

Executive

7 December 2017

Report of the Corporate Director of Health, Housing and Adult Social Care & the Corporate Director of Economy & Place

Portfolio of the Executive Member for Finance and Performance & Executive Member for Housing and Safer Neighbourhoods

Housing Delivery Programme – Delivering the Lowfield Scheme

Summary

1. This report presents the site development business case for the former Lowfield School site. A separate report is presented for consideration proposing the creation of a housing development company to allow the council to lead on the delivery of housing across multiple sites in the city. As outlined in that report the intention is to provide Executive with a site specific business case for each potential development site within the scope of the programme. This report builds on previous Executive approvals relating to the redevelopment of Lowfield.
2. This report outlines the options for affordable housing delivery and the likely revenues streams. The estimated development costs are presented and an anticipated peak borrowing requirement is shown. The report explores the social implications of council led delivery explaining the added value which can be brought to this site. The report will outline the timescales associated with delivering the site for housing.

Recommendations

3. The Executive are asked to:
 - a) Agree to utilise existing project management resources to undertake the procurement of a construction contractor and related support services (in compliance with all relevant procurement legislation) for the residential development, associated infrastructure and public space works at the Lowfield site in accordance with the planning permission once received.

- b) Note that a detailed business for the development of the site will be brought back to Executive before a contract is entered.
- c) Note the intention, subject to Executive approval of its establishment, that the Housing Development Company will be the employer for the purposes of the contract.
- d) Approve the high level business case for Lowfield to exceed the planning policy level of affordable housing with the precise level of affordable housing to be determined at the point of consideration of the detailed business case.
- e) Approve the recruitment of a Development Project Manager to aid with the delivery of residential redevelopment and associated infrastructure at Lowfield.
- f) Note the steps required and timescale associated with the commencement of development at Lowfield.

Reason: *To progress with the building of much needed new homes in York.*

Background

- 4. On 7 December 2016, Executive considered and approved the recommendations of a report for the redevelopment of the former Lowfield School site. That report approved a spatial plan for approximately 162 houses, the carrying out of enabling works including the preparation and submission of a planning application, and the agreement to seek a developer or for the council to undertake residential development of approximately 8 acres of the site.
- 5. The development of the Lowfield site forms a key part of the Older Persons' Accommodation Programme as it delivers a serviced plot for the construction of a 70 bed residential and nursing care home, including dementia care, in the setting of a "village green" and a vibrant residential community. It also delivers much needed bungalows and apartments for the over 55s, once more meeting an accommodation need for older people and facilitating "down-sizing". The achievement of the care home on this site is integral to the delivery of housing, and vice versa.
- 6. The development of the Lowfield site also allows Executive to fulfil the commitment made to the YorSpace community housing group in June 2015 to find a site for their scheme. Further, in allowing for the provision of self-build housing plots, it demonstrates that the Council is meeting its obligations to have regard to its register of self and custom builders maintained under the Self-Build and Custom Housebuilding Act 2015.

7. As set out within the Housing Development Company Executive report on this agenda, the council owns a number of significant land assets which could be more effectively utilised to achieve the strategic objective of accelerating the development of new housing in the city, including additional affordable housing. The former Lowfield School site is the most advanced of these sites in terms of potential residential redevelopment.
8. In accordance with the approvals made by the Executive in December 2016, planning applications have been prepared and submitted for Lowfield following public consultation. The outline site plan is attached at Annex 1. The planning application consists of a total of 165 homes.
9. The submission of planning applications was preceded by two periods of extensive consultation with stakeholders and local residents. The first round of consultation took place in October 2016. Following this consultation the plans were revised to take account of comments received. This spatial plan for the redevelopment of the site was then presented to Executive in December 2016 and approved. Over the following months detail was added to the agreed spatial plan and a second round of public consultation took place in July 2017. 66% of people who provided feedback gave support to the plans with a decision on the planning application expected in early 2018.

Options

10. Option One – To approve the recommendations set out in this report to deliver Lowfield through the housing development company once established
11. Option Two – For the council to procure a commercial house builder to build and sell the houses
12. Option Three – To sell the site on the open market for a developer to deliver housing

Analysis

Option One

Delivering the Lowfield Scheme through the Development Company

13. The plans for the Lowfield site have been developed to achieve a variety of objectives including a care home, new housing which meets

identified need, and good quality public open space. The proposals for Lowfield presented in the planning application include:

- 140 new homes, including 36 two bedroom, 52 three bedroom, and 8 four bedroom family houses, 18 apartments aimed at the over 55's and 26 two bed bungalows
- 6 self-build plots
- A community build development to include 19 houses
- Public open space in the shape of a Village Green and Pocket Park containing significant tree planting, informal and formal play space and growing areas
- A community health hub plot
- A plot of land for a 70 bed residential and nursing care home.

Social and Environmental Benefits

14. The type of housing proposed at Lowfield is a positive response to the priority need in the city, namely for two and three bedroom family housing and accommodation with the over 55's in mind through bungalows and purpose built apartments. This form and focus of housing development is not commonly delivered through commercial housing developers who place a greater emphasis on financial return.
15. All of the housing has been designed to achieve a good level of accommodation through a well proportioned and efficient layout which provides good levels of natural light. The housing is designed to accommodate the changing needs of residents with a number of bungalows and apartments specifically designed with wheelchair users in mind. There are opportunities to enhance the environmental standard of the houses delivered at Lowfield in order to reduce heating and lighting bills. Further details of potential environmental enhancements will be included in the detailed business case.
16. As well as houses to buy and rent, the proposals also provide an opportunity for people to meet their own housing needs through the provision of self build and community build plots, helping a number of people not on the property ladder to directly provide their own home. Council led development of Lowfield would provide greater certainty over the delivery of self and community build housing on this site.
17. Council led delivery provides the additional benefit of controlling the housing tenures provided on site. It is proposed that Lowfield will contain a combination of market sale, private rent, shared ownership and social rent housing to meet housing need across a number of tenures.

18. Council led delivery presents the opportunity of providing a greater amount of affordable housing than is required through planning policy and would be delivered by a market house builder. There is the option for the Housing Revenue Account to buy the affordable housing adding to their asset base and creating a long term revenue stream to the HRA which could aid the development of additional affordable homes in the future. Through council led delivery there are controls over sale and rental policy providing opportunities to support key workers in meeting their housing need.
19. Delivering the site through the housing development company is likely to accelerate the speed of housing delivery on this site. Once planning permission is in place, the process of procuring a contractor can commence. This is likely to result in a significantly earlier construction start date than would be achieved by selling the site on the open market. In addition, the council's mixed tenure approach of market sale, market rent, shared ownership, and social rent allows homes to be built at a greater speed than a market house builder would typically deliver due to concerns about sales rates. As well as delivering much needed new housing sooner than selling the site, the approach outlined would reduce the length of time when local residents are required to live close to a construction site.
20. Alongside the housing proposed at Lowfield is a significant area of public open space, measuring 6434 sq m. The green space proposed is a third larger than is required by planning policy, providing a significant new amenity for existing local residents as well as any new residents of the development. The open space includes a kick-about area, play equipment and edible gardens within a 'village green' and a pocket park for younger children. The housing proposal also helps to facilitate the development of the proposed care home and community health hub by sharing the infrastructure costs.
21. The planning application includes a plot of land for a new care home. The need for a new care home on the site is clearly articulated in the Older Persons' Accommodation Programme. York has an under-supply of good quality residential and nursing care accommodation, particularly care for those living with dementia. The residential development of this site allows infrastructure costs to be shared whilst creating a vibrant multi-generation residential community around the care home.

Financial considerations

22. A high level financial model has been created for the Lowfield development proposal. The financial modelling is based on estimated construction costs provided by a cost consultant and estimated sales and rental receipts provided by local estate agents. The financial appraisal is based on the following assumptions:
- A pro rata mix of all house types being for social rent, shared ownership, private rent and private sale (this may be altered when the detailed business case is formed to reflect housing need).
 - 20% of the housing is for PRS
 - 20% affordable housing and this business case is modelled with 15% social rent and 5% shared ownership.
23. This model is presented as the '*Stage 1 Feasibility*' and '*Stage 2 Planning Appraisal*' financial model within the five stage appraisal process outlined in the Housing Development Company Executive report. The financial model is presented as Annex 2 and is based on the planning policy requirement of 20% affordable housing.
24. The high level financial model estimates that the development company could generate a pre tax profit of around £3m at 20% affordable housing. This estimated profit level is based on the development company purchasing the land from the council for £5m. An increase in affordable housing above planning policy requirements will reduce the level of profit.
25. It is considered that the delivery of housing at Lowfield through the development company would deliver a financial return in excess of its value as a land asset depending on the level of affordable housing to be provided. The council would receive :-
- a lump sum receipt for the land (through a deferred payment post completion),
 - development profits through a dividend,
 - interest payments on loans to the development company.
26. The development company would borrow money from the council at a higher interest rate than the council's own borrowing rates in order to comply with State Aid rules. Initial high level modelling indicates that some uplift in the level of affordable housing could be provided on site whilst still allowing a surplus to be generated. When Executive considers the detailed business case for the scheme they will be asked to decide upon the exact level of affordable housing on the site. If the business

case enables this there is an aspiration to deliver affordable housing above the planning policy level of 20% on a brownfield site.

27. The model assumes that 20% of the houses are used to establish a PRS portfolio. It is proposed to bring a detailed business case to Executive once construction tender returns are known. This detailed business case, representing the '*Stage 3 Pre Construction Appraisal*' outlined in the Housing Development Company report, would also include worked up details of the practical mechanisms and financial modelling associated with the PRS housing. The retention of homes within a council owned company could create a long term revenue stream from rental income while the value of the asset appreciates over time.
28. Annex 3 contains a development company cash flow model for Lowfield. It is estimated that the peak borrowing requirement to construct the proposed development is likely to be between £8-9m. The council would need to fund the development company and construction costs up to this amount after which time the borrowing requirement to construct Lowfield would reduce due to the input of house sale receipts.

Delivery approach and timescales

29. The Housing Development Company Executive report considered alongside this report suggests that a partnership delivery approach could help to meet the council's aspirations of accelerating the delivery of housing in the city as it would bring early capacity to the design stages, reduce risk and the investment and resource ask of the council. However, the Lowfield scheme has already been designed, is subject to a planning application, and has executive agreement to deliver approximately 162 new houses. Therefore, it is not considered beneficial to deliver this site through a partnership. It is considered that Lowfield is best delivered through the procurement of a construction contractor rather than working with a development partner. The council would undertake the procurement process to allow the development company to sign the construction contract once it is established and has full sign off from Executive. Directly appointing a contractor through the development company would enable the delivery of the first houses in the programme whilst a development partner is being procured to support delivery across future sites.
30. Annex 4 sets out the work plan highlighting the required tasks and estimated timescales associated with the commencement of construction at Lowfield. There is the potential to start construction on site before the end of 2018. It is anticipated that construction would take place for

around 30 months, meaning the development would be complete in spring/summer 2021.

31. In order to deliver Lowfield, a dedicated Development Project Manager needs to be recruited to deliver the scheme. This role would lead on contractor engagement in respect of site issues, development decisions, cost control and leading on the sales and letting process. This approach has been successfully deployed as part of the Older Persons' Accommodation Programme, for example to drive forward the development of Burnholme. It is proposed that the council recruit to this role with it transferring into the Development Company once established. These costs are accounted for in the initial high level financial model with the role likely to be Grade 10.
32. As identified in recommendation a) at the start of this report, it is proposed to employ support services to provide suitable project management control alongside the construction contractor as well as complying with relevant legislation. These support services would consist of additional architectural support, a clerk of works, employer's agent, quantity surveyor, and health and safety officer. This would be external resource brought into the project rather than the recruitment of staff. Again the cost of these support services is included in the financial model as a construction cost based on the council's framework rates. Some of these services are required to be undertaken in the procurement process and this will be funded using existing project management resources.

Option Two

33. The second option is for the council to procure a developer to purchase the site and construct the development as per the planning permission. Subject to successful procurement this would allow the scheme to be built as per the current planning permission (subject to obtaining planning permission). However, as the developer would be taking on both the construction and sales risk, they would be seeking to secure a significant profit level which may reduce the viability of the scheme at more than the planning policy level of affordable housing. There are also risks of trying to procure a house builder to deliver house types which are not within their standard construction range. Option Two is likely to deliver a lower financial return to the council than Option One.

Option Three

34. The third option is for the council to sell the site on the open market. It is estimated that the land at Lowfield is worth approximately £5m if sold

unencumbered on the open market. Selling the site removes the control that the council as land owner would have over any development. It is likely than any developer purchasing the site is likely to seek to increase the number of houses on site and reduce the amount of public open space in order to maximise profit. If sold unencumbered, the development proposal would not seek to deliver more than policy levels of affordable housing. Selling the site also makes it more challenging to deliver other aspects of the scheme such as the care home and health hub. However, Option Three is the lowest risk option and would see a capital receipt brought into the council quicker than Option One.

Council Plan

35. This plan supports the Council's priorities to provide:

- **A prosperous city for all** – where local businesses can thrive and residents have good quality jobs, housing and opportunities – The proposed development of Lowfield will deliver new housing, including affordable, to the city as well as a significant capital investment into the local economy. The construction of the site would create a large number of jobs with the care home and health hub helping to support long term employment.
- **A focus on frontline services** – to ensure all residents, particularly the least advantaged, can access reliable services and community facilities – The plans for Lowfield include a significant number of affordable housing and new facilities of public open space and a health hub.
- **A council that listens to residents** - to ensure it delivers the services they want and works in partnership with local communities – The plans for Lowfield were revised following public consultation including an increase in the number of bungalows to help meet local need.

Implications

36. The implications arising from this report are:

- **Financial** – In December 2016, Executive approved a budget of £993k to fund development costs at Lowfields including planning development, development of access into the site and the relocation of sports provision. This was to be funded primarily from capital receipts relating to the Health Hub and Care home at the site. The actions outlined in the report including the initial appointment of a development project manager and procurement of construction partners can be funded from this agreed budget.

Elsewhere on the agenda, the report “Housing Delivery Programme – establishing a delivery model and the scope of the programme” recommends funding to undertake further legal and financial advice and business planning on sites which include the Lowfields proposals. A detailed business case for Lowfields will be included in future reports which will include costs and revenues attributable to the Development Company.

- **Human Resources** – In order to deliver the proposed residential development of Lowfield, the recruitment of a Development Project Manager is required. This role will be seconded into the Development Company once established.
- **Equalities** – An equality assessment will support the detailed business case.
- **Legal** – Detailed legal advice will be required in respect of the procurement of a construction contractor and in respect of land transfers to the development company.
- **Crime and Disorder** – None
- **Information Technology** – None
- **Property** – Lowfield is an existing land asset of the council. Support is required in transferring this into the Development Company subject to approval of the detailed business case.

Risk Management

37. The Housing Development Company Executive report outlines a number of risks associated with the development of housing projects. These risks are entirely relevant to the council led delivery of Lowfield and these risks must be fully considered. From a financial point of view, Executive need to be aware that the delivery of the project would require significant lending to the development company. Significant sales receipts are unlikely within the first two years of the project placing this investment at risk. Wider market factors such as any reduction in house prices would negatively affect the return the council would receive from its investment. Some sales risk can be mitigated through further utilisation of the HRA investment fund to acquire additional affordable houses if required.

38. It is proposed that the procurement of a construction contractor would be on the basis of the contractor being responsible for the detailed design and build in accordance with the planning application. Whilst this helps to fix costs at the start of the project there is always the potential for costs to increase due to unforeseen factors. There are also financial and reputational risks around the quality of construction. Stringent project management techniques would be employed to mitigate these risks as far

as possible, however Executive need to be aware of the risks of undertaking a residential development project of this scale.

Contact Details

Author:

**Michael Jones – Commercial Project Manager
Regeneration and Asset Management**
01904 552 598

Chief Officers Responsible for the report:

**Martin Farran – Corporate Director:
Health, Housing and Adult Social Care**

Neil Ferris – Director: Economy and Place

Tracey Carter – Assistant Director: Regeneration and Asset Management
01904 553419

Report Approved



Date

28th November 2017

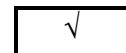
Specialist Implications Officers

Implication - Financial
Patrick Looker
Finance Manager
01904 551 633

Implication - Legal
Andrew Docherty
Assistant Director – Legal and Governance
01904 551 004

Wards Affected: List wards or tick box to indicate all

All



For further information please contact the author of the report

Background Papers:

Executive, Wednesday 7 December 2016 - Lowfield Green development:
Moving forward to deliver a care home, health facility and housing

Executive, Thursday, 16 March 2017 – Strategic Partnership Opportunities
with the Homes and Communities Agency

Annexes

Annex 1 - Lowfield Outline Site Plan

Annex 2 - Summary of High Level Financial Model

Annex 3 – Indicative Cash Flow

Annex 4 - Timescale for the commencement of development at Lowfield

Annex 2 – Summary of High Level Financial Model for Lowfield with 20% affordable housing provision

	Year 1 £k	Year 2 £k	Year 3 £k	Year 4 £k	Total £k
<u>City of York Council</u>					
<u>Expenditure</u>					
Borrowing @ 3.5%	5	163	137		305
Company Formation & Due Diligence	250				250
	<u>255</u>	<u>163</u>	<u>137</u>	<u>0</u>	<u>555</u>
<u>Income</u>					
Sale of land				(5,000)	(5,000)
5% Loan Interest	(7)	(233)	(196)	0	(435)
	<u>(7)</u>	<u>(233)</u>	<u>(196)</u>	<u>(5,000)</u>	<u>(5,435)</u>
CYC Net Expenditure/ (Income)	<u>248</u>	<u>(70)</u>	<u>(59)</u>	<u>(5,000)</u>	<u>(4,881)</u>

Development Company

Expenditure

Construction/ S106	0	7,272	7,272	3,486	18,030
Purchase of land	0	0	0	5,000	5,000
Other Operating Costs	283	402	533	393	1,612
Borrowing @ 5%	7	233	196	0	435
	<u>289</u>	<u>7,907</u>	<u>8,001</u>	<u>8,879</u>	<u>25,077</u>
Property Sales	0	0	(16,840)	(11,256)	(28,096)

Net Loss/ (Profit) before tax

289	7,907	(8,838)	(2,376)	(3,019)
-----	-------	---------	---------	----------------

Funding:

CYC Borrowing (£m)	0.3	7.9	0.0
Operating Costs	0.3	0.6	
Construction Costs	0.0	7.3	
Maximum Liability (£m)	0.3	8.2	7.5

Notes

- CYC borrows at 3.5% and lends at 5.0%
- Payment for land is deferred until end of construction (Q15)
- 60% of housing sold on the open market
- 20% of the housing sold to be let as private rented housing (80% market value)
- 20% of housing sold to the HRA or another Registered Social Landlord, 15% social rent and 5% shared ownership (50-55% market value)

Annex 3 – Indicative Cash Flow

