

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 On 5th October 2016 Cabinet approved, 'in principle', the development of 32 family houses on the former Longcar Professional Development site at Longcar Lane Barnsley Central. This report requests approval to proceed with the project and to enter in to a build contract.

2. Recommendations

It is recommended that:

- 2.1 Cabinet approves the revised scheme costs for the Longcar PDC Housing Development totalling £4,373,000 to be financed from a combination of capital resources earmarked as part of the 2020 Capital New Starts programme, monies earmarked within the Housing Revenue Account Capital Reserve and revenue resources held within the Strategic Housing Function .
- 2.2 Cabinet approves the Council entering into a build contract with Saul Construction in the sum of £3,838,500 included within the above.
- 2.3 Cabinet approves the appropriation of the four affordable units associated with the development into the Housing Revenue Account to be managed by Berneslai Homes.
- 2.4 Cabinet notes the potential Return on Investment from the development of upto £0.7M and receives a further update on this following the sale of all the properties.

3. Introduction

- 3.1 A detailed report setting out the strategic and financial rationale for the direct delivery of 32 family houses was approved by Cabinet on the 5th October 2016. This report provides an updated financial assessment based on known and confirmed construction costs and projected income from sales.
- 3.2 The Council has now undertaken a tender exercise to select a build contractor for the project and has carried out further due diligence to ensure that other assumptions used in the financial model are robust.
- 3.3 Using the agreed tender price and other confirmed cost and income assumptions the financial model demonstrates that the Council will recover the land value which has been foregone as a result of the direct delivery of

this project. In addition the model shows that there is the potential to generate a development surplus that could be used to support further housing growth.

4. Current Position

- 4.1 Following Cabinet's 'in principle' support to endorse this development proposal in October 2016, officers have secured full planning approval (June 2017) for the site, procured a Sales and Marketing specialist (Haybrooks) and undertaken a robust two-stage competitive tender process to procure a design and build contractor who is able to deliver the development within set financial parameters.
- 4.2 A PQQ process undertaken in March 2017 resulted in a shortlist of five contractors who had the relevant experience, skills and abilities to deliver a new build sales scheme of this nature. The formal tender was issued in mid-April with a 4-week tender period; ending 22nd May 2017. The tender period was extended by two weeks to 5th June 2017 following requests from the majority of the contractors.
- 4.3 Following receipt of tenders, submissions by the five potential contractors were evaluated and a preferred contractor, Saul Construction, has now been selected. It is now possible using Saul's tender price and other development costs to carry out a detailed financial appraisal.
- 4.4 The Council's financial appraisal model uses assumptions in relation to sales values, development costs, and potential return on investment for the Council. A high level of certainty has now been achieved in relation to build costs as construction risk is to be mitigated by entering in to a Design and Build contract with Saul Construction. Other costs in relation to fees and charges are also now well-known and understood
- 4.5 A sensitivity analysis has been run to assess the impact of a decrease in sale values of £5k per unit and an increase in sale values of £5k per unit. The results of this exercise are summarised at paragraph 9 Financial Implications. Further detailed analysis of the financial implications is available in the background paper listed at the end of this report. This background report contains commercially confidential information, but can be provided to Cabinet Members on request.

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 5.2-5.4 below.
- 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 directly contributes to accelerated housing growth activity in a strategic growth zone close to the Town Centre. The Council will have full control over delivery timescales, and the quality of design: enhancing the town centre residential offer and complementing the Town Centre regeneration.

5.3 Financially, the development will deliver a combined land and profit receipt which exceeds the land value expectations. The scheme is fully Planning Policy compliant, with the council receiving contributions to Education and Public Open Space (POS) budgets as well as providing 4 affordable homes on-site. These homes will be subject to a cost floor for Right to Buy under section 131 of the Government's Housing (Right to Buy) (Cost Floor)(England) Determination 1999 legislation. This means that a property cannot be sold for less than construction/repairs/acquisition costs for a period of 15 years post construction/acquisition.

5.3 Delivery of the development at Longcar will achieve the following objectives:

- Accelerated housing growth in a strategic growth zone (Urban Barnsley) within the Town Centre – 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.
- Recovery of the land value foregone as a result of not selling the site on the open market.
- 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.
- Affordable Housing provision via section 106 – new council housing stock (4 units)
- Contributions via Planning Policy to Education and POS budgets.

This scheme pilots the council's strategic approach to directly contributing to housing growth activity within the borough and commitment to further investment in council stock. This approach aligns with Government proposals within the Housing White Paper Consultation Document 2016 which recognises that we will only meet national and local housing growth aspirations by providing a mix of housing tenures which meet the needs of both existing and future households and firmly includes affordable rented accommodation. The paper promotes the role that Local Authorities can take in contributing towards this growth via the direct, and accelerated, delivery of new homes.

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 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.

- 6.4 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.

7.0 Consideration of Alternative Approaches

- 7.1 A number of alternative options for the accelerated delivery of new homes on this site have been considered. The only practical option would be disposal on the open market however this option is not supported because the site was marketed in February 2015 and failed to attract a buyer. Only by direct delivery can the Council guarantee the housing growth and regeneration outcomes set out in the report approved by Cabinet on the 5th October 2017.

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 Consultations on the financial implications have taken place with representatives of the Service Director- Finance (S151 Officer) .
- 9.2 In October 2016 Cabinet approved funding totalling £4.047M for the proposed development of 32 houses at Longcar PDC site. Final release of this funding was subject to completion of the necessary contract tender process and provision of an updated financial viability plan for the development.
- 9.3 The tender process was completed in June 2017 with Saul Construction being selected as preferred construction partner. A revision to the cost plan for the scheme has since taken place and the total cost now stands at £4.373M, an increase of £0.326M.
- 9.4 It is proposed to fund this cost from monies previously earmarked as part of the 2020 Capital New Start Programme (£3.997M), resources earmarked specifically for housing acquisition within the Housing Revenue Account Capital Reserves (£0.280M). The remaining £0.090M will be funded from resources set aside with the Strategic Housing.
- 9.5 With regards to the 32 properties, four will be subsequently transfer into the Council's social housing stock upon completion. The remaining 28 properties will be marketed on the open market. Discussions have been held with a town centre estate agent who has concluded that the total revenue generated from the sale of the properties could be in the region of £4.940M, therefore generating a surplus of upward of £0.567M.

- 9.6 A sensitivity analysis has been conducted on the sale values to give a range of the possible return on investment (ROI) on the development. The results of this analysis are shown in the table below:

	Current Estimated Sales Values £M	Salve Values +£5K per property £M	Sales Values -£5K per property £M
Total Capital Costs	4.312	4.312	4.312
Associated Revenue Costs	0.061	0.061	0.061
Total Development Costs	4.373	4.373	4.373
Total Sales Income (inc. Income from HRA)	4.940	5.080	4.800
Potential ROI	0.567	0.707	0.427

- 9.7 Based on the above analysis the development would give a ROI of upto 0.7M. It is important to note that the Council could be foregoing a potential land receipt of upto £0.425M if it was to progress with the development. The land has previously been marketed for sale with no success, whereas if the council opts to continue with the proposed development it is expected that, as a minimum, the open market value of the land will be recovered whilst still accelerating housing growth.
- 9.8 It is also expected that the development will generate council tax and new homes bonus to contribute the provision already included with the Council Medium Term Financial Strategy.
- 9.9 Full financial implications are shown in the attached Appendix A with the development financial appraisals presented in the background paper listed at the end of this report. This background report is contains commercially confidential information, but can be provided to Cabinet Members on request.
- 10. Employee Implications**
- 10.1 None arising directly from this report for BMBC staff.
- 11. Communication Implications**
- 11.1 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.
- 11.2 Haybrooks have been appointed to develop a robust sales and marketing strategy for the new for-sale homes..
- 12. The Corporate Plan and the Councils Performance Management Framework**

- 12.1 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 agendas.

13. Tackling Health Inequalities

- 13.1 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.

14. Climate Change & Sustainable Energy Act 2006

- 14.1 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.

15. 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.

16. 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.

17. Promoting Equality & Diversity and Social Inclusion

- 17.1 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.

18. Reduction of Crime & Disorder

- 18.1 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.

19. Background Papers

Further detailed analysis of the financial implications is available in a background paper. This report contains commercially confidential information, but can be provided to Cabinet Members on request.

Office Contact: Richard Burnham Tel No: 776513 29 June 2017
--