

Property Acquisition for 1,000 Affordable Homes programme

Timetable	
Meeting	Date
Communities, Housing and Environment Policy Advisory Committee	17 January 2023
Executive	25 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 and Place
Lead Officer and Report Author	Shanaz Begum, 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</p>

	financial position in respect of a commercial transaction. Any disclosure of such information may compromise the negotiating position of the Council. Keeping the information exempt is therefore in the public interest.
Wards affected	Staplehurst

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 sites.

To support this programme an opportunity has arisen to purchase a site with outline permission submitted, for 10 apartments consisting of 2 x 1 beds and 5 x 2 beds, 3 x 3 beds and commercial space at ground floor .

Once built the apartments will be let at Affordable Rent, with rents set at 80% of prevailing market rent, but capped at Local Housing Allowance.

The Executive is asked to approve the purchase of the proposed freehold acquisition. The site is tenanted with a 5-year agreement, at a passing rent of £9,000 per annum. A mutual break clause is in place with a 6-month notice period.

Purpose of Report

Decision

This report makes the following recommendations to the Executive:

1. That the financial returns for the proposed acquisition as shown in Appendix 1, which is part 2 of the report, which support the Housing Development and Regeneration Investment Plan and the overall Development Strategy be approved.
2. That the Director of Finance, Resources and Business Improvement be granted delegated authority to:
 - a) Negotiate terms for the purchase of the site, for the sum as shown in the Exempt Appendix 1 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 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. That the Head of Mid Kent Legal Services be authorised to appoint the solicitors required 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, Resources & Business Improvement.
4. That, post completion of the procurement process, to employ the necessary consultants to progress the planning application. To appoint a contractor to bring forward for approval to this Committee a detailed project delivery and investment plan (prior to the development itself commencing)

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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>The report recommendations support all four of these.</p>	<p>Director of Regeneration and 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>	<ul style="list-style-type: none"> • Refer to paragraph 5 of the report 	<p>Director of Regeneration & Place</p>

<p>Financial</p>	<ul style="list-style-type: none"> The cost of acquiring the site as described in the report will be met from the 1,000 Affordable Homes capital budget agreed by the Council on 23rd February 2022. The projected return from the investment meets the criteria set out in the Council’s capital strategy. A financial summary is provided in Appendix 1. 	<p>Senior Finance Manager (Client)</p>
<p>Staffing</p>	<ul style="list-style-type: none"> 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 	<p>Director of Regeneration & Place</p>
<p>Legal</p>	<ul style="list-style-type: none"> 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. 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. 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. Acting on the recommendations is within MBC’s powers as set out in the above statutory provisions. 	<p>Interim Team Leader (Contentious and Corporate Governance)</p>

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	<ul style="list-style-type: none"> The recommendations do not propose a change in service therefore will not require an equalities impact assessment 	Equalities & Communities Officer
Public Health	<ul style="list-style-type: none"> We recognise that the recommendations will not negatively impact on population health or that of individuals. 	Head of New Business
Crime and Disorder	<ul style="list-style-type: none"> The recommendation will not have a negative impact on Crime and Disorder. 	Head of New Business
Procurement	<ul style="list-style-type: none"> On accepting the recommendations, MBC will then follow procurement exercises for commissioning consultancy advice to complete delivery of the scheme. We will complete those exercises in line with financial procedure rules. 	Head of New Business
Biodiversity and Climate Change	<ul style="list-style-type: none"> 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. 	Biodiversity and Climate Change Manager

2. INTRODUCTION AND BACKGROUND

- 2.1 An outline planning application was submitted for a potential development site by a third party in 2021 for 2 x2beds, 5x2beds, 3x 3beds and class E commercial scheme at ground floor level. The decision is pending.
- 2.2 The Council now proposes to acquire the site and deliver the development. The proposed acquisition will provide 10 apartments and commercial space, subject to planning. The application drawings are shown in Exempt Appendix 2.
- 2.3 The proposed site will be acquired with an existing tenant in occupation, with the benefit of a 5-year lease agreement starting in 2021. The agreement includes a mutual break clause on six months' notice at any time.
- 2.4 On advice from the legal team, notice will be served to the existing tenants in order to obtain vacant possession of premises, at the appropriate time.
- 2.5 It is proposed the development will be delivered as 100% affordable housing. There are 10 proposed car park spaces and the scheme will be designed to national space standards.
- 2.6 The Council's offer for the proposed acquisition for the freehold of the site has been accepted (subject to committee approval, satisfactory contract, surveys and RICS valuation). The offer is based on a market valuation.
- 2.7 The offer is subject to an overage clause of £35,000 per flat, if the scheme is consented for more than 10 flats, not including the commercial space on the ground floor, within 20 years of the acquisition. We are confident due to planning constraints; we do not anticipate additional units.
- 2.8 A full schedule of accommodation along with the estimated market rent per unit, per calendar month (PCM) and subsequent total gross market rent per unit, per annum is summarised below:

Accommodation	Unit Totals	Unit Size Sq ft	Market Rent per unit (PCM)	Total Gross Rent per unit (PA) capped at LHA rates
1bed2p flat	2	570	£750	£6,979
2bed4p flat	2	764	£875	£8,638
2bed4p flat	3	872	£875	£8,638
3bed5p flat	3	928	£1,025	£9,698
commercial	1	3,100	£1,437	£75,000
Total	11			

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

Financial Return and Commitments

- 2.8.1 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 £81,924 and £71,347 respectively. The part 2 Appendix 1 shows the relevant financial scheme summary.
- 2.8.2 The overall returns are reasonable, especially in terms of affordable housing. However, the costs ratio is significantly above the required level mainly due to the unprecedented increase in build costs seen recently in the Southeast.
- 2.8.3 It is anticipated that part of the Total Scheme Cost will be funded by MBC applying for grant from Homes England as part of the Continuous Market Engagement bid process for the Affordable Homes programme 2021-2026. The remainder of the Total Scheme Cost would be funded from the existing approved capital programme to support the delivery of affordable housing.
- 2.8.4 The acquisition is financially viable and meets the Council's minimum internal financial parameters. It will provide much needed affordable homes in the area.
- 2.8.5 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 contact including repairs, voids, maintenance compliance and rent management.

2.9 Proposed Delivery Timescale:

- 2.9.1 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/amend the timetable as necessary.

Acquisition completion	February 2023
Planning consent	August 2023
Start on site	November 2023
Practical completion	November 2024

3. AVAILABLE OPTIONS

- 3.1 **Option 1:** The purchase of the proposed acquisition is approved. On approval of planning consent, professional consultants and a contractor will be procured to deliver the scheme. This site when built would assist with housing provision for single person and families in need of affordable housing, contributing towards delivering the development strategy of 1,000 affordable homes.

3.2 **Option 2:** The purchase of the proposed acquisition is not approved. The Council would however lose an excellent opportunity to purchase a site close to public transport and other amenities to add to its affordable housing stock. It will assist towards much needed accommodation in the Borough and contribute towards the Council's target of 1,000 Affordable homes.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 **Option 1** is the recommended option. A significant amount of work and negotiation has been completed by the officers to reach this accepted offer stage with the owners. The scheme has a good chance of being granted consent, with some modifications and liaison with the planning department. It represents a good investment opportunity which supports the 1,000 Affordable Homes Strategy. It also offers the opportunity to work with the owners who have several other small sites within the Borough, that could yield more opportunities in the future.

5. RISK

5.1 The risks associated with this proposal is the increase in build costs since the start of the pandemic and recent inflationary pressures. Due to supply chains and shortage of labour construction costs have risen. Initial costings have been provided by Calfordseadon. The scheme is of a size to attract the smaller contractors, who have less overheads and can be competitive with pricing.

5.2 Officers will monitor the viability, as build costs remain turbulent. Therefore, post-consent, officers will monitor local rental values and demand. Upon completion of planning consent, there will be a procurement process to appoint the contractor. Officers will 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. The chances of securing grant are much improved by MBC having acquired the site.

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.

6.2 This acquisition will be considered by the Communities, Housing and Environment Policy Advisory Committee on 17 January 2023, and the Committee's comments and recommendations will be reported to the Executive.

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 alongside planning consultants to ensure a satisfactory consent. Once consent is received officers will work with appointed Employer's agents 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 the 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
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9. BACKGROUND PAPERS

None