

Committee(s): Environment, Enforcement and Housing	Date: 08 December 2020
Subject: Strategic Housing Delivery Plan	Wards Affected: All
Report of: Tracey Lilley, Director, Housing & Enforcement	Public/Exempt Appendix
Report Author/s: Name: Ian Winslet, Strategic Housing Consultant Telephone: 0777 0384141 E-mail: iwinslet@arkconsultancy.co.uk	For Decision

Summary

This report summarises progress since the last report to Committee on 13 October 2020 on the development of a pipeline of new affordable homes through the development and regeneration of various Housing Revenue Account (HRA) owned sites. As a reminder, this Strategic Housing Delivery Programme (SHDP) is currently made up of two elements, 1) the regeneration of Brookfield Close, Hutton resulting in a planned 61 zero carbon homes and 2) the development of a range of smaller HRA sites to deliver new homes. All of these new homes will contribute to, and be managed within, the Council's HRA. In addition, this report also lays out a recommendation for the future use of 17 Crescent Road, a currently vacant double fronted Victorian villa style house in some disrepair and also held within the HRA.

The Council's Corporate Strategy 'Brentwood 2025' commits to Introducing "innovative Carbon reduction and absorption schemes", "identify opportunities for low emission and green developments" and using 'brownfield sites efficiently, such as council owned garage sites, to provide affordable homes...".

Recommendation(s)

Members are asked to:

- R1. Authorise the Director, Housing and Enforcement to submit an application to Homes England for Investment Partner (IP) Status to facilitate the application for Government Grant to support the delivery of new Council homes.**
- R2. Authorise the Director, Housing and Enforcement to seek the necessary consents, and appoint contractors and technical support, to undertake the conversion of 17 Crescent Road, Brentwood, into 2 self-contained flats for affordable rent within the HRA.**
- R3. Note the ongoing revisions to the HRA Business Plan to incorporate a 7-year delivery programme of new Council homes to be considered as part of the Council's 2021/2022 Budget setting.**

Introduction and Background

1. Activities undertaken since the last report 13 October 2020

2. A comprehensive resident and stakeholder consultation process has been undertaken at Brookfield Close. This will now result in a Statement of Community Involvement which will be submitted as part of a planning application for the scheme in December. Further details of the consultation undertaken are summarised later in this report and early results will be presented at the meeting.
3. Capacity studies and full viability assessments have been undertaken for Brookfield Close, 9 small sites and a currently vacant property, 17, Crescent Road, Brentwood. These are summarised later in this report.
4. A review of the HRA Business Plan, and its assumptions and capacity to deliver a sustainable programme of new homes has continued into a further phase and now incorporates the costs and returns from the viability assessments the revised plan assumes the pursuing of a 7-year programme funding new homes to a total cost of £60m of that period.
5. Discussions with Homes England have taken place on how the Council might best access grant for the programme. In order to bid for grant, Investment Partner (IP) status will be required and this report requests authority to bid for IP status.
6. The practical delivery costs for the programme have been assessed and the finance for that work incorporated into the viability assessments is within the modelling of the programme as part of the HRA business plan.

Issue, Options and Analysis of Options

7. Brookfield Close Community Involvement and Next Steps

8. Resident consultation lasted for a period of 3 weeks, concluding on 23rd November 2020. In summary the process had the following features;
 - 3 webinars across 6 hours, a dedicated email address, telephone helpline, and website.
 - Leaflet drop describing the proposal directing local residents to website, email and telephone helpline
 - Local newspaper and social media posts
 - 24 resident webinar attendees asking the panel 188 questions
 - 59 emailed survey responses received from residents
 - 61 resident requests to 'keep in touch' received from residents and families
9. All data will now be collected and developed into a comprehensive 'Statement of Community Involvement' for inclusion as part of the planning submission. The early analysis, to be presented at the meeting, shows a broadly positive response

to the proposal across age ranges and a desire, where the scheme is taken forward, to conclude the regeneration in the next 2-3 years.

10. The delivery team has just completed the planning pre-application process and presented proposal to the Essex Quality Review Panel. A planning application will now be finalised and submitted before the end of the calendar year.
11. Financial viability for a 'zero carbon in use' programme of new homes is a challenge and the modelling of various scenarios based upon the latest costs will be reported as soon as design layouts have been completed. These are also being modelled through the HRA to understand the financial impact on the wider stock of this regeneration scheme. The initial modelling shows the HRA remaining strong. This is dealt with in more detail later in this paper.

12 Small Sites Programme and 17, Crescent Road Viability Studies

13. Since the last meeting development financial appraisals of 9 underused sites within the HRA have been undertaken showing a potential for 82 new homes. In addition, 17 Crescent Road, a longer-term vacant property has been assessed for the potential for conversion into two new flats for reletting at an affordable rent.
14. **Small Sites Programme** - The appraisals have been based on site visits and drawings undertaken by architects appointed for the process. The properties are all assumed to be let at affordable rent.
15. The criteria for testing viability in the Phase 1 programme are;

Output Performance Criteria	Hurdle	Explanation
HRA Loan payback period maximum	30 Years	This is the year at which any borrowing for the scheme has been repaid.
Net Present Value (positive year)	Year 30	Where an NPV is positive at or before the target year, this shows that the value of cash coming in is greater than that going out over chosen investment period.
Costs as a % of market value	Positive and greater than the appraisal interest rate	In general, any opportunity where an IRR exceeds the cost of capital is deemed to be a profitable investment opportunity. The indicative cost of capital for appraisal purposes in the HRA Business Plan is 2%.

16. The appraisals assume that 7 of the 9 small sites, are granted planning permission in December 2021 and start on site shortly afterwards, with a completion and handover between 10 and 18 months later. The final 2 sites follow similar timescales, but with a delay of around 6 months to enable existing properties to be

vacated. The sites, at this very early stage of viability testing are named Sites A thru Site I. Each site is identified in Exempt Appendix A.

17. The following is a summary of the outputs for the individual sites and the sites combined into an overall programme. It should be noted that the numbers for the total programme, as for the individual schemes, are very much indicative at this stage. There is still considerable work to do to establish a fully costed deliverable programme. The following however does give the financial confidence that the programme can progress to a further stage.

Appraisal	Total Scheme Costs	Loan	Grant	NPV at Year 30	IRR	Loan Repayment Term
Site A	1,489,269	1,174,269	315,000	446,670	4.40%	22
Site B	498,842	408,842	90,000	158,973	4.46%	22
Site C	1,314,189	999,189	315,000	468,649	4.93%	20
Site D	2,456,187	2,141,187	315,000	658,263	3.98%	23
Site E	3,010,707	2,650,707	360,000	647,387	3.59%	25
Site F	7,531,946	6,586,946	945,000	1,600,361	3.59%	24
Site G	330,281	240,281	90,000	141,919	5.64%	19
Site H	1,350,936	1,080,936	270,000	327,278	3.96%	23
Site I	750,028	615,028	135,000	236,693	4.43%	22
TOTAL	£18,732,386	£15,897,386	£2,835,000	£4,686,193		

18. The key points to note are that all of the schemes, at this early stage, meet the financial performance measures as set out in paragraph 15 above. It is proposed to take these forward to a further stage of analysis with a view to working towards a planning application late next calendar year.
19. The appraisals show that public funding through grant that is required is a level of circa £35,000 per new home across all of the units. This is very much a guide at this stage and the funding requirement will need to be finalised in consultation with Homes England and in the context of the Affordable Homes Programme 2021/26.
20. **17 Crescent Road** - In addition to the small sites programme, a measured survey, cost evaluation and appraisal has been undertaken at 17 Crescent Road, Brentwood. A comparison viability has been undertaken to assess whether this HRA owned property might be best converted and brought back into use as two renovated 2 bed 3-person self-contained apartments or whether it might better be upgraded and retain as a 4 bed roomed 6-person house. Disposal on the open market might also be a solution that could derive a capital receipt. The property is vacant, has been for some time and has been used as a shared house in the past. It is in considerable disrepair but in a sustainable location close to Brentwood Station.
21. The viability analysis below shows that the option to convert into two new homes meets the financial tests set, whilst the option to retain and improve as a larger home falls short and produces a negative NPV at year 30. At £181,000 per unit the scheme is expensive given that it's a conversion but still produces 2 new homes that contribute financially to the HRA. It is proposed to apply for Homes

England grant support for the additional home produced. In the event that grant is not forthcoming, it is still proposed to continue with the project given that even with the absence of subsidy the project will still result in a positive NPV on current projections.

Crescent Road 1x 4B6P House		Crescent Road 2 x 2b3p Flats	
Costs	Outputs	Costs	Outputs
Acquisition	0	Acquisition	0
Works	239,148	Works	269,680
Fees	52,367	Fees	60,256
Other costs	23,687	Other costs	30,711
Interest	1,653	Interest	1,965
Total scheme costs	316,855	Total scheme costs	362,612
Shared ownership sales	n/a	Shared ownership sales	n/a
Grant	0	Subsidy	40,000
Net rent in first year	10,614	Net rent in first year	16,264
Long term loan	316,855	Long term loan	322,612
Repaid in year	32	Repaid in year	22
Net present value	-16,251	Net present value	128,341
Internal rate of return	1.64%	Internal rate of return	4.53%

22. This report seeks authority, subject to any planning constraint and further technical analysis, to reconfigure the property as 2 x 2 bed 3 person flats for letting at an affordable rent once completed. The aim would be to have these completed and handed over for occupation in autumn 2021.

23. HRA Business Plan Assumptions and Conclusions

24. Since August, an external consultant specialising in HRA financial support has been working closely with the Council's finance team to model a programme of new build homes over the next 7 years. The aim of this exercise is establishing the financial capacity for a new build and test model, for approval at next budget round, a sustainable programme of new homes that adds both homes and financial resilience to the HRA.
25. The indications are that a "£10million per annum" scenario could be adopted as the new Baseline which would result in investment of £60million over a 7-year period.
26. To begin to test this within the HRA the Phase 1 SHDP programme of 9 small sites, Brookfield Close and Crescent Road have all been modelled for the early years, leaving capacity that could result in a Phase 2 programme of new build homes.
27. Early assessment shows that a programme of this scale is reasonable and although peak debt is higher than in the current model, both HRA stock numbers and revenue balances are higher at the end of the plan period. The modelling also

shows that the Council is able to repay debt within a reasonable timeframe but that Prudential indicators need to be updated to reflect additional borrowing to achieve the programme. It is proposed that more detail will be reported for consideration through the budget cycle.

28. Grant Funding of the programme

29. Since the last meeting of this Committee, discussions have been held with Homes England on the potential for achieving grant to support delivery of the SHDP. The delivery team have also attended a Homes England roadshow on the programme and have commenced engagement with the local programme team.
30. The latest round of Homes England's Affordable Housing Programme (AHP) Funding 2021-2026 was announced on 8th September. This £7.5 billion programme is the main mechanism through which the government funds the delivery of sub-market housing. Homes England has released the prospectus for the new fund and the delivery team is seeking to access the funding. This can only be achieved through obtaining 'Investment Partner' (IP) status.
31. The other criterion for bidding is that the Council must hold Registered Provider (RP) status with the regulator of social housing. This it already holds under registration number 22UD dating from 01 April 2010.
32. Applying for or holding Investment Partner status does not bind the Council to making a bid for funding but is simply a prequalification process that allows it to bid as funding rounds arise. IP status is reviewed and re-confirmed by Homes England annually.
33. This report seeks authority for an application to be made for IP Status and submitted alongside an application for grant funding (which is Homes England preferred method). The application for grant will be subject to a further approval once the exact grant requirement is known. The expectation is that any bid will be made in spring 2021.

Reasons for Recommendation

34. Without IP status the Council will be unable to bid for Homes England funding to support its Homes Delivery Plan. This recommendation not only supports the Council's Key Objective for the delivery of new Council homes but also the viability of such a programme.
35. The conversion of 17 Crescent Road will bring a long-term empty property back into use and provide two new affordable 2-bed rented homes.

Consultation

36. Consultation has taken place with the Leader of the Council, Chair of Housing. Ward Councillors for the small sites programme and Crescent Road have been given the opportunity to discuss the emerging programme. Extensive community consultation has been undertaken relating to the proposed regeneration at Brookfield Close as outlined elsewhere in this report.

References to Corporate Plan

37. The Council's Corporate Strategy 'Brentwood 2025' commits to Introducing "innovative Carbon reduction and absorption schemes", "identify opportunities for low emission and green developments" and using 'brownfield sites efficiently, such as council owned garage sites, to provide affordable homes...'. The SHDP and specific proposals in this report contribute to all of these strategic objectives.

Implications

Financial Implications

Name/Title: Jacqueline Van Mellaerts, Director of Corporate Resources

Tel/Email: 01277 312500/ jacqueline.vanmellaerts@brentwood.gov.uk

The work required on Crescent Road can be financed through the existing capital programme. The viability assessment that has been carried out confirms that crescent road is best converted into two New homes to financial contribute to the HRA.

The development programme modelling will inform the HRA Business plan and in turn the Revenue and Capital impacts as part of the budget setting process. As highlighted in the report, the Councils prudential indicators would need to be revised to achieve the additional borrowing that may be required to achieve the programme.

Legal Implications

Name & Title: Amanda Julian, Director of Law & Governance and Monitoring Officer

Tel & Email: 01277 312500 / amanda.julian@brentwood.gov.uk

The Council has the statutory powers to develop the land and serve the notices required. The Funding of such developments will follow financial procedures.

Economic Implications

Name/Title: Phil Drane, Director of Planning and Economy

Tel/Email: 01277 312500/ philip.drane@brentwood.gov.uk

Utilising the Council's assets to deliver new homes will make a positive contribution to the local economy, both in terms of short-term employment and supply-chain benefits to the construction industry, and longer-term benefits from the addition of more people/families to meet needs in local communities. These new homes will contribute to the borough's housing needs set out in the emerging Local Development Plan and the accompanying economic benefits from residential development.

Background Papers

None

Appendices to this report

Exempt Appendix A: Small Sites Programme Location Identifier