

## 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 the Executive Director of PLACE

#### St Michael's Avenue Housing Development

#### 1. Purpose of Report

- 1.1 The purpose of this report is to seek approval for the development of 35 new build housing units on a Council-owned site off St Michael's Avenue, Monk Bretton.

#### 2. Recommendations

- 2.1 **Cabinet grants 'in principle' approval for the direct development of this Council owned site by the Council. The site will provide 35 residential units with a mixture of open market sale, council rented and market rented properties.**
- 2.2 **Cabinet delegates final scheme approval 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 16 council rented units into the Housing Revenue Account, which will be managed by Berneslai Homes.**
- 2.4 **Cabinet approval is granted to appropriate the 6 market rented units to Berneslai Homes Ltd ('The Company'), which will be held separately from the Housing Revenue Account and let at an affordable market rent.**

#### 3. Introduction

- 3.1 The project is set within the context of the Council's Housing Strategy (2014 to 2033) and Local Plan (2014-33) which identifies that Barnsley needs more new homes, of different types and tenures. The homes need to be affordable and should 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 This Council-owned site off St Michael's Avenue has been allocated for housing under the adopted Local Plan (site ref. HS22). There is an opportunity for the Council to directly deliver a housing scheme which offers a broad range of property types and tenures, to meet diverse housing needs. The site is well served in terms of local amenities including shops, schools and transport routes into Barnsley Centre.
- 3.3 The scheme 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.

- 3.4 The proposed development will provide family houses in the form of 2, 3 and 4 bedrooled semi-detached houses and older person accommodation comprising 2 bedrooled bungalows and apartments. The mix of units would be as follows:

Homes for council (social) rent (16 units)

8 x 2-bed house  
2 x 4-bed house  
2 x 2-bed bungalow  
4 x 2-bed apartment

Homes for market (private) rent (6 units)

4 x 3-bed house  
2 x 2-bed house

Homes for open market (private) sale (13 units)

5 x 2-bed bungalow  
4 x 4-bed house  
4 x 3-bed house

- 3.5 NPS Barnsley have been appointed to provide full professional services including Architectural, Employer Agent, Contract Administration and Quantity Surveying functions, for the duration of the project.
- 3.6 It is proposed that the project be competitively tendered on a Design and Build contract basis.
- 3.7 A financial appraisal for the scheme has been developed which includes build cost estimates provided by NPS. The appraisal and the sales values within have been reviewed by the Council's Asset Management team (RICs qualified surveyors) and our current Sales and Marketing Advisors, Haybrook.
- 3.8 The majority of the property designs have been used on previous schemes and have proven to be very popular. These designs are part of a suite of 'standard' property types that officers are developing to create design cost efficiencies and to streamline the project development stage of our investment programme. There will be an emphasis on providing well designed, spacious and high quality housing across all tenure types.
- 3.9 The Council recently completed its first housing development for open market sale at Longcar Lane (Blenheim View), under the marketing name of 'Met Homes Barnsley'. The scheme was a success, with all properties being sold 'off-plan'. The valuable experience been gained by the Housing Growth team in delivering Blenheim View can now be transferred to the sales element of the St Michael's scheme.
- 3.10 Any efficiency generated through the in-house delivery of open market sale homes could be recycled for re-investment into further housing projects.
- 3.11 A tender has been issued to engage a professional Sales and Marketing agent on a three year contract basis, to assist with the sales of the open market units on this and future 'Met Homes Barnsley' schemes. Such an agent was employed for the Blenheim View scheme, which proved invaluable to the success of securing early reservations and the efficient selling of the properties.
- 3.12 Soft Market Testing has been undertaken and a marketing report produced by Haybrook which suggests that market demand for the mix of sales units provided on this scheme will be strong. Sales Values, as noted in the viability appraisal, have also been sense checked by the local agent and deemed achievable.

- 3.13 Berneslai Homes has sought legal advice and approval (following the Housing Services Review (2017/18) to hold stock as a company (within Berneslai Homes Ltd), to deliver a private rented model.
- 3.14 The properties will be built to “Secure by Design” standards and will be highly insulated and energy efficient on a fabric first basis; responding to the Council’s Zero 40/45 strategy. The Council retained homes will be ‘off-gas’; also benefitting from Air Source Heat Pump systems. All properties will have EV charging points and full fibre broadband.

#### **4. Proposal and Justification**

- 4.1 It is proposed that by acting as a direct developer, the Council can deliver a sustainable housing scheme which contributes to the delivery of the Council’s Housing Growth targets on an inclusive basis; providing well in excess of policy on Affordable Housing (37% on site) and the provision of quality market rented accommodation for families whilst making a small return on investment.
- 4.2 The project will directly contribute to the Council’s Corporate Priority of ‘Achieving a Thriving and Vibrant Economy’ via the delivery of More and Better Housing. It will directly contribute to Housing Growth Targets (EC28) and the delivery of new affordable housing (EC29) in a popular and well located part of the Borough.
- 4.3 Delivery by the Council will ensure that this project directly contributes to ‘Inclusive Economy’ - procuring a local contractor with local supply chains, and linking to training and development opportunities for local people. It also highlights an inclusive growth approach to housing development; mixed tenure, sustainable, affordable homes to meet need (not just the cheapest to be built from a numbers perspective).
- 4.4 The Strategic Housing Market Assessment (SHMA) identifies a strong need for Affordable Housing in this sub-market area. The mix aligns with Choice Based Lettings data and provides accommodation for both smaller and larger families, singles and older people.
- 4.5 By providing the market rented product via Berneslai Homes, the council can have confidence in the quality of the management and maintenance services and that any surplus generated can be recycled into improved service delivery across the board.
- 4.6 The inclusion of a market rent product via Berneslai Homes also enables the use of Assured Shorthold Tenancies which allows for independent rent setting outside of Right to Buy legislation.
- 4.7 Direct delivery of the development at St Michael’s will achieve the following objectives:
- **Accelerated housing growth on an INCLUSIVE basis – 35 new homes, offering a range of tenures**
  - **The generation of New Homes Bonus and Council Tax to support the forecast sums currently included in the updated Medium Term Financial Strategy.**
  - **A return on investment to be reinvested in other competing priorities (5-8%). The Blenheim View development exceeded the estimated ROI.**
  - **The delivery of a range of affordable homes to meet increasing housing need on the Council’s waiting list – including larger 4 bed homes, adaptable 2 bed bungalows and smaller accommodation for single people.**
  - **A quality, well managed private rented offer.**
  - **The delivery of quality, highly energy efficient/reduced carbon homes off gas (air source heat pumps in Council retained dwellings), which is a direct contribution to the Council’s Zero 40/45 aspirations.**
  - **Full Fibre Broadband to every property**

- 4.8 New housing development by the Council generates additional Council Tax and potential New Homes Bonus as well as generating increased economic activity which supports local business and services. New homes for rent managed by the Council also offer an ongoing stable revenue stream.

## **5. Consideration of alternative approaches:**

A number of options were considered for the site, including:

### **5.1 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 of the site on the open market. The Council's Asset Management team has estimated that the site could achieve a sales value of £250,000, if auctioned on the on the open market.

The disposal option is not favoured for the following reasons given below:

- 5.2 Whilst disposal to a private developer could ultimately result in the development of the site, the Council would not be able to influence the speed, quality nor type/tenure of the 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 often a lack of capacity and/or appetite in the SME housebuilding industry to deliver schemes of this size due to other commitments/viability concerns.

Even our RP partners are struggling to deliver a sales/affordable mix on sites in most parts of the borough as their expectations on a return on investment are not achievable. Their preference is currently for wholly affordable rented schemes, which at this scale is not something that provides the most sustainable housing solution.

Crucially, it is highly unlikely that a private developer would provide the diverse range of property types and tenures (including the high proportion of affordable housing) which the Council is proposing to deliver. Direct delivery by the Council would ensure accelerated housing growth, whilst addressing local housing need with a high quality scheme.

### **5.3 Deliver a FULL Open Market Sale Scheme (as at Blenheim View)**

The Council could look to deliver a primarily open market sales scheme (with only the Planning Policy minimum requirement of 10% affordable housing), on the same basis as the previous Met Homes scheme at Blenheim View. Whilst this could provide for a greater return on investment than the current proposal, it is considered that there is a greater sales risk on this site as it is located in a lower value area than Blenheim View and could thus be more sensitive to fluctuating demand/values.

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

- 6.1 The scheme will positively impact on residents in the area by offering a broad new housing offer. With the pressure on the Council's Housing Waiting list, the affordable homes will be popular and provide high quality social housing.

## **7. Financial Implications**

### **Overview**

- 7.1 Consultations have taken place with representatives of the Service Director – Finance (S151 Officer).

- 7.2 This scheme was included in the Housing Growth Strategy approved by Cabinet (Cab.9.1.2019/11 refers) which has also been recommended to, and therefore formally approved by Full Council on the 7<sup>th</sup> February 2019.
- 7.3 The proposal is to build 35 properties of mixed types and tenure to support diverse local housing needs. The project is set in the Council's Housing Strategy 2014 – 2033 which identifies a need for more new homes of different types. The properties need to be affordable and to include a mixture of private and social homes.
- 7.4 The proposal is expected to deliver 16 properties for Social Housing that will be appropriated into the Housing Revenue Account upon completion. A further 6 properties will be transferred to Berneslai Homes and held within that company, marketed for rent at current rates. The remaining 13 properties will be held for sale with all capital receipts retained by the Council.
- 7.5 Soft Market Testing has been undertaken by Strategic Housing and a marketing report produced by Haybrook which suggests that market demand for the mix of sales units provided on this scheme will be strong. Sales Values, as noted in the viability appraisal, have also been sense checked by the local agent and deemed achievable.
- 7.6 A report will be presented to Cabinet detailing the Berneslai Homes proposal to become a private landlord in their own right, and hold property assets within the company (referenced in Berneslai Close).

### **Development Build Costs**

- 7.7 The anticipated cost of this scheme totals £5.341M, which includes the works, professional fees and an element of contingency. The breakdown of the expected costs by property type is shown in the table below. A further detailed costing breakdown is included in the Financial Appraisal (available on request).

<b><u>St Michael's Housing Development Monk Bretton</u></b>		
<b>Estimated Total Project Costs</b>	<b>No. of Units</b>	<b>£</b>
<b>Private Housing Units</b>	<b>13</b>	<b>£1,957,797</b>
<b>Social Housing</b>	<b>16</b>	<b>£2,457,428</b>
<b>Private Rented Units</b>	<b>6</b>	<b>£925,844</b>
<b>Total Construction Costs</b>	<b>35</b>	<b>£5,341,068</b>

### **Project Funding**

- 7.8 The £5.341M scheme is proposed to be funded from a combination of available resources included the Council's housing growth strategy, previously approved by Cabinet, that includes Housing Revenue Account Reserves, Berneslai Homes Surplus and 1-4-1 Capital Receipts. The detailed breakdown is included in the table below.

<b>Proposed Funding Composition</b>	<b>£</b>
HRA Reserves	£1,720,199
Berneslai Homes Surplus	£2,883,641
1-4-1 Receipts	£737,228
	<b>£5,341,068</b>

### **Private Housing Open Market Sales**

- 7.9 The development includes Homes for open market sale which presents the Council an opportunity to secure a return on investment estimated to be around 8% equating to (£0.162M). The return on investment is calculated using an estimated total sales projection of (£2.120M) for the 13 Private Units against a total build cost estimate including marketing and sales costs of £1.958M.
- 7.10 The projected property values have been calculated tested by Haybrook estate agents are included in the table below.

<b>Projected Sales Revenue</b>	<b>No. of Units</b>	<b>Unit Value</b>	<b>Gross Revenue</b>
3 bed 4p semi-detached house	4	£150,000	<b>£600,000</b>
4 bed 6p semi-detached house	4	£200,000	<b>£800,000</b>
2 bed 4p semi-detached bungalow	4	£145,000	<b>£580,000</b>
2 bed 4p mid-terrace bungalow	1	£140,000	<b>£140,000</b>
			<b>£2,120,000</b>

### **Social Housing Units**

- 7.11 The 16 social housing units that will be appropriated in the Housing Revenue Account have been assessed for their financial impact on the HRA business model.
- 7.12 The levels of maintenance and capital investment required to keep the properties at the Barnsley Homes Standard over the 30 year business planning period is estimated to be in the region of £1.217M for the 16 properties.

The indicative figure is based on average repair costs and overheads rates at the current stock level of 18,400 properties and an assumed average cost per dwelling for the planned capital replacements the properties will require over a 30 year period.

- 7.13 The net impact to Housing Revenue Account over the 30 Year planning period is estimated to be a positive (£1.297M). This is calculated by comparing the total rental income expected of (£2.515M) against the estimated management, maintenance and capital replacement costs of £1.217M.

### **Private Rented Units**

- 7.14 The 6 units that will be made available for private rental tenancies at current market rates will be transferred to Berneslai Homes. The properties will be held within Berneslai Homes as assets of the company.

7.15 The 6 properties are expected to generate rental income in the region of £35,800 which will fund the repairs and maintenance of the properties and generate a surplus for the company.

7.16 A summary of the above financial implications is attached at Appendix A.

7.17 A Financial Appraisal Model for this development is available upon request.

## **8. Employee implications**

8.1 There are no employee implications arising from this report.

## **9. Communication implications**

9.1 As the scheme progresses, local residents, members and key stakeholders will be consulted and kept informed.

## **10. Consultations**

10.1 Local members have been consulted and fully support the proposal.

10.2 Consultation has been undertaken with Officers within BMBC and Berneslai Homes who are supportive of the plans.

10.3 A consultation event for local residents was held in June 2019. Residents' comments have been taken on board and the scheme layout amended.

## **11. The Corporate Plan and the Council's Performance Management Framework**

11.1 Building new Affordable homes will help achieve the following priority within the Council's Corporate Plan and contribute to the BuildIT theme within Town Spirit.

- Create more and better housing

New affordable homes meet housing need and contribute to growth targets.

11.2 The Council's performance management framework contains the following performance indicator

- EC29 – Number of NEW Affordable Homes
- EC28 – Number of New Homes Completed

11.3 The scheme aligns with the Council's Zero 40/45 policy.

## **12. Tackling Health Inequalities**

12.1 It is widely recognised that the quality of housing and the surrounding neighbourhood are influential in shaping health and wellbeing. 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.

## **13. Climate Change and Sustainability Energy Act 2006**

13.1 These new homes will be highly energy efficient and 16 of the properties will be 'off gas', which contributes to the Council's Zero 40/45 aspirations.

## **14. Risk Management Issues**

14.1 There are risks associated with any new build scheme, including but not exhaustive:

- Inclement weather;
- Site Abnormals increasing scheme costs;
- Site security and vandalism;
- Poor contractor performance.

14.2 Whilst the scheme will be tendered on a design and build basis, the scheme and specification have been fully developed by NPS Barnsley with full cost estimates based on actual material/build costs and/or recent tenders. The sales values have been considered by sales and marketing professionals and sensitivity analysis has been undertaken on the sales viability model.

## **15. Compatibility with European Convention on Human Rights**

15.1 None arising directly from this report.

## **16. Appendices**

Appendix A – Financial Appendix A

Appendix B – Scheme Layout

## **17. Background Papers**

If you would like to inspect background papers for this report, please email [governance@barnsley.gov.uk](mailto:governance@barnsley.gov.uk) so that appropriate arrangements can be made

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