

## **BARNSELY METROPOLITAN BOROUGH COUNCIL**

**This matter is a Key Decision within the Council's definition and has been included in the relevant Forward Plan.**

### **Report of Executive Director of PLACE**

#### **BMBC Housing Development – Longcar PDC**

##### **1. Purpose of Report**

- 1.1 The purpose of this report is to secure Cabinet approval in principle to the Council developing 32 homes on the former Longcar Professional Development Site (Longcar PDC) at Longcar Lane, Barnsley Central.

##### **2. Recommendations**

###### **It is recommended that:**

- 2.1 Cabinet notes, and offers in principle approval to the proposal for direct development (see viability report Appendix B) of the site by the Council. The site will provide 32 residential units for both sale (28) and rent (4).
- 2.2 Cabinet note that this project is included within the capital investment priority proposals for 2020 for spending in 2016/17 should the scheme not attract Sheffield City Region Devolution funding. Earmarking of the potential costs will be in advance of the report on the overall priorities for the investment available being brought to cabinet.
- 2.2 Cabinet delegates final scheme approval (inclusive of the agreed funding and project delivery route) and responsibility for the appointment of suitably qualified contractors, to the Executive Director of PLACE, following consultation with the Director of Finance, Assets and IT. A final decision regarding the progression of the development will be made following a full financial appraisal at tender evaluation stage.
- 2.3 Cabinet approval is granted to appropriate the 4x affordable units associated with the development into the Housing Revenue Account to be managed by Berneslai Homes (in line with transfer valuations).
- 2.4 Cabinet approval is granted to refund the costs associated with the demolition of the former Longcar PDC buildings (completed by Berneslai Homes in December 2015) back into the HRA account via a funding transfer or via a reduction in the Capital Receipt to be paid for section 106 units.
- 2.5 Cabinet approval is granted to appoint NPS Barnsley as Employer Agent to provide the project management and contract administration role for the duration of the project.

### **3. Introduction**

- 3.1 The Council's Housing Strategy (2014 to 2033) identifies that Barnsley needs more new homes, of different types. They need to be affordable and to include a mixture of private and social homes. BMBC is actively working with a range of partners to stimulate housing growth to ensure that everyone has access to a home which meets their current and future needs.
- 3.2 New housing development directly addresses two of the Council's Corporate Priorities namely creating a Strong and Vibrant Economy and Building Strong and Resilient Communities. It achieves this through generating increased Council Tax and New Homes Bonus for the Council but also by generating increased economic activity which supports local business and services.
- 3.3 New homes for rent also offer a stable revenue stream for the Council through rental income.
- 3.4 The proposal also aligns with DCLG's March 2016 guidance on the disposal of Local Authority Assets, which includes maximising housing capacity as a rationale for the consideration of creative disposal/redevelopment methods.
- 3.5 There is an opportunity for the Council to act as a direct developer in order to derive the most economically advantageous position from land assets it owns, as well as adding capacity to the house building sector. In addition, any efficiency generated through the in-house delivery of open market sale homes could be re-cycled for re-investment into further housing projects.

Direct delivery of the development at Longcar will achieve the following objectives

- Accelerated housing growth – 32 new family homes (4% of annual target)
- The generation of New Homes Bonus (NHB) and Council Tax to support the forecast sums currently included in the updated Medium Term Financial Strategy.
- A potential return on investment of up to 20% as a capital receipt to be reinvested in other competing priorities.
- The regeneration of a council owned site that complements the wider Town Centre regeneration. A high quality residential offer is critical to the success of the town's early evening economy – something which the Council's investment is heavily supporting e.g. Town Centre square, cinema proposals, and interactive library arts and craft facility
- Affordable Housing provision via section 106 – new council housing stock (4 units)

#### **4. Current Position**

- 4.1 In summer 2015, it was agreed by the Council's Joint Asset Management Group (JAMG) that the Housing Growth team would look to explore opportunities to re-develop the former Longcar Professional Development Centre (Longcar PDC) at Longcar Lane, Barnsley as part of a pilot 'direct delivery' project.
- 4.2 Subsequent agreement was reached with Berneslai Homes to lead on the demolition of the existing buildings on the Longcar Lane site, with demolition work completed in mid December 2015. The site currently stands cleared with all structures removed, but areas of hardstanding and grassed areas retained.
- 4.3 West and Machell Ltd were appointed as lead architect in July 2015 and outline planning consent was granted at the Planning Regulatory Board meeting on 26<sup>th</sup> January 2016. The outline planning approval secures, in principle, the re-development of the site with 32 semi-detached and detached 2, 3 and 4 bedroom properties over 2 and 2.5 storeys. Each property will be provided with gardens and off-street parking, and arranged around a 'U' shaped road layout with access at two points from Longcar Lane (see business case for approved proposed site layout). Further work to undertake detailed ground investigations and to secure full planning approval via reserved matters is on-going.
- 4.4 Officers have developed a Viability Report for the scheme (see attached at appendix 1) which provides estimates of total sales values, development costs, projected land receipts and development profit for the council. It also provides a sensitivity analysis impacting both construction costs and sales values on a 5% +/- basis. The preferred funding option will be determined following consideration of the final tender evaluation should the scheme not attract SCR funding support.
- 4.5 The current business case projects a payback period on the development finance within 18-24 months, with a return on investment of up to £945,000. These figures are subject to a competitive tender exercise. A full re-appraisal of the project will be undertaken following a tendering exercise.

#### **5. Proposal and Justification**

- 5.1 It is proposed that Cabinet endorse the progression of this new build project in order to achieve the benefits as set out in paragraphs 3.2-3.4
- 5.2 A robust project and financial appraisal has been undertaken to ensure that the authority can obtain maximum value for the site at Longcar Lane. Direct development of the site will ensure that the authority has full control over delivery timescales, produces a scheme which enhances the town centre residential offer and complements the Town Centre regeneration and delivers a combined land and profit receipt which exceeds market value expectations. The scheme will only progress subject to a robust financial re-appraisal at competitive tender stage.

## **6. Consultation**

- 6.1 Officers from BMBC's Housing and Energy team are leading on this initiative and will continue to work jointly with senior officers from BMBC's Property and Asset Management team, Financial Services, Procurement, Legal Services and Berneslai Homes.
- 6.2 Ward Members have expressed their support to see housing developed on the site at the earliest opportunity. A community consultation event was subsequently held in August 2015, prior to submission of the outline planning application, and the scheme was very well received. Comments received from local residents were accommodated in the final scheme design submitted for outline planning consent, wherever possible.
- 6.3 Soft market testing has been undertaken with several private developers/house builders and local estate agents to assess the demand for the type and design of accommodation proposed - these comments being taken into consideration as part of the design process.
- 6.4 Officers within Housing and Energy have also consulted with legal advisors both internally and externally (Trowers and Hamlin and Bevan Brittan) regarding the use of general fund monies to deliver homes for sale and the preferred development management routes for the authority.

## **7. Consideration of Alternative Approaches**

### **7.1 Land Disposal**

Officers have considered a number of alternative options for the accelerated delivery of new homes on this site. The principal option would be disposal on the open market. This is not favoured for the following reasons

Marketing the sale/disposal of the Council owned land for the Longcar Lane site was carried out by Property and Assets team in February 2015 but failed to attract a land buyer. It is likely that if the site were offered for sale at the current time the Council would receive offers in the region of £575,000 however there is no guarantee that the purchaser would deliver housing on the site. Therefore it is considered that the direct delivery by the Council offers the best opportunity to meet Corporate Priorities namely the creation of a Strong and Vibrant Economy and the Building of Strong and Resilient Communities. Through direct delivery the objectives set out in 3.5 of this report will be addressed in the following way.

**Housing growth:** whilst disposal to a private developer would ultimately result in the development of the site the Council would not be able to influence the speed or type of development. We are aware through work carried out as part of our Stalled Sites Review and through our ongoing engagement with the private sector that there is a lack of capacity in the housebuilding industry and that many sites with extant planning approvals are being 'banked' by builders awaiting more favourable economic conditions.

**New Homes Bonus and Council tax:** this will be generated should the Council develop the site during the next 12 months. If development of the site is delayed because of a decision by a builder to 'bank' the site then this opportunity may be lost. Specifically it is likely that the rules relating to the payment of New Homes Bonus will change and become far less generous in the future

**Return on Investment:** should the Council assume the role of developer there is the potential to capture a return on investment that would otherwise be to the benefit of a private developer..

**Regeneration:** the Council is currently in active discussion with a number of developers with a view to creating a new high quality residential offer in the town centre. It is vital that the redevelopment of sites such as Longcar is of a high standard in order to act as an exemplar and set a minimum standard for any future developments. Only by acting as developer can the Council control the standard of development.

BMBC is not obliged to develop surplus council owned land and could leave the land vacant in the interim; choosing to dispose of the site as and when the market improves. However, the authority is committed to delivering housing growth and re-generating the areas in and around the town centre at the earliest opportunity. An opportunity has arisen for the authority to pilot direct development of mixed tenure housing on a viable, well located site. This approach is supported by the Elphicke House Report (Natalie Elphicke, January 2015) which highlights why councils need to be doing more to deliver more and better homes.

### **Funding**

- 7.3 Officers have considered various funding options to access the development finance to progress this scheme and are still working with the Sheffield City Region to pursue arising funding opportunities. This has included extensive discussions with the LGA to access institutional investment, discussions with BMBC finance over potential financing routes together with discussions with a number of RP's/developers regarding a joint venture opportunity. LGA borrowing rates were offered on a less preferential basis than those available via a standard prudential borrowing route, as monies were available only via the institutional investment route rather than a mix of this and European Investment Bank funds. Consideration was also given to the temporary use of the HRA residential investment fund; however this funding cannot be used due to the ring-fence attached to this funding. Discussions are ongoing with Sheffield City Region over available funding however there is currently no clear indication how long these discussions will take. The preferential route therefore is to progress the development using monies set aside for capital investment priorities.

### **Delivery Management**

- 7.4 Officers have considered several alternative delivery management routes for this development scheme including:

- **The establishment of a special purpose vehicle and/or Joint Venture with a developer partner to manage the development e.g. a housing company.**

Officers have reviewed the options to establish a specialist vehicle to deliver the housing development activity, and have consulted with neighbouring authorities who have already set up development companies. These have included the Sheffield Housing Company (Sheffield CC), Bridge Homes (a partnership between Wakefield Council and Wakefield and District Housing) and the Gateshead Regeneration LLP. However, these authorities have significant local authority owned land in their ownership on which to deliver a pipeline of new build activity over several years. As the Longcar development is a small scale pilot scheme, it would not make best use of council funding/staff resource to establish a similar vehicle with little opportunity for future developments of any significant scale.

- **Amendments to the article of memorandum with Berneslai Homes which would allow Berneslai to own homes themselves outside of the HRA and the use of a special trading company.**

Whilst there may be opportunity for Berneslai Homes to manage homes outside the HRA, the General Power and the LGA 2003 only permits the acquisition and development of affordable housing. If for sale housing was considered (even at an affordable rate), the Council would need to apply for a separate section 133 HA 1988 consent.

In addition the Management Agreement with Berneslai which was renewed in April 2016 currently limits their remit to functions appear to be associated with the management of social, affordable housing and market rent properties so this would also need to be varied.

- **Establish a housing development remit within BMBC Trading Service**

The General Power of Competence (the General Power) provided under Section 1 of the Localism Act 2011 confers on the Council the power to do anything that individuals generally may do. This power includes the power to “do anything for a commercial purpose or otherwise for a charge, or without charge, and power to do it for, or otherwise than for, the benefit of the Council, the Barnsley area or persons resident or present in the Barnsley area”. However, there are limits under Part 1 the Localism Act on when the Council can use the General Power to charge for its services or do things for a commercial purpose. If it intends to operate commercially, this must be via a company route. Given that the authority already has an established trading arm, there is an option to extend the remit of BMBC Trading Services Ltd for the purpose of delivering housing development.

## **8. Implications for local people / service users**

- 8.1 Local residents will be able to access the new properties that will be sold on the open market. Local residents will be able to access any social rented properties via the Council’s housing waiting list.

8.2 Local jobs and training opportunities will be created from the design and construction of the new homes. Every opportunity will be made to maximise the number of local jobs that are created and offered to local people.

**9. Financial Implications**

9.1 This scheme has been determined as a high priority following an appraisal process conducted through the capital programme oversight board (subject to approval by Cabinet of relative capital programme priorities).

9.2 Officers have considered a number of development funding packages, including a LGA institutional investment vehicle and joint venture funding. These have been discounted on the basis that the council is able to provide more economical cost of finance. However, officers are still working with the Sheffield City Region executive housing board to look at the possibilities of securing SCR funding.

9.3 Initial legal advice is that this transaction is permitted to be undertaken directly by the Council under the Local Government Act on the grounds that the Council is effectively enhancing existing land and there is no underlying proposal to continue to trade in perpetuity as a property developer. This is beneficial in that this mitigates cost of finance and corporation tax issues.

9.4 The table below highlights the estimated costs of the development including providing some sensitivity analysis on these costs.

	Estimated Cost £000	Cost +2.5% £000	Cost +5% £000
<b>Capital Development Costs</b>	<b>3,643</b>	<b>3,734</b>	<b>3,825</b>
<i>Revenue Costs</i>			
Sales and Marketing	80	80	84
Planning Costs	142	142	142
<b>Total Revenue Costs</b>	<b>222</b>	<b>222</b>	<b>222</b>
<b>TOTAL ESTIMATED COSTS</b>	<b>3,865</b>	<b>3,956</b>	<b>4,047</b>

9.5 As the Council would be undertaking the development on its own land there would be no land acquisition costs although it would forego a potential capital receipt from the sale of the land. A market valuation for the site totals £575k

9.6 Subject to Cabinet approval of the capital programme prioritisation process and final business case review the proposed capital cost of £3.825 million (prudent estimate based on sensitivity analysis) would be first call on the 'banked' one off resource availability earmarked as part of the updated Medium Term Financial Strategy.

9.7 In addition to the capital costs associated with the development as highlighted in the table above there are a number of revenue costs that also need to be

considered. These include the costs associated with sales and marketing the properties, legal and planning fees. It is estimated that these will cost in the region of £0.222M. Again, subject to approval these costs would be funded from the resources set aside for priority investment in the updated MTFS.

- 9.7 The estimated maximum costs therefore totals £4.047M, to be repaid in full over a 2 year period subject to successful property sales. This will also give rise to cash flow costs not included in the above that will need to be managed within the overall Treasury Management Budget.
- 9.8 An analysis of the potential sales income to be generated from the sale of properties on the site has also been made based on assessment of similar property development in the surrounding area. It is estimated that a maximum income in the region of £4.810M could be generated from the development. However by placing a 5% sensitivity on open market sales prices the total income to be generated would be £4.582M. In addition to this it is considered prudent to allow for an adjustment of any return on investment for voids (properties that are left vacant). After allowing for a 10% voids factor the sales income could be reduced by £0.430M. The sales income generated would therefore total £4.152M.
- 9.9 The table below shows the return on investment under different scenarios.

	Maximum ROI £000	Most Prudent ROI £000
<b>Total Development Costs</b>	<b>3,865</b>	<b>4,047</b>
<b>Total Sales Income</b>	<b>4,810</b>	<b>4,152</b>
TOTAL ROI	945	105

- 9.10 Based on the most prudent assessment, the development would still achieve an ROI of £0.100M. Subject to approval, this ROI would be available as a capital receipt to support relative priorities. However, it is important to note that the Council could be foregoing a potential land receipt of upto £0.575M if it was to progress with the development.
- 9.11 **Therefore the overall ROI is estimated to be between a ‘profit’ of £370k and a ‘cost’ of £470k.**
- 9.11 There are still however a number of issues that need to be resolved including the final tender evaluation. As such the financial implications are subject to change and will be finalised as these issues are firmed up.

## 10. Property and Assets Implications

- 10.1 In addition to the appraisal, and as a comparable, a market valuation of the I and has been undertaken as a vacant site. In considering that a developer may choose to develop a different product on the site, pushing the densities up and reducing the amount of highway and landscaping, thus reducing development costs (and potentially quality); this could result in a higher land



receipt. Therefore, based purely on market sales evidence, it is suggested that the site has a market value of £575,000.

However, when comparing the estimated return on investment of £105,000 and market value of £575,000 there is a difference of £470,000. It is proposed that the difference in value can be justified by the fact that the direct development option allows the council to guarantee housing growth stimulation.

## **11. Employee Implications**

11.1 None arising directly from this report for BMBC staff.

## **12. Communication Implications**

12.1 This initiative will attract positive media attention. BMBC housing will work with the BMBC communications team to develop a PR/communications strategy for each stage of the housing scheme.

12.2 It is proposed that a local estate agent will be procured and appointed to develop a robust sales and marketing strategy for the new for-sale homes.

## **13. The Corporate Plan and the Councils Performance Management Framework**

13.1 This initiative meets fully with the Council's Corporate Plan and its Performance Management Framework in the delivery of more and better homes. The construction of new homes also links in with the wider economic benefits to the Borough i.e. jobs and business growth, employment and skills agenda's.

## **14. Tackling Health Inequalities**

14.1 Building more and better homes will help to tackle some of the health inequalities that exist in the housing market, particularly in poor quality private sector renting. The new homes that will be delivered by the Council will be to a high standard including energy efficiency. Pricing of the properties will be affordable for local residents/tenants thus tackling health inequalities in a number of key areas.

## **15. Climate Change & Sustainable Energy Act 2006**

15.1 The new homes will be designed to meet Code for Sustainable Homes Level 3 as a minimum and will be energy efficiency to ensure the envelope of the building is retaining as much heat as possible without the need for other green measures. Solar PV will be considered (subject to funding) for some properties depending on roof configuration, along with other green initiatives i.e. air or ground source heat pumps as appropriate.

## **16. Health & Safety Issues**

16.1 The schemes will be developed in full compliance with all current Health and Safety legislation including the Construction (Design and Management) Regulations 2015.

**17. Compatibility with the European Convention on Human Rights**

17.1 In considering the European Convention of Human Rights, particularly article 8, no incompatibility was found with the options set out in this report.

**18. Promoting Equality & Diversity and Social Inclusion**

18.1 All open market dwellings will be available to all members of the public who are in a position to purchase property on the open market. Schemes such as 'Help to Buy' may be promoted to assist qualifying purchasers. A proportion of the new units will be made available for Affordable Housing in line with 'Core Strategy Policy 15' (CSP15) with the tenure and mix of unit type having regard to affordable housing need in the locality. These units will be managed by Berneslai Homes and made available for let in accordance with Berneslai Homes' lettings policy.

**19. Reduction of Crime & Disorder**

19.1 In investigating the options set out in this report, the Council's duties under Section 17 of the Crime and Disorder Act 1998 have been considered.

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