

Report to Cabinet

Cabinet Meeting 29 September 2022
By the Cabinet Member for Housing and Public
Protection

DECISION REQUIRED



Not Exempt

Approval of Business Case for Horsham District Homes for affordable homes in Dukes Square, Horsham

Executive Summary

In March 2019, Cabinet approved the creation of two companies for the purpose of providing affordable rental housing in the District. Horsham District Homes Limited (HDH), development company, and Horsham District Homes (Holdings) Limited (HDHH) were both incorporated in 2019.

Horsham District Council is the sole shareholder of HDH. The shareholder agreement for HDH reserves certain matters for Cabinet approval, including the approval of business cases for projects and approval of any loans to be made by the Council to the companies.

The Directors of HDH have prepared this business case setting out an opportunity that requires the approval of Cabinet. The opportunity consists of a development of eight homes in Dukes Square, Horsham. The details of the transactions are set out in the body of this report and in appendix 1. A summary of the illustrative financials is set out below:

Transfer value for the project*	£1,560,000
Net rental income	£62,400 per annum
Yield	4%
Market value of the homes	£2,130,000
Ratio of transfer value to market value	73%
*to be financed with s106 commuted sums	

These figures are illustrative. The final figures will be settled when the contract sum has been agreed with the contractors.

Cabinet is recommended to approve the business case, so that the Directors can secure planning consent and tender the construction contract, and to delegate authority to the S151 officer and Cabinet Member for Finance and Parking to approve the final figures forming part of the final business case.

Recommendations

That the Cabinet is recommended:

- i) To approve the business case for the construction of eight homes for affordable rental on MT garage in Dukes Square, Horsham by Horsham District Homes Ltd.
- ii) Delegate authority to the S151 officer in consultation with the Cabinet member for Finance and Parking to approve the final business case, subject to the transfer value not being in excess of £1.6m.

Reasons for Recommendations

Approval of the recommendations will allow the Directors of the housing company to progress the planning application and obtain a contract sum.

Appendix 1

Business case for the development of affordable homes at Dukes Square, Horsham

Background Papers

None

Wards affected: Denne

Contact: Brian Elliott: Head of Property and Facilities 01403 215328

NB Brian Elliott has been appointed by the Council as a Director of HDH

Background Information

1 Introduction and Background

- 1.1 Horsham District Homes Limited (HDH) is a company owned and controlled by Horsham District Council which was established for the purpose of delivering affordable rented accommodation in Horsham District. The objectives of the company, as detailed in the business case, are to (a) increase delivery of affordable housing (b) make the best use of s106 Commuted Sums and (c) provide a financial return to the Council to reinvest in the District.
- 1.2 The Shareholders Agreement for HDH set out a number of shareholder consents, which are used to control the activities of HDH. These consents include the approval of business cases for projects to be delivered by HDH and the approval of loans to be provided by the Council to HDH and any approval of s106 grant funding.
- 1.3 The Directors of HDH are seeking Cabinet approval to undertake the project as detailed in the business cases set out in Appendix 1 and the purpose of this report is to recommend consent to these proposals.

2 Relevant Council policy

- 2.1 The 2019 to 2023 Corporate Plan sets out the Council's strategic objectives and includes creating great places for people to live and work and creating a strong safe and healthy community. Paragraph 3.2.2 of the corporate plan states the objective of using the Council's affordable housing company to build affordable homes in areas of high demand.

3 Details

- 3.1 The details of the proposals are set out in Appendix 1, which sets out an opportunity at Dukes Square, Horsham
- 3.2 The business case for the establishment of HDH focused on direct development as the primary delivery mechanism for affordable housing on low cost/no cost land owned by the Council. The business case for HDH included financial illustrations that suggested a yield of 5% on net rental income and a transfer value of c55% of open market value, which is in line with transfer values in the registered provider sector. These were optimum targets and returns will vary between projects and over time. It is therefore to be expected that transactions may deliver higher or lower returns depending on the circumstances and it may be that 4.5% is a more realistic target. The average level of return across this project is 4.0%, which is considered to be appropriate for this development given that it is small unit scheme in a town centre location.
- 3.3 The opportunity at Dukes Square is a direct development to be undertaken by HDH. The financial details of the project are set out below:
- 3.4 **Dukes Square, Horsham.** This is a development of six 1-bedroom properties and two 2-bedroom properties on the MT garage site in Dukes Square.

- 3.5 The local housing allowance rate, which is the 'benefit rate', for a 1-bedroom property is £172.60 and a 2-bedroom property is £218.63 per week. The total gross annual rent is therefore £76,590 per annum, which is reduced by an 18.5% allowance to cover voids, repairs, and management, to provide a net figure of £62,400 pa.
- 3.6 The business case and budget figures for Dukes Square indicate that the total development costs for the scheme will be £1.56m. A transfer from HDH to HDHH at this figure will mean that HDH will achieve a yield of 4.0%. A transfer price of £1.56m will be approximately 73% of market value. This is higher than the target in the original business case but these are high cost units as they are, in the main, smaller 1 bedroom units (see paragraph 3.2 above).
- 3.7 Included in the budget figures is a land transfer value estimated at nil which compares to an assumption of nil value in the business case for HDH. It is important to note that budget figures may be subject to change depending on the independent valuation, further site investigations and procurement of the contractor.
- 3.8 As of August 2022, the current affordable housing list for Horsham District has 748¹ households with 458 households identifying the relevant area of Horsham as an area of choice; of these 144 households are seeking 1-bedroom homes and 104 households 2-bedroom homes. Therefore, there is a clear demand for this type of property.
- 3.9 Horsham District Homes will aspire to develop these units to an Energy Performance Certificate (EPC) rating of A, depending on technical and price feasibility. If an EPC of A cannot be achieved, the minimum level acceptable to the Council is B. At a national level just 1% of new homes are EPC A and 81% of new homes achieve an EPC B rating. EPC A rated homes comprise 0.2% of housing stock (40,000 homes) and B rated homes comprise 2% of the existing housing stock at a national level. The properties will be all electric which is in keeping with future trends and will therefore be carbon neutral when generation of electricity is decarbonised.

4 Next Steps

- 4.1 Pre-planning advice will commence in November 2022 and it is expected that works will start on site in mid-2023 with a 12 month build period (subject to planning).

5 Views of the Policy Development Advisory Group and Outcome of Consultations

- 5.1 The proposal has been considered by the Finance and Parking PDAG and the Housing and Public Protection PDAG and member's comments have been incorporated in this report.
- 5.2 The **Interim Director of Resources** has been consulted and has drafted the resources consequences in this report and the Monitoring Officer was also consulted. None of these officers have a role within either housing company.

¹ Figures correct at August 2022

5.3 Local members have been consulted as well as local stakeholders.

6 Other Courses of Action Considered but Rejected

6.1 Not applicable

7 Resource Consequences

7.1 The financial consequences for the housing company are detailed in the business case. The Council will benefit from the interest payments on the loan, as well as any dividend from the Housing Company on the rental income in the future. The interest could be as much as £40,000 over the build period, which should commence in 2023/24 and end in 2024/25. Income from the Housing Company to the Council will follow once the tenants are living in the units.

7.2 The financial impact of the loans in revenue and the capital programme will be included in the 2023/24 budget setting process in February 2023 and approved at full Council.

8 Legal Consequences

8.1 The Council has incorporated an affordable housing company and the reserved matters are included in the shareholder agreement. The Council has general authority under the Local Government Act 2003 to undertake commercial activities.

8.2 Under the General Disposal Consent 2003, the Council does not require Secretary of State consent for disposals provided that the difference between the disposal price and market value is less than £2m and there are social, economic or environmental wellbeing benefits.

8.3 The Council has the power to give financial assistance relating to the acquisition, construction or management of any property as privately let housing where the Council is not the landlord. However, the Council will need to obtain Secretary of State consent under s25 of the Local Government Act 1988 to exercise this power. A s25 application will be necessary in the event that the agreed transfer value is less than the market value of the land for social housing, as in those circumstances a gratuitous benefit will have been created. At this stage it is not expected that the transfer value will be less than the social housing market value, but this will need to be revisited before the transfer takes place and appropriate steps will be taken to obtain Secretary of State consent if required.

9 Risk Assessment

9.1 Normal risks associated with property development including budgets being exceeded and programme not being met. These will be mitigated by the employment of suitably qualified external professionals and procurement of contractors through the normal procurement processes.

10 Procurement implications

10.1 Appointments of consultants and the contractor for the project will be in accordance with the Companies' reserved matters and the Council's Procurement Code and the Public Contract Regulations 2015 as applicable.

11 Equalities and Human Rights implications / Public Sector Equality Duty

11.1 There are no equalities and human rights implications associated with this report.

12 Environmental Implications

12.1 The environmental targets are set out in paragraph 3.9 above.

13 Other Considerations

13.1 There are no other considerations under GDPR/Data Protection or Crime & Disorder.