RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

CABINET

9TH MARCH 2017

FACILITATING HOUSING PROJECT

REPORT OF DIRECTOR OF REGENERATION AND PLANNING IN DISCUSSION WITH THE RELEVANT PORTFOLIO HOLDER, COUNCILLOR R BEVAN

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1. PURPOSE OF THE REPORT

1.1 The purpose of the report is to update Cabinet on the work undertaken so far on the Facilitating Housing project and for Cabinet to agree that officers proceed to the next stages of the project

2. RECOMMENDATIONS

2.1 It is recommended that the Cabinet:

a) Note the contents of the report and approve the work completed to date.
b) Agree that officers prepare a programme of interventions and explore funding opportunities to present to Cabinet in due course.
c) Agree that officers share this work regionally and work to develop wider initiatives.

3 REASONS FOR RECOMMENDATIONS

3.1 The building of new homes has significant economic, regeneration and social benefits. The Facilitating Housing project seeks to maximise the delivery of new homes in RCT and the benefits that are associated with it. In addition, enabling building has the potential to deliver a financial return to the Council.

3.2 Further opportunities are also being explored, in addition to reviewing clawback implications and opportunities with Welsh Government.

4. BACKGROUND

4.1 Housing construction has significant economic benefits through the provision of large numbers of construction jobs, together with further job creation and protection through the supply chain, and increased spending. This is in addition to the regenerative impacts new housing developments can bring to our communities and the provision of quality homes across all tenures.

4.2 There are some real positives around the housing industry in Rhondda Cynon Taf, with the number of new homes built increasing year on year since the LDP was adopted in the depths of recession in 2011. In fact there has been a 59% increase in housing delivery since that year and 569 new homes were completed in RCT in 2015-2016 and a further 2000 plus were granted planning permission.

4.3 Nevertheless there are also big challenges, often in the valleys areas, where sites are more constrained by topography or where upfront investment is needed to deal with the legacy of the coal industry. This has a negative impact on the viability of housebuilding.

4.4 The Council already employs innovative ways of stimulating housing such as its unique Developer Forum[1] where barriers to housing investment are discussed and solutions developed. Also in July 2015, Cabinet agreed a report of the Director of Corporate Estates entitled 'Strategy for Enabling Housing Development' which set out the details of a pilot project involving the disposal of Council owned land for housing.

5. THE COUNCIL LAND PILOT

5.1 A pilot area in the Rhondda Fach was chosen. Sites in that area were reviewed and considered as part of the initiative, and are being marketed by the Council on a phased basis. A site in Maerdy is in the process of being sold for development of some custom and self build housing.

6. THE WIDER ROLE IN FACILITATING HOUSING

6.1 Officers have also been working on a 'sister' project that aims to facilitate housing development of housing sites in private ownership.

6.2 In order formulate a method of intervention to assist stalled sites in coming forward, there was a need to identify why these sites had stalled in the first place and what the funding gaps were.

6.3 Specialist advice was commissioned to assess the financial viability of 41 sites that are allocated in the current Local Development Plan,

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[1] [1] The Developer Forum meets quarterly and involves all of the main PLC house builders, regionals such as Llanmoor and Davies Homes and all RSLs that operate in the area along with planning, legal, highways and housing officers

together with others that had planning permission, but had not come forward.

6.4 The appraisals have regard to affordable housing requirements, the CIL charging regime, and S106 financial requirements, and identify financial viability having regard to current planning policy, and the current state of economic and residential market.

6.5 Each of the sites was inspected and there has been discussion with landowners and a number of national and regional house builders. There was also detailed analysis of current housing schemes in RCT and neighbouring authorities

6.6 The sites were appraised using the residual method of valuation. This involves valuing the completed residential development by comparing sales of similar new build properties in the area. From the resulting gross development value are deducted construction costs, including professional fees, finance fees, sale and legal fees, developer's contingency and developer's profit. In most cases profit on costs is 25% to reflect the level that is actually necessary for developers to invest. The amount by which the gross development value exceeds the total costs, including developer's profit, provides the residual current day value of the site.

6.7 The commission also includes sensitivity analysis for each development site, including valuations where there is no affordable housing requirement, a 5% decrease in sales values, a 5% increase sales values and a 10% increase in sales values

6.8 Matters such as profit levels, build costs, contingencies, etc were purposely agreed with the development industry in order to ensure they were reflective of real market conditions. Advice was also provided on the levels of land value that would be realistic across RCT to persuade a land owner to sell.

6.9 The research has shown that currently 17 sites do not provide adequate developers profit at £0 land value. While 24 sites show a positive value the consultants are of the opinion only 7 sites provide a sufficient land value for them to be definitely viable enough to be brought forward as of today.

6.10 It has become clear that there is no single reason why sites become stalled and it is the idiosyncrasies of each individual site that need to be addressed. These can include, topography, the need for up front infrastructure, abnormals particularly from past coal mining, multiple land ownerships, access to finance, no experience in making a planning application and too may risks not being quantified to give confidence to invest.

6.11 Whilst there is a vast array of reasons sites do not come forward there are some broad themes:

- Some large sites, particularly in the north are simply unviable because the cost of developing them is more than the current sales value/revenue.
- At the other end of the scale small sites, which historically would have been built out by small, local builders have stalled because those small companies cannot access appropriate finance.
- There are a number of large sites that on paper are viable but need considerable upfront investment in remediation and/or infrastructure so that cash flow and or risk of the unknown becomes a barrier to investment.

6.12 Having undertaken this detailed analysis, the next stage of the project was to identify what interventions can be deployed to maximise the number of sites that can come forward and ultimately achieve the outcome of houses being delivered on the ground.

7. FACILITATING HOUSING - POTENTIAL INTERVENTIONS

7.1 A further commission has now been completed and outlines a long list of potential financial levers that could accelerate and unlock development. It draws upon experiences from elsewhere and broader market insights, focussing on the types of intervention that other local authorities are considering to address similar challenges to those faced by RCT. The identified long list of potential levers includes:

- Grant or Recoverable Grant–where the Council could provide funding that may unlock development (e.g. funding site studies and surveys) and, in the event that it does ,the grant could potentially be repayable from increases in land values;
- Equity–where the Council is prepared to share risk in the development;
- Mezzanine / subordinated debt–where there are other sources of finance available but an extra layer of capital is required to provide security and / or meet the covenant and investment requirements of other investors;
- Senior debt–where the Council provides a loan to the landowner / developer to deliver the scheme;
- Guarantees–where the Council provides a guarantee to an entity or to its lender to support it in being able to access private finance;
- Site acquisition and on-sale –where the Council acquires the site from a landowner who has limited appetite to develop , to enable the Council to exercise more control over the potential development arrangements; and,

- Indirect offtake–where the Council lends to a third party (e.g. a housing association) to enable them to agree an "offtake" with a developer, who may be concerned about market risk. This could be structured as a straight obligation to purchase, or a conditional obligation to purchase if the units cannot be disposed of in the open market. Note direct off take has been omitted from the long list on the grounds that the Council may not wish to directly own any residential assets.

7.2 The suitability of each of the financial levers will depend on the reasons that each site is stalled, the appetite of the landowner / developer to develop and the benefits and risks of intervention.

7.3 A high level framework has been developed for identifying the most appropriate financial lever for each site. Using this and for illustrative purposes only, the potential financial quantum that could be invested to unlock the stalled sites has been identified. In practice, more detailed discussions with land owners and developers would need to be undertaken together with prioritisation based on alignment with strategic objectives, speed to market, risk and degree of additionality.

7.4 The indicative findings show that of the 23 viable sites, 9 would benefit from the financial levers of Equity, Mezzanine finance, Senior debt and Guarantees with investment at 50% of the peak funding requirement. If all 9 sites in this category were supported, the total potential investment would be around £11.3m with the investment per unit averaging £12.2k.

7.5 3 of the 23 viable sites would benefit from Indirect offtake which would involve investment at 50% of the sales value of the units. The total potential investment would need to be around £17.9m at an average investment of £82k per unit.

7.6 2 out of the 23 sites would benefit from Recoverable Grant and at this stage the potential investment is unknown as it is dependent on funding for site surveys and environmental studies will vary from site to site and what those investigations receive.

7.7 5 out of 23 sites would benefit from Land Purchase which would involve potential investment of £22.3m at an average of £10.6k per unit

7.8 There are some unknowns with the remaining viable sites in the study that have not come forward which make it difficult to recommend an appropriate financial lever. Further investigations would therefore be needed for these sites.

7.9 There are 18 non viable sites, requiring an aggregate of £49.4m in grant subsidy to achieve financial viability, at an average grant rate of £21.3k per unit.

7.10 Provision of this grant subsidy likely need to be on a non-recoverable basis, although inclusion of an overage provision may be possible. Even if subsidy is provided, these sites may not ultimately go forward, meaning a further financial lever may also be required.

7.11 In addition to the potential financial levers, there are other approaches to facilitating housing across the UK. Four case studies are included at appendix A, and will need to be considered in the context of supporting housing delivery.

8. NEXT STEPS

8.1 Whilst facilitating housing has important economic and social benefits, the work completed shows that significant incentive would be required to enable the level of development the sites reviewed could potentially deliver. In addition the ability of the industry to deliver such a level of house building currently is questionable.

8.2 The next steps for this project are therefore to consider sources of funding and develop a programme of intervention for Cabinet consideration. This work will include:-

- Prioritising sites and investment by developing criteria.
- Reviewing the level potential Council and external funding opportunities.
- Reviewing financial and non-financial constraints the programme would operate within (such as state aid);
- Reviewing alternative options to achieve these objectives.
- Engaging with landowners and developers to test the potential interventions.

8.3 In addition to developing these interventions officers can continue to investigate other innovative ways to stimulate housing development, such as using Council/public sector land; de-regularising the planning process; identifying new models of housing construction; incentivising custom build homes, and working to maximise external funding opportunities.

9. HOUSING - A REGIONAL APPROACH

9.1 The market for housing does in reality work on a regional basis. the need for and location of housing in relation to jobs and transport is also a regional issue. The economic benefits of housing developments and the community benefits, also apply across South East Wales.

9.2 Officers are leading on the housing theme within South East Wales in the context of City Deal. Housing has been identified as a key area for potential investment to deliver economic benefit right across the region.

9.3 The work and approaches developing within Rhondda Cynon Taf can assist the development of wider initiatives on a regional basis.

10. EQUALITY AND DIVERSITY IMPLICATIONS

10.1 This project will help ensure there is a wide range of accessible housing across RCT and across a multiple of tenures

11. CONSULTATION

11.1 The project has been undertaken in consultation with the house building industry through the Council's Developer Forum

12. FINANCIAL IMPLICATION(S)

12.1 There are no direct financial implications from this report however officers will need to consider in detail the financial implications of the next steps, and report these to Cabinet in due course.

13. LEGAL IMPLICATIONS *OR* LEGISLATION CONSIDERED

13.1 There are no direct legal implications from this report however officers will need to consider in detail the legal implications of the next steps, and report these to Cabinet in due course.

14. LINKS TO THE COUNCILS CORPORATE PLAN / OTHER CORPORATE PRIORITIES/ SIP / FUTURE GENERATIONS – SUSTAINABLE DEVELOPMENT.

14.1 ECONOMY - *Building a strong economy* and Place - *Creating neighbourhoods where people are proud to live and work*

15. CONCLUSION

15.1 Housebuilding has significant benefits, both to the economy and also to our communities. The work completed provides a clear understanding of why some housing sites in Rhondda Cynon Taf are not coming forward.

15.2 It is clear that there are opportunities for a range of interventions, but that the quantum of support is substantial.

15.3 In order to maximise the economic and community benefits, it will be necessary to develop a programme of intervention and explore funding sources.

Other Information:-

Relevant Scrutiny Committee

Contact Officer

LOCAL GOVERNMENT ACT 1972

AS AMENDED BY

THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

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APPENDIX A

Case Study 1: Greater Manchester Combined Authority – Housing Investment Fund

Greater Manchester Combined Authority (GMCA) has established a £300m, 10-year Housing Investment Fund, to be invested in the form of loans and equity. It is a corner stone of GM's housing growth strategy.

Its primary purpose is to provide recoverable investment to projects that support the development of additional housing within the area. This approach has resulted in all loans to date being senior debt akin to a high street senior debt provider. Loan amounts to individual projects have been limited to 60% of the scheme costs, including the cost of any upfront land investment, with the loan being fully secured.

Case Study 2: Warrington Borough Council – lending to housing associations

Warrington Borough Council (WBC) has been very active in the debt markets, raising around £900m for a range of projects. The debt has been raised from a number of sources, primarily Public Works Loan Board (PWLB) and more recently through a £150 million public bond issuance. WBC is also participating in the municipal bonds agency.

Around £300m of PWLB loans have been on-lent to a number of housing associations. The primary purpose of the loans is to generate new housing supply and stimulate economic growth in the borough

The loans are attractive to housing associations as they provide more flexibility than traditional bank loans, and the banking market is currently only offering short tenure loans.

WBC is also planning to establish its own housing company to build around 400 homes on Council owned sites. This will be structured through a General Fund wholly owned company (WOC), which provides number of benefits including:

- There is no housing revenue account requirement;
- The housing assets will not be caught by Government social housing policies including rent levels (including rent cuts) or right to buy provisions.

Case Study 3: Homes and Communities Agency (England) –Home Building Fund and Housing Growth Partnership

Home Building Fund (Debt provider)

This is a £3bn Government fund administered by the HCA. Its objective is to increase the number of new homes being built in England. The Fund offers loan finance to large builders and developers, small builders, community builders, custom builders and regeneration specialists and is also available for offsite manufacturing.

Housing Growth Partnership (Equity provider)

Housing Growth Partnership (HGP) is a social impact investor backed by Lloyds Bank and the Homes & Communities Agency to help address housing afford ability by providing support to the regional residential development community to increase the number of new homes built in the UK.

The HGP's focus is to partner with small house builders and residential developers to support the sustainable growth of their businesses, increasing the number of homes they can produce.

<u>Case Study 4: Thurrock Borough Council –implementing a Wholly Owned Company (WOC)</u>

Thurrock Borough Council has created a Wholly Owned Company to support it in the delivery of 1,000 homes across a mix of tenures (including market rent and market sale) over the next five years.

The sites that are being developed are primarily Council -owned sites (either General Fund or Housing Revenue Account).

The Council will purchase equity in the Company (using proceeds from sale of land to the Company) and, where required, borrow from PWLB and on - lend to the Company to provide the necessary development finance.

The Company has drawn down its first sites and is currently in the process of commissioning key contractors to develop it out.