

Public Report with Exempt Appendices
Cabinet

Committee Name and Date of Committee Meeting

Cabinet – 20 July 2020

Report Title

Strategic Acquisition of 12 New Homes at Highfield Farm, West Melton

Is this a Key Decision and has it been included on the Forward Plan?

Yes

Strategic Director Approving Submission of the Report

Anne Marie Lubanski, Strategic Director of Adult Care, Housing and Public Health

Report Author(s)

Lindsey Castle, Housing Development Coordinator
Lindsey.castle@rotherham.gov.uk

Ward(s) Affected

Hoover

Report Summary

This report seeks approval to purchase 12 new homes at Highfield Farm, West Melton from Persimmon Homes as part of the Council's Housing Development Programme.

Six of the new homes are Section 106 planning gain homes which will be acquired at approximately 67% of the open market value, and the remaining six homes are opportunity acquisitions which will be purchased at market value.

The new homes will be brought into the Council's social housing stock to address waiting list demand and replace homes lost through the Right to Buy. It is projected that the new homes will be ready for hand-over to the Council in November 2020.

Recommendations

1. That authority to purchase six discounted Section 106 planning gain homes at Highfield Farm West Melton, using Housing Revenue Account resources, be delegated to the Assistant Director for Planning, Regeneration and Transport, in conjunction with the Assistant Director for Housing.
2. That authority to purchase six additional homes on the same development at open market value, be delegated to the Assistant Director for Planning, Regeneration and Transport, in conjunction with the Assistant Director for Housing.

3. That authority to agree additional acquisitions from this scheme should the opportunity arise, be delegated to the Assistant Director for Planning, Regeneration and Transport, in conjunction with the Assistant Director for Housing.
4. That authority to negotiate and complete the legal documentation to give effect to the Cabinet's decision be delegated to the Head of Legal Services.

List of Appendices Included

Appendix 1 Equalities initial screening
Appendix 2 Equalities full assessment
Appendix 3 Confidential financial information (exempt)
Appendix 4 Highfield Farm site layout

Background Papers

None

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No

Council Approval Required

No

Exempt from the Press and Public

An exemption is sought for Appendix 3 under Paragraph 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Part I of Schedule 12A of the Local Government Act 1972, as this report contains sensitive commercial information with regards to the Council's contracts.

Strategic Acquisition of 12 New Homes at Highfield Farm, West Melton

1. Background

- 1.1 Highfield Farm is a private sector development of 66 new homes being built by Persimmon Homes in Wath (Hoover ward), which is due to be completed in November 2020. As part of the 'Section 106' affordable housing planning policy provisions, the Council has an opportunity to acquire six two-bedroom bungalows at a discount from full open market value (OMV).
- 1.2 Section 106 (S106) refers to the applicable section of the Town and Country Planning Act 1990 which is intended to provide mitigation against the impact of the proposed housing development on the local community. This is often referred to as planning gain. Securing affordable housing is a common use of S106 provisions, and the resulting homes are then offered at a discount to registered providers of housing, including the Council. The Council's current planning policy is that, on sites of 15 homes or more, developers are required to provide up to 25% affordable housing provision, subject to viability constraints.
- 1.3 In addition to the six discounted homes available through S106 provisions, the developer has offered the Council the opportunity to purchase an additional six, three-bedroom houses at open market value.
- 1.4 Strategic acquisitions have formed a significant part of the Council's housing delivery in recent years, with 130 new homes having been acquired and brought into the Council's social housing stock through this process.
- 1.5 The Housing Strategy (2019-22) sets out the requirement for more new homes across the borough, including the ongoing need to replace existing Council stock which is being lost through the Right to Buy (there were 151 RTB sales in 2019/20), and the 2020/21 HRA Business Plan, approved by Cabinet December 2019 and full Council January 2020, makes budgetary provision for strategic acquisitions as part of the Housing Development Programme.
- 1.6 Housing needs data shows that there is a healthy level of demand for both Council bungalows and three-bedroom houses in West Melton. The Council has not built or purchased any new homes in West Melton since 2012.
- 1.7 The bungalows will be let to those over 50 years of age or with an assessed medical need, in line with the Council's allocation policy, and any specific client-led adaptations will be incorporated into the contract negotiation process. The additional six houses will be available as general needs homes, again in line with the Council's allocation policy.

2. Key Issues

- 2.1 There are over 6000 households on the waiting list for Council housing in Rotherham. These households are likely to be in homes unsuitable for their needs in some way, such as homes which are too small, affected by issues such as damp and disrepair, or inappropriate for someone who is elderly or has a disability.
- 2.2 The proposed acquisitions form part of the 2020/21 Housing Development Programme, for which budgetary provision has already been approved through the HRA business plan, and is due to be presented to Cabinet in September 2020, however there is a more urgent need to make a decision on these acquisitions in advance of September's Cabinet meeting because:
- The Council is in competition for the S106 acquisitions with at least four other housing associations and the developer was in direct negotiations with at least one of these, although Persimmon has expressed a preference for the Council's bid.
 - Contract negotiations to date have been conducted at risk pending formal Cabinet approval to enter into contract with Persimmon. Whilst a budget exists to cover potentially abortive costs, Persimmon may be less inclined to work with the Council in future if it was not possible to conclude the deal.
 - The scheme is due to be completed by November 2020 and the developer needs surety that the Council is in a position to be able to proceed with the acquisitions.
- 2.3 The S106 acquisitions will provide the following key benefits for the Council:
- Excellent value for money (due to discount).
 - Replaces stock lost through the Right to Buy.
 - Helps discharge demand from the Council's waiting list.
 - Brand new homes with lower maintenance costs and high energy efficiency standards.
 - 12 month defect liability period and ten year warranty to safeguard against any structural defects.
 - Helps to strengthen communities by providing more affordable homes and homes which are suitable for older people.
- 2.4 The market value acquisitions provide many of the same benefits and are an efficient way to acquire new property. This is because the developer is managing the scheme and all associated risks, not the Council.
- 2.5 There is an immediate pressure to discharge Right to Buy 'one-for-one' receipts and acquiring the additional six market value homes in addition to the discounted S106 homes presents the most feasible opportunity to do this. If the additional homes are not acquired, then there is a risk that the Council will have to repay the receipts back to Central Government, amounting to more than £400k to be returned once compound interest is taken into account.

3. Options considered and recommended proposal

3.1 Option 1 (Recommended) – The Council to purchase all 12 new homes

This is an opportunity to replace Council houses sold through the Right to Buy process with 12 new, high quality homes which will have lower maintenance costs than existing stock and represent good value. This option also maximises the use of RTB receipts, reducing the risk that money will have to be returned to central government

This is the recommended option.

3.2 Option 2 – The Council to purchase the six ‘S106’ discounted homes only

Whilst representing excellent value for money in its own right, this would be a missed opportunity to replace more Council houses sold through the Right to Buy. The Council would also miss the opportunity to discharge more Right to Buy ‘one-for-one’ receipts against the scheme, meaning that monies may be returned to central Government.

This option is not recommended.

3.3 Option 3 – Not to acquire any new homes from the Highfield Farm development

This would be a lost opportunity to the Council to purchase much needed homes at a discounted rate as well as the additional homes at fair market value. The Council would also miss the opportunity to discharge any Right to Buy ‘one-for-one’ receipts against the scheme, meaning that monies may be returned to central Government.

This option is not recommended.

4. Consultation on proposal

4.1 The local community has been consulted on the overall scheme as part of the planning process.

4.2 The Cabinet Member for Housing was briefed on the proposal to acquire new homes from the development on 12th March 2020, and Hoover ward members were briefed on 28th April 2020.

4.3 A briefing was further presented to the Housing and Regeneration Programme Delivery Board (HARPDB) on 4th May 2020.

5. Timetable and Accountability for Implementing this Decision

5.1 Based on the developer’s projected build programme the scheme is due to be completed in November 2020 and the acquisitions will be handed over to the Council at that point.

5.2 The overall accountable officer is the Assistant Director for Housing.

6. Financial and Procurement Advice and Implications

- 6.1 The purchase costs are set out in exempt Appendix 3. Expenditure can be accommodated within the existing budget; the HRA capital programme (approved by Council in February 2020) contains sufficient budget to purchase all twelve properties.
- 6.2 S106 Properties – 6 properties: The potential weekly rent for these properties is £83.22. The rents on these new acquisitions would realise a potential annual income of £25,965. This generates a positive return after accounting for the cost of capital, running costs and other overheads, e.g. Right to Buy, that may impact the future cash flows.
- 6.3 Open Market Value properties – 6 additional properties: The average potential weekly rent for these properties is £93.51. The rent on these new acquisitions would realise a potential annual income of £29,175. Unlike the discounted properties, the open market value properties do not generate sufficient income to cover the full cost of capital, running costs and other overheads over the life of the asset according to current appraisal modelling. This is due to the level of rent generated as this is lower as social housing stock compared to private sector rents. However, the overall cost is lower than if the Council were to directly build the homes and constitutes a more cost-effective way for the Council to replace stock being lost through the Right to Buy.
- 6.4 There are no procurement implications arising from this report.

7. Legal Advice and Implications

- 7.1 The Council's Legal Services will undertake the purchase process. The Council will own the homes and they will be added to Council's stock. There are no significant legal implications arising from the contents of this report.

8. Human Resources Advice and Implications

- 8.1 None identified.

9. Implications for Children and Young People and Vulnerable Adults

- 9.1 The six bungalows are suitable for older people or those with an assessed medical need such as a physical disability. Therefore this acquisition will help older and disabled people to continue to live independently for longer in homes that suit their needs

10. Equalities and Human Rights Advice and Implications

- 10.1 The bungalows are specifically designed to meet the needs of older people and those with an assessed medical need for level access accommodation (age / disability characteristics), providing the opportunity for people to live independently for longer with less care and support. The new houses are

expected to suit a variety of households with protected characteristics or within defined groups, including (but not exclusive to):

- pregnancy and maternity
- parents
- single parents and guardians
- carers
- unemployed and people on low incomes

11. Implications for Ward Priorities

- 11.1 The acquisition of the homes will support the Hoover ward priorities of improving the local environment, addressing social isolation and loneliness and providing more facilities and activities for young people and families.

12. Implications for Partners

- 12.1 None identified.

13. Risks and Mitigation

- 13.1. Value for Money: The main risk is that the Council may not receive value for money, specifically with the forecasted reduction in house prices following the Covid-19 pandemic. However, there is a healthy interest from buyers and eight reservations have recently been secured, so this risk is considered to be low. The Affordable Housing Coordinator has carried out a desktop benchmarking exercise to ensure that the open market values correspond with other sales values per m2 of new homes in the area. The Council's Asset Management Team will also carry out a valuation of the units as part of the purchase process.
- 13.2 Right to Buy: The new homes will not be exempt from Right to Buy applications, however Right to Buy sales are protected by a 'cost floor' which means that properties cannot ordinarily be sold for less than the Council has spent on them in the preceding 15 years, including the acquisition cost. This means that the Council's capital investment will be recovered in the event of a later Right to Buy sale. An exception is where the open market value (OMV) is lower than the cost floor, in which case the Council will be obliged to sell the home at the OMV. As the Council is acquiring the additional homes at market value, it is less likely that this situation will arise.
- 13.3 Quality: To ensure that the quality of the units is in line with other Council new builds, the following mitigating actions will be put in place:
- a. The developer must legally give the Council at least ten days' notice prior to completion of the new homes, however the Council will work with the developer as the scheme progresses and generally agree a one month notice period before handover.
 - b. Prior to the scheduled handover date, Council Technical Officers will inspect the properties in conjunction with a representative from the Strategic Housing and Development Service and any identified issues will be fed back to the developer for rectification.

- c. The developer will inform the Council once defects have been rectified, at which point a further inspection will take place – this process may be repeated a number of times where the Council remains dissatisfied and, where necessary, the handover date will be delayed until the Council is willing to accept the properties.
- d. Following handover, a 12-month defect liability will then apply, during which the developer remains responsible for any repairs, replacement and modifications that are reported.
- e. Before the 12 month defect liability period elapses, the Council will telephone and write to all tenants requesting information about any problems or issues they have – returns are then passed onto the developer and dates agreed between the developer and tenants to conduct any remediation that is required.
- f. The properties will also be subject to a ten-year NHBC (National House-Building Council) structural warranty certificate.

13.4 Reputation: To ensure the opportunity to acquire the new homes was not missed, contract negotiations to date have been conducted at risk pending formal Cabinet approval to enter into contract with Persimmon. The Strategic Housing and Development Service has entered into similar negotiations at risk previously, and a budget already exists to cover potentially abortive revenue costs associated with bringing new homes forward. The main non-cost related risk for the Council, should it not be possible to conclude the deal, would be reputational, specifically that Persimmon would be less inclined to work with the Council in future.

13.5 Scheme delay or non-completion: There are no significant implications for the Council if the scheme is delayed or does not reach completion as the Council is not directly involved in the development of the new homes.

14. **Accountable Officers**

Tom Bell, Assistant Director for Housing

Approvals obtained on behalf of Statutory Officers:-

	Named Officer	Date
Chief Executive	Sharon Kemp	26/06/20
Strategic Director of Finance & Customer Services (S.151 Officer)	Judith Badger	25/06/20
Head of Legal Services (Monitoring Officer)	Stuart Fletcher	25/06/20

Report Author:

*Lindsay Castle, Housing Development Coordinator
lindsay.castle@rotherham.gov.uk*

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