 1:** The Committee could choose not to recommend the approval of the purchase of the proposed acquisition to the Executive. The Council would however lose an excellent opportunity to purchase a site with full planning permission with access to good transport links and amenities to add to its affordable housing stock. It will assist towards much needed affordable accommodation in the Borough and contribute towards the Council 1,000 Affordable Homes delivery target.

- 3.2 **Option 2:** The Committee recommends to the Executive that the purchase of the proposed acquisition is approved on the agreed terms and procures the professional consultants and Contractor to help deliver the scheme. This site when built would assist with affordable housing provision, contributing towards delivering the 1,000 affordable homes target.
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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Option 2 is the recommended option. A significant amount of work and negotiation has been completed by officers to reach this accepted offer stage with the vendor. The scheme has full planning consent on purchase and represents a good investment opportunity which supports the 1,000 Affordable Homes Development Strategy.
- 4.2 The acquisition will also deliver 19 new apartments within a residential location, making a valuable contribution to the borough's identified affordable housing need.
- 4.3 Should MBC fail to secure the deed of variation required to allow the site to be delivered as 100% affordable it is recommended the site still be acquired and delivered as a mixed tenure scheme providing 14 market rent units and 5 affordable rent units which is in line with the existing planning permission and would not require any variation to the S106 agreement.
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5. RISK

- 5.1 The risks associated with this proposal is the increase in build costs since the start of the pandemic. Due to supply chains and shortage of labour construction costs have risen. The BCIS which provides cost and price data for the UK construction Industry, is forecasting with the initial rise in January, prices will ease off slightly. Initial costings have been provided by Calfords Seaden based on similar schemes. The scheme is of a size to attract the smaller contractors, who will have less overheads and can be competitive with pricing.
- 5.2 Officers will continue to monitor the viability, as build costs remain turbulent. Therefore, post-acquisition, officers will monitor local rental values and demand. Upon completion of the procurement process to appoint a contractor, Officers will bring forward for approval to this Committee a detailed project delivery and investment plan (prior to the development itself commencing).
- 5.3 The appraisal has assumed some subsidy from Homes England. The housing will be 100% affordable rent on site. There is a restriction within the S106 regarding a maximum number of affordable homes to be delivered on site and so officers will need to obtain a deed of variation to agree this. MBC will be seeking grant from Homes England for the affordable rented provision. The chances of securing such grant funding are much improved by MBC having acquired the site with secured Full Planning Consent. If the grant is not forthcoming or officers are unable to agree the deed of

variation, the homes could be provided for PRS housing through Maidstone Property Holdings Limited. A smaller number of affordable rented units could also be provided, all located on one separate floor, which would be consistent with the current planning consent, so this risk can be mitigated.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 Previous committee feedback has expressed the desire for MBC to acquire potential housing led sites within the Maidstone borough to deliver housing for social housing purposes for the benefit of the local community. This proposal achieves that intention.
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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 The next steps, subject to the decision made by the Executive, will be to secure the site with exchange and completion of contracts on the terms as agreed by the Director of Finance, Resources and Business Improvement, subject to RICS valuation, and satisfactory contract. Alongside the acquisition, officers will work with the appointed Employers Agent to source a suitable contractor within a deliverable price and will return to Committee with recommendation for the Contractor to be appointed and confirmed costs for build.
- 7.2 The Head of Mid Kent Legal Services will also be authorised to instruct/appoint the Solicitors to complete the necessary contract documentation, deeds and contracts associated with the purchase.
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8. REPORT APPENDICES

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

- Exempt Appendix 1: Site Layout
 - Exempt Appendix 2: Financial Summary Option 1
 - Exempt Appendix 3: Financial Summary Option 2
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9. BACKGROUND PAPERS

None