

**COMMUNITIES, HOUSING &
ENVIRONMENT POLICY
ADVISORY COMMITTEE**

**14 FEBRUARY
2023**

1,000 HOMES UPDATE

Timetable	
Meeting	Date
PAC	14 February 2023
Executive	22 March 2023

Will this be a Key Decision?	No
Urgency	Not Applicable
Final Decision-Maker	Executive
Lead Head of Service	Chief Executive
Lead Officer and Report Author	William Cornall, Director of Regeneration & Place
Classification	Public
Wards affected	All

Executive Summary

This report provides a review of the progress made towards achieving the delivery of the Council's various housing development programmes.

Purpose of Report

Noting

This report makes the following recommendations to the Committee:

1. To note the contents of this report.
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1,000 HOMES UPDATE

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	<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>• Accepting the recommendations will materially improve the Council's ability to achieve [corporate priority]. We set out the reasons other choices will be less effective in section 2 [available alternatives].</p>	Director of Regeneration and Place
Cross Cutting Objectives	<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 recommendation(s) supports the achievement(s) of the cross-cutting objectives.</p>	Director of Regeneration and Place
Risk Management	The risks to programme delivery are explored within the main body of the report.	Director of Regeneration and Place
Financial	There is provision for the 1,000 Affordable Homes programme within the Capital Programme submitted to Council for approval on 22 February 2023. As set out in the body of the report, the cost of the programme cannot be sustained on the basis of affordable	Section 151 Officer & Finance Team

	rental income alone, so the Council will need to fund the necessary subsidy, to the extent that this is not available from external sources such as Homes England.	
Staffing	<ul style="list-style-type: none"> We will deliver the recommendations with our current staffing. 	Director of Regeneration and Place
Legal	<ul style="list-style-type: none"> It is recognised that this report is for noting and therefore has no immediate legal implications, but the wider legal context is as follows: Under s1 of the Localism Act 2011 the Council has a general power of competence which enables it to do anything that individuals generally may do. Further, under section 111 of the Local Government Act 1972 the Council 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. It is recommended that Legal advice is sought for all transactions and all necessary Legal documentation will be approved by Mid-Kent Legal Services before completion. 	Interim Team Leader (Contentious and Corporate Governance)
Information Governance	<ul style="list-style-type: none"> The recommendations do not impact personal information (as defined in UK GDPR and Data Protection Act 2018) the Council processes. 	Information Governance Team
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	Equalities & Communities Officer
Public Health	Important to note that with the increase in housing stock it could put additional strain on existing public health services such as the NHS (GP's, Dentist, A&E attendances, mental health). if no new resources are earmarked.	Sarah Ward, Public Health Officer

Crime and Disorder	<ul style="list-style-type: none"> We recognise that the recommendations will have a positive impact on crime and disorder. 	Director of Regeneration and Place
Procurement	N/A.	Director of Regeneration and Place
Biodiversity and Climate Change	The implications of this report on biodiversity and climate change have been considered. '1,000 Affordable Homes Scheme will have a significant impact on MBC's net zero 2030 commitment, causing the council's overall carbon emissions to increase through construction and operation when the homes are lived in. Aligning the scheme with the MBC Biodiversity and Climate Change Action Plan to ensure climate adaptation, low carbon heating, renewable energy generation, sustainable transport, and biodiversity enhancement will greatly reduce this impact.'	Biodiversity and Climate Change Officer

2. INTRODUCTION AND BACKGROUND

2.1 The Policy & Resources Committee approved the 1,000 Affordable Homes programme in January 2022, and this report details the progress made to deliver this key ambition and also covers the Council's other housing programmes; Private Rented Sector (PRS) housing, and Temporary Accommodation (TA) for those households affected by homelessness.

2.2 At the time of writing, the Council's housing portfolio comprises:

- Affordable Rented dwellings 0 units
- TA dwellings 120 units
- Regulated Council tenancy dwellings 0 units
- PRS dwellings 118 units
(107 of which are managed by MPH Ltd)
- **Total dwellings 238 units**

2.3 The next Medium Term Financial Strategy (MTFS) Capital Programme, which is still subject to approval, proposes further investment in the three different streams, as follows:-

- *Affordable Rented dwellings £178.2m (net) over 10-years for 1,000 units
- TA dwellings £32m (net) over 3-years for c 80 units
- PRS dwellings £46.5m (net) over 10-years for c 186 units
- Heathlands £5m "promotional and planning"

- 2.4 *This figure is net of the £50m of suggested internal subsidy that will come from revenue over the business plan period (referred to later in this report).
- 2.5 This report will assess the progress made to date, and the direction of travel against the following topic areas: Staffing, Consultant teams, Viability and risk, and Progress to date.

Staffing

- 2.6 The Wider Leadership Team restructure was signed off in the summer of 2022, and this amongst other changes, created a Head of Service role (Head of New Business & Housing Development) to manage the various housing development programmes. The successful candidate was appointed in November 2022, along with two further Development Project Managers and a Garden Community Project Manager that have all been appointed and will all be in post by April 2023.
- 2.7 This will mean from April the team will comprise 1 x Head of Service, 3 x Development Project Managers, and there is an ambition to also create 1 x Development Project Officer for which the recruitment is in train.
- 2.8 A good proportion of these staff salaries will be capitalizable. In the Registered Provider (RP) sector it is normal practice that circa 2% of annual capital spend be used to help pay for staffing costs associated with housing programme delivery. Given the Council's spend on these programmes will be circa £25m pa, 2% would be £500k. Therefore, the team's costs need not impact greatly on the Council's revenue account.
- 2.9 All the new roles attracted a lot of market interest and positive perception, and good quality candidates have been appointed. This is the first time that the Council has had a specialist team exclusively focussed on housing development and so this is an extremely positive achievement.

Consultant teams

- 2.10 The Council in the Autumn completed the procurement and appointment of three separate firms to aid the delivery of the various housing development schemes. Each has a distinct and specific discipline as follows:
- BPTW as architect, designing most of our schemes to point of securing detailed planning permission. Wherever possible, we will encourage our appointed contractors to utilise BPTW for post planning design work too.
 - Calfordseaden as Employer's agent, which is a multi-disciplinary function that encompasses Project Management, Quantity Surveying, Contractor Procurement, Project Management, Contract Administrator, Principal Designer and Clerk of Works.

- Red Loft as housing development consultants. Red Loft will provide additional capacity across all the various housing programmes, to supplement and support the in-house team. In particular their role will focus upon the early stage of some projects, to include undertaking site identification, feasibility studies, acquisition negotiations, obtaining of approvals and managing the due diligence process for site acquisitions. Red Loft will also be working on the TA programme, as well as the Heathlands project too.

2.11 Having these three firms in place for the duration of the programme is a huge step forward, bringing the following benefits.

- All three firms are market leaders, and the Council has done extremely well to attract them to work with us. They all have outstanding expertise and experience in the housing development sector and are at the cutting edge of current best practice.
- These firms can now work together, with the in-house team to create long term continuity on all our future projects so as to achieve a partnering ethos and continuous improvement. I.E learning from the previous project can now be carried forward and implemented into the next project, as well as lessons learnt etc. This will manifest itself in schemes having improved “buildability” or VFM.
- Because of the long-term commitment that the Council is making to these firms, their tendered rates are very attractive which means better VFM for the Council and improved scheme viability.
- Lengthy and time-consuming consultant team procurement exercises are no longer required on a project-by-project basis.
- These three firms will offer softer benefits to the in-house team such as training events, seminars, sector briefings and partnering events.
- They will undertake a number of early-stage scheme feasibility exercises for new schemes at cost, on the strength of the future workstreams. This means the in-house team can explore more schemes opportunities, faster, cheaper and to a better standard than previously.
- More generally, the appointment of these firms will help the Council build higher quality homes, that will meet the Maidstone Building for Life 12 standard, which will mean those homes will be supported with grant funding from Homes England. I.E Homes England will not fund either refurbished homes nor new build homes that are not of a high quality design standard.

Viability and Risk

2.12 The report to P&R in Jan 2022 set out a number of risks to the delivery of the programmes, and these remain, and some cases have worsened since then. The most primary area of concern is build cost inflation that is being caused by; construction labour shortages, material supply chain issues, rising material costs, increasing housing design standards through

Building Regulations, and generally contractors pricing in a greater risk-premium into their pricing owing to the market volatility.

- 2.13 The appointment of the three consultancy firms will help us to manage the construction cost risk to some degree, but it will remain a challenge to scheme viability.
- 2.14 Another possible antidote could be the use of Modern Methods of Construction (MMC) and in particular factory-built housing. Typically, the costs of MMC have been higher (than traditional construction) but arguably could still offer better VFM through reduced construction periods and improved quality.
- 2.15 However, whilst MMC should be part of our thinking, it isn't a "silver-bullet" for us, as our programme isn't of the scale required, nor are we likely to be able to achieve the standardisation of unit types, given the shapes and sizes of the sites available to us, to drive genuine efficiencies through repetition. Also, there are risks around supplier solvency when paid for work-in-progress sits within someone else's factory. Calfordseaden will be delivering a seminar to the Cabinet in the current quarter on this topic.
- 2.16 There may be the possibility of offering schemes that will run concurrently to a single contractor, so that they can achieve better economies of scale and share these savings with the Council as client. A possible example of this approach could include the Maidstone East and Springfield library sites that will have similar programmes, comparable scale and are in close proximity.
- 2.17 Other scheme viability risks include:
- Static Local Housing Allowance (LHA) rates versus rising scheme costs.
 - Possible house price deflation in 2023.
 - Rising borrowing costs of Prudential Borrowing. However, the Council has secured the first £80m before the autumn 22 market volatility, and so potentially this situation will have eased, to some degree, before more borrowings need to be secured. Ultimately if the cost of funds does become higher in the medium term, the financial hurdle rates will need to be raised to take account of this.
- 2.18 Potential viability opportunities include:
- More realistic land price expectations and greater availability brought about by prevailing market conditions.
 - Housebuilders and SME developers more willing to sell stock off plan owing to prevailing market conditions.
 - Town planning, the Council development management planning service is performing strongly without application backlogs and is geared up to provide high-quality pre-application advice. Therefore, planning delays should not be an issue.
 - Market rents would appear to be rising in line with build cost inflation.

- Reduced competition for sites from RP's that may be struggling with reduced financial capacity as a result of; rising borrowing costs, inflationary pressures and higher than expected stock reinvestment requirements (eco and fire safety).
- Homes England have confirmed in a rent meeting with the Council that our focus upon urban regeneration sites is well judged, and that they will soon be launching a new funding stream suited to such sites, to pay for demolition, infrastructure, and decontamination abnormal costs.
- The council has a growing pot of c£2m through S106 off-site affordable housing contributions from developers. This can be used as an alternative to Homes England grant funding to deliver affordable homes, if and when, Homes England grant funding may not be forthcoming on a given site.

- 2.19 On balance the overall scheme viability has worsened in the last year, with rapidly rising construction costs being the key issue. However, it is not yet clear whether Homes England will start to offer increased grant rates to mitigate this situation. Officers intend to open a more detailed dialogue with HE this spring once our two big schemes have planning permission, and our position of negotiation is stronger. By that time, we would also expect to have more land opportunities secured too.
- 2.20 As set out in the report to Policy and Resources Committee in January 2022, even with Homes England grant there is likely to be a requirement for the Council to subsidise affordable housing. This arises because the level of borrowing required for land purchase, construction costs and fees cannot be sustained by affordable rents alone. In due course the Council will need to account for affordable housing through a ringfenced Housing Revenue Account (HRA). When completed units are transferred to the HRA, their capital value and the associated borrowing must be financially sustainable. This will be achieved by transferring the units net of a capital subsidy.
- 2.21 In terms of the subsidy per unit, the January 2022 report stated that this would need to be set at £17,600 per affordable rented dwelling (due upon the completion of the units), to total £17.6m for the 1,000 affordable homes in total. This level of subsidy was predicated on a typical construction cost per unit of £201,250 (£2,500 per m² of construction on a typical 2-bed apartment of 70m² plus 15% for communal areas).
- 2.22 This internal subsidy figure has subsequently been revised upwards to £50,000 per unit, on the basis of construction prices rising by (at least) at 15% over the past twelve months to circa £2,875 per m². This has increased the typical unit construction cost by a little over £30,000 per dwelling, and the percentage "on-costs" on top of this will rise accordingly too. Therefore, the suggested level of internal subsidy at £50k per affordable rented remains logical, even before considering any further forecast adverse construction cost increases in the coming months. The difficulty for the Council as developer is that rents

chargeable are capped at the Local Housing Allowance, which is not increasing at the same rate (as construction costs), if at all.

- 2.23 The following is a comparison table that shows the impact that increased construction costs will have on the overall amount of “Internal Subsidy” that the Council will need to provide to deliver the programme in a financially sustainable manner. IE. It shows the assumption made at the start of the programme versus today.

Typical 2-bed flat for Affordable Rent	Jan-22	Feb-23
*Net Cost Per Unit	£ 200,000	£ 232,400
Investment Value	£ 182,400	£ 182,400
Viability Gap Per Unit	-£ 17,600	-£ 50,000
Viability Gap per 1,000 homes	-£ 17,600,000	-£ 50,000,000
*Land + Build Cost + On Costs - Grant / S106 subsidy		

- 2.24 There is no new information or assumptions to suggest that this level of subsidy per unit should be reduced, inasmuch there are likely to be rising unit costs versus static rental assumptions.
- 2.25 Ultimately, in order to deliver the programmes, the Council has to continue to focus on land and property acquisitions and securing planning permissions for these various landholdings. Viability will continue to be evaluated post acquisition, and officers will continue to work with Homes England the Department for Levelling Up to access different subsidy streams. Furthermore, should this route not be fruitful, the risk and exposure on larger schemes could be shared with partners such as the contractor and/or RPs.

Progress to date.

- 2.26 The Council has in the last year completed the land assembly at the Maidstone East (Former Royal Post Office site) and Springfield Library site, which together have the potential to provide 335 residential plots. Furthermore, a further two schemes have been approved for a further 32 homes combined for which the land contracts are exchanged. During the current quarter (to year end) Officers are expecting to bring forward at least a further three schemes for approval that will provide a further 39 units (one of which is the Royal British Legion site in Parkwood for 12 homes) that the Council owns and now has planning permission.
- 2.27 Therefore, by the end of the financial year, Officers expect to have at least 406 residential plots approved and the bulk of these contractually committed too.

- 2.28 In addition to these, Officers are working on two large land transactions that could yield in excess of 500 residential plots between them, and these will be discussed with the Cabinet in some detail imminently. However, nothing is guaranteed at this stage.
- 2.29 Furthermore, the officers have compiled (and shared with the Portfolio Holder) a pipeline table of realistic scheme opportunities that are currently being worked on that have a reasonable chance of coming to fruition. This list is in excess of the number of residential plots that are required for the current programmes, and negotiations are ongoing with the respective vendors, but they comprise a range of short, medium, and long-term opportunities.
- 2.30 The Council's housing development aspirations have been widely promoted and all the key players in the borough are aware of them, and are engaged with our team, with good quality scheme opportunities coming forward on a regular basis. Therefore, positive progress continues to be made with developing the Affordable Rented and PRS programmes.
- 2.31 The buying of street properties for TA in 2023 should be easier than in the previous year owing to more favourable market conditions. Furthermore, the resource to be provided by Red Loft will be invaluable for this programme as well as the (new) Development Project Officer to work alongside them. The challenge here will be stock availability whilst not driving up prices through our own demand. Also, TA has to be acquired in the form of street properties, good quality individual apartments, or modestly sized apartment or hostel blocks. The last point is key to the sound management of those assets.
- 2.32 Finally, Heathlands is reported on separately to Corporate Services PAC and the executive. The partnership with Homes England remains strong, and Heathlands now features in the draft Maidstone Local Plan Review for which the second stage Hearings will get underway in circa April 2023. Joint shared expenditure with Homes England will likely be £3m at the point of allocation. Should an allocation be achieved, a circa further £2m of shared expenditure would need to be approved by both parties to cover the likely costs up to and including securing the outline planning permission during 2025.

3. AVAILABLE OPTIONS

- 3.1 Not applicable as the report is for noting.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Not applicable as the report is for noting.
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5. RISK

5.1 The various risks are explored within the main body of the report.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 N/A.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 New schemes for approval will continue to be brought through the Communities Housing & Environment Policy and Advisory Committee and the Executive.

8. REPORT APPENDICES

8.1 It would be helpful for Committee Members to read the report that went to the January 2022 Policy and Resources Committee, attached.

9. BACKGROUND PAPERS

9.1 None