

Housing Delivery Options Appraisal Overview

Place Select Committee 13.01.2025

Background (recap on why this work is ongoing)

- SBC not addressing affordable housing needs (growing demand at a time of limited supply)
- Absence of bespoke supported accommodation models (not part of existing partner accommodation portfolios & nothing in the pipeline)
- Growing financial pressures across both Adults and Children's Services due to the lack of independent and or supported / specialist accommodation offer
- **Government ambition** to increase the delivery of quality affordable and social housing and bring forward investment to deliver *“the biggest increase in affordable housing building in a generation”*
- Against this background an Affordable Housing Option Appraisal project mandate was signed off by Cabinet on 12.09.2024

What's
become clear
during the
option
appraisal
exercise

- More than 'rented' affordable housing, there is need for *"a quality home for all"* (different incomes & tenures)
- Delivery will be critical in supporting SBC achieve its mandatory housing targets (National Planning Policy Framework) & the boroughs wider place making / POF Regeneration ambitions
- There are no '*big bang*' solutions. The high-level option appraisal has identified a range of options need to be explored in future detail



The OA process

Establish / Review
Council Objectives

Translate to
Evaluation Criteria

Assess Delivery
Options & Score
Criteria 1- 5

Project objectives

	Objective
1	Initially to increase supply of affordable housing that meets our community's needs Now increase the supply of housing that meets our community's needs - 'quality home for all'
2	Ensure better access to well designed good quality energy efficient affordable homes
3	Enable more people with particular needs and/or requiring support to live independently in their own affordable homes
4	Establish a model for securing affordable housing objectives that maximises returns from SBC resources (including cost prevention by interventions by SBC and others)
5	Align internal resources behind the delivery of the Affordable Housing Objectives
6	Establish a benefits tracking approach that will monitor delivery benefits
7	Demonstrate that financial objectives and social return can be secured from the programme including investing s106 and commuted sums timeously
8	Secure engagement from and influence national, regional, sub regional and local stakeholders and partner organisations
9	SBC recognised as a partner of choice

Options explored

Delivery Options	Description
Business as usual (current status quo)	Continue as now
Land disposal	Sell sites to RPs & others (SBC traditional approach)
Partnerships	Contractual or MoU arrangements
SBC Investment/Purchase Fund	SBC opens account to buy property for affordable purposes (possibly via partner)
SBC Wholly Owned Company	Establish Private Company Limited by Shares to acquire, develop, dispose or invest in land and property
SBC Local Housing Company	Establish a LHC to develop and manage directly.
Reopen HRA	Develop and manage directly using separate ring- fenced account
Disposal collaboration Agreements/Development Agreements	Collaboration agreement with developer (RP and/or private partner)
Direct commissioning (programmes & projects)	Encourage support commission
Hybrid approach – <i>Adaptive Partnerships (affordable housing led)</i>	Affordable included as a priority, but could include a range of wider tenures

Preliminary Market Engagement (PME) exercise

Following a desk top assessment options were 'tested' through a PME exercise:

22 written replies received:

- 3 RPs / 3 plc's / 3 SME developers / 4 SME contractors / 1 micro contractor / 3 special needs providers / 2 PE investor/developers / 2 construction consultancies / 1 timber systems supplier

12 PME 1-2-1 sessions undertaken

Key Headlines:

- Appetite and enthusiasm amongst local, regional and national housing developers and contractors to work in partnership with the Council to deliver affordable homes (recognised short, medium & long-term opportunities in sample of sites, even if not all for them)
- Local and regional RPs generally in **acquiring sites under disposal collaboration agreements** (staying with business as usual)
- Limited appetite for a **JV Investment Partner approach**
- Strong preference for **Hybrid approach**, simple sites developed by a third party e.g. an SME builder / more complex sites are developed by a joint venture development management partner
- Notable appetite from providers and managers of **specialist accommodation** to work in the borough
- Local building contractors promoting **SBC self-development**
- Some investor interest however seeking **rent shortfall guarantees**
- KEY message, keep **procurement simple (through existing frameworks)**.
- Difficult finding end users for supported living landlord function – **option for SBC direct delivery??**

Delivery options appraisal post PME exercise

Delivery Options	Description
Business as usual	Continue as we are
Land disposal or Long Lease Disposal	Sell sites to RPs & others (SBC traditional approach).
Partnerships	Contractual or MoU arrangement with others i.e. RPs/Neighbouring (inc HRA) LAs/ private developers/ TVCA
SBC Investment/Purchase Fund	SBC opens account to buy property for affordable purposes possibly via partner may also include SBC providing mortgages?
SBC Wholly Owned Company	Establish Private Company Limited By Shares to acquire develop dispose or invest in land and property including affordable
SBC Local Housing Company	Independent arms-length commercial organisation wholly or partly owned by a LA / sit outside of the government housing finance system (HRA)
Reopen HRA	Develop and manage directly using separate ring- fenced account
Disposal collaboration agreements/Development Agreements (<i>alternative partnership option</i>)	Collaboration agreement with developer (private developer or RP)
Direct commissioning Programmes & Projects	'Enable' sites to come forward
CONCLUSION following PME = Hybrid approach	(a) Enabling / (b) Direct delivery via a chosen vehicle (i.e. HRA or Local Housing Company) / (c) Partnership structure

Hybrid approach

Hybrid Delivery Proposal:

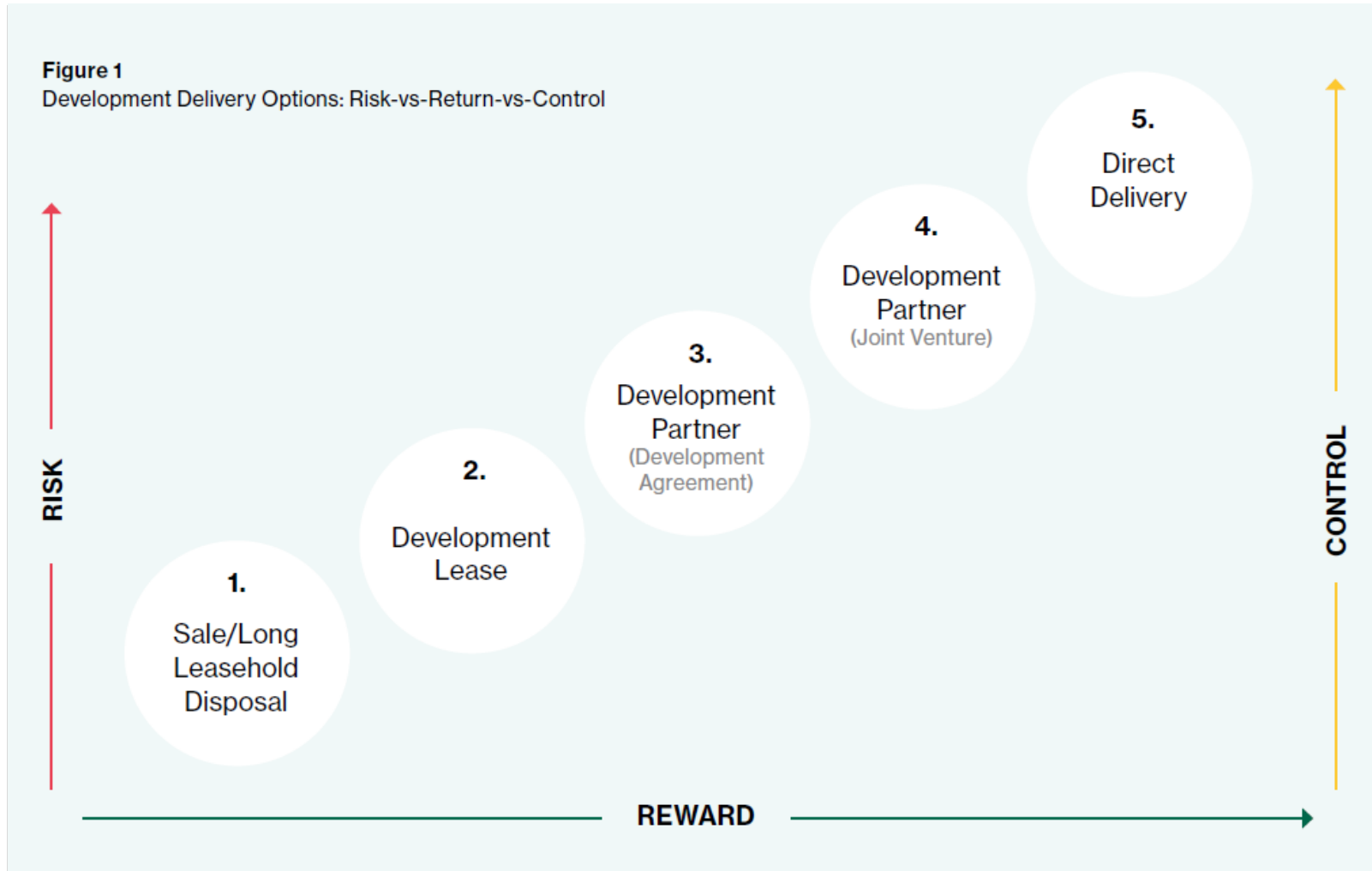
- (a) **Enabling** (with an increased requirement for affordable housing delivery)

- (a) **Direct delivery** via a chosen vehicle (HRA or Local Housing Company)

- (b) **Partnership** structure



Delivery Structures – Risk v Reward



Partnerships & Collaboration Agreements

Enables a Council to share the risk of developing & delivering complex housing projects with a partner, while gaining access to a partner's expertise.

Partnerships may be with a single partner, or several partners. The partner can come from a variety of sectors and may include:

- Registered providers
- Private sector partners
- Build-to-rent companies
- Institutional investors
- Social Enterprises/third sector
- Other Local Authorities
- Combined Authorities



Partnerships / collaboration agreements

Strengths	Challenges
Single procurement process and mechanism to agree when and how further sites can be added in	Scale needs to be big enough to make process financially worthwhile. Complying with procurement rules.
	Need clarity, what sort of partnership(s) do we want?
50/50 control and share of returns	50/50 share of all costs
Matched equity requirement	Equity requirement may exceed land values. Income strip issues
Access to skilled and experienced resources/capacity	Need a partnerships of equals Council resource will be required to run the initial procurement process and to participate in decision making for the lifetime of the project. Long term commitment.
Can be a flexible model over the longer- term / or changing market cycles	Notable issues to be aware of

Direct delivery:

Housing
Revenue
Account

Local Housing
Company

Housing Revenue Account (HRA):

Required when a Council's owned housing stock reaches 200 dwellings / required to create a separate finance system (HRA) that records expenditure and income on running a council's own housing stock and closely related services or facilities, which are provided primarily for the benefit of the council's own tenants

- HRA's are governed by a wide amount of legislation and can be time consuming to administer
- Need to ensure that the HRA is viable over the life of its business plan incorporating any proposed increased borrowing levels. LA appetite to risk will also be critical. One of the key measures for financial performance will be the interest cover ratio within the HRA. This measure could potentially restrict Councils ability to deliver their housing objectives

Local Housing Company:

- Can be an advantage as it would be possible to register it as an RP and move the stock to the company should a Council not wish to have an HRA.

- In both options capacity / expertise will be key
- *PME revealed a gap in the market for a landlord function for special needs accommodation and one option for addressing would be one of the above*

Limited HRA

Strengths	Challenges
Opportunity to intervene directly and at appropriate scale for the authority	Skills and capacity challenge especially financial and business planning
Direct control over developing and delivering business plans for social housing	Corporate memory about understanding and applying HRA rules
Potential to secure Homes England monies	Time anticipated to secure RP partner status
	Seeding the HRA with land and buildings currently in General Fund or elsewhere suitable for development plus associated management issues.
	Developing policies and procedures and construction standards – e.g. Ensuring compliance with strict new rules and regulations.

Local housing company (wholly owned)

Strengths	Challenges
Opportunity to intervene directly and at appropriate scale for the authority	Skills and capacity challenge especially financial and business planning
Direct control over developing and delivering business plans for social housing	Exposure to risk / company and financial compliance (inc VAT issues)
Potential to secure Homes England monies	Time anticipated to secure RP partner status
Councils have control over the vehicle	Accessing finance and impact on SBC
	Proprietary obligations on Directors

Refining the options - next steps

- **Engage with RP's wider than the Tees Valley**
 - Understand their appetite / or are they facing the same challenges (leading to reducing investment in new homes)
- **Continue to build the business case**
 - Understand 'need' – *adults & transitions* (to inform the tenure, type, mix & scale)
 - *General housing need*
 - *Specialist / support housing need*
 - Undertaken financial modelling
 - Resource planning/costs of delivery implications
 - Determine the measure of success
- **Models of delivery (refine)**
 - Contact those operating successful versions (HRA and Local Housing Companies)
 - Refine the option appraisal

Refining the options - next steps (continued)

- **Engagement TVCA / Homes England / the wider TV LA's**
 - Essential following the release of the recent Devolution Bill (funding to come via Mayoral Strategic Authorities / access to Strategic Place Partnerships with Homes England)
 - Opportunity to explore the appetite for sub-regional partnerships and collaboration
 - **Pipeline of sites (AGREE those in scope / in which delivery option / alignment with the Asset Management Strategy)**
 - Secure appropriate approvals
 - Commence site preparatory work
 - **Continue dialogue with market operators**
 - **Report back to Select Committee and Cabinet**
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