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**CITY OF CARDIFF COUNCIL
CYNGOR DINAS CAERDYDD**

CABINET MEETING: May 2019

TITLE: A strategy to deliver 2,000 new council homes.

REPORT OF DIRECTOR: Sarah McGill

AGENDA ITEM:

PORTFOLIO:

Appendix 4 is not for publication as it contains exempt information of the description contained in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972

Reason for this Report

1. To give Cabinet an overview of the strategy being adopted to ensure the Council delivers 1,000 new council homes by May 2022 and 2,000 new council homes in the longer term.
2. To set out the standards & requirements for the new build programme and adopt a 'Cardiff Design Standard' which all schemes should adhere to.
3. To identify the development sites included in the additional build programme and to appropriate those sites for planning purposes.
4. To seek authority to proceed with the next phase of the Cardiff Living Programme (formally the Housing Partnership Programme) within updated financial parameters, delegating authority to The Corporate Director for People & Communities to conclude appointment of the next phase.

Background

5. Through Capital Ambition the Council has set a target of building at least 1,000 new council homes by May 2022 and to have a development programme capable of delivering 2,000 new council homes in the longer term. These new build targets have been set in direct response to the increasing demand we face for affordable housing in our city.

6. The housing need is increasing year on year and there are currently around 8,000 people on the waiting list. The most recent Local Housing Market Assessment indicated that 2,024 new affordable homes are required each year to meet the current demand. However, on average over the last 5 years the social housing sector has delivered around 250 new homes each year. This represents a significant gap between demand and supply.
7. Specialist or adapted properties are not currently being delivered in volume and there are not large numbers of bigger family homes being delivered. The council's programme can also directly target accessibility issues and downsizing.
8. The council's aspiration to build new homes in volume and at pace directly complements the Welsh Governments target of delivering 20,000 new affordable homes throughout Wales over this term of Government.
9. Cardiff's new homes strategy represents the largest council housing build programme in Wales. It represents a Capital investment of around £280 million over the programme and will deliver over 2,000 new council homes across a range of development sites.

Progress to date

10. In order to meet the targets set the council must adopt a strategy that has a number of delivery routes, making best use of our own resources and also working with our developing RSL partners and the wider development sector where necessary. There are simply not the internal resources and team capacity to deliver the numbers of new homes without support. **Appendix 1** sets out the identified delivery routes and gives an update on progress to date. This includes;
 - Cardiff Living (existing partnership with Wales Residential)
 - Additional build programme
 - Open market buy-backs
 - Developer package deals/ RSL JV's
 - Conversion of council buildings
 - Meanwhile use of land
11. Many of the routes identified above are progressing. Phase 1 of The Cardiff Living programme is nearing completion with 1 scheme complete, 6 on site and a further 3 due to start on site before the end of this calendar year. Phase 2/3 sites have been worked up, 3 of which have planning consent in place. Cardiff Living achieved 20 completions by end 31st March 2019 with a further 151 council homes being built on site.

37 open market buy-backs were completed by 31st March 2019 and we are targeting a further 60 buy-backs by 31st March 2020.

The conversion of Thornhill Road from a former Children's home into 8 accessible flats for older people was completed in 2018/19.

There is currently 1 package deal (with Cadwyn Housing Association) on site which will deliver 30 new council flats at Courtney Road in Splott, with a further package deal subject to Planning.

There are 2 schemes to convert shipping containers into homes for homeless families underway. One scheme will deliver 13 new flats at Bute Street and another will deliver 8 flats in the grounds of Greenfarm Hostel. Both schemes will complete by the end of this summer.

The first scheme being delivered through the additional build programme has been tendered and a contractor appointment will be in place before the end of May 2019. This scheme will deliver 16 new council homes in Caerau.

12. In summary, by the 31st March 2019 the new build programme had delivered; 65 new homes (completed), a further 203 currently being built on site, 16 at procurement stage, 225 new homes with planning consent approved, 104 in for planning and a further 1512 new homes in the pipeline.
13. The Council has been awarded 4 Welsh Government Innovative Housing Grants to date, providing funding towards the 2 shipping container schemes, the Passivhaus scheme being delivered at Highfields and the modular scheme being delivered at Croft's Street, both through the Cardiff Living Programme.

Issues

Housing Need & Financial viability

14. Through the new build strategy the council can decide to develop schemes that target specific needs. The council can deliver new homes in volume that would otherwise not come forward through more traditional routes. The strategy seeks to deliver new homes to tackle homelessness, deliver increased numbers of 3 and 4 bed family homes, deliver more homes that are energy efficient, are more accessible (in particular ground floor flats) providing increased storage, improved circulation space and reduce the need to provide future adaptations.
15. Throughout the development programme there is a real focus on delivering new older person housing, providing accessible & flexible homes to a 'care ready' standard (detailed in **Appendix 2**). This standard reduces the need for future adaptations and allows residents to live independently in their own home for as long as possible while also complying with Housing our Ageing Population: Positive Ideas standards (HAPPI), having regard to dementia friendly features and complying with RNIB Housing Sight standards. These schemes will also offer a range of communal facilities for residents and the wider community to help tackle social isolation and deliver a range of services for older people and, where appropriate, encourage older residents to down-size, freeing up larger family homes.

16. The new build strategy also focuses on collaboration with Health & Social Care. Where appropriate delivering schemes meeting a specific need that can also deliver significant savings to Health & Social Care budgets. For example, delivering a range of properties suitable for Children's Services to deliver care and, where appropriate, bringing out of county placements back into county.
17. Delivering the range of properties detailed above does have an impact on financial viability which needs to be considered when determining if a scheme can be delivered. Delivering more accessible properties with a larger footprint above Welsh Government DQR standards will be more costly to build. However, in the long-term this can reduce the adaptations budget and could reduce the need to move tenants into an adapted property in the future, whilst in some circumstances potentially reducing the need for a package of care.
18. The range of new homes being built must be considered across the entire programme with more costly schemes that push the parameters of financial viability being balanced by those schemes that are more financially viable.
19. This financial modelling will be controlled by the Development Assurance Board which meets quarterly and which is responsible for reviewing the overall programme, considering what is being delivered and setting the financial parameters for the programme. Representatives from legal Services, Commissioning & Procurement, Finance and Housing & Communities sit on the Board which is chaired by the Corporate Director for People & Communities.
20. The Development Team uses the SDS ProVal and Sequel viability tools to model financial viability for each scheme and to monitor the entire programme. This is a sector recognised viability tool into which the council's own financial parameters are input- such as rent levels, maintenance & management costs, borrowing rates and development costs. The Development Board has set parameters to work within and each scheme is required to pay for itself within a 40-year payback period. Some specialist schemes can work outside of this if approved by the Development Board.
21. The Development programme delivering 2,000 new homes is modelled within the 30-year HRA Business Plan submitted to Welsh Government to ensure the programme is affordable within the wider Capital Programme. This programme includes expenditure on existing stock to maintain the WHQS standards which also remains a key priority.
22. There are range of income sources earmarked for the build programme including S106 financial contributions, Welsh Government Innovative Housing Grant, Welsh Government Affordable housing Grant and but is primarily to be paid for by additional borrowing

Standards

23. The new build strategy has a focus on building affordable, high quality, sustainable & energy efficient homes no matter what tenure. This has been proven through the delivery of new homes within the Cardiff Living Programme, and this drive for quality and place-making should also be the focus throughout all of the delivery routes.
24. A Cardiff Standard was adopted for the Cardiff Living Programme and an updated **Cardiff Design Standard** is currently being written to cover all council new build schemes.
25. The Cardiff Design Standard will have to be adhered to by all consultants & developers building for the council and will require the following;
 - A high level of energy efficiency in all homes and tenures to help tackle fuel poverty through a Fabric First approach.
 - A high quality of design and architectural standard across all tenures.
 - A high standard of urban design and place making – helping to regenerate existing estates where possible.
 - Creating sustainable communities that are well connected and inclusive of the estates in which they are built.
 - High-quality build standards across all tenures adopting DQR as a minimum standard for the affordable housing units.
26. The programme of development will continually consider new forms of development such as off-site, modular or Pods which will achieve high standards and increased energy efficiency but will also help to deliver new homes more quickly.
27. As with delivering for specific housing need, building to an increased standard will impact on financial viability and the additional costs of higher standards or new forms of construction will have to be assessed by the Development Team and ultimately be approved by the Development Board before a scheme is taken forward.
28. However, the wider benefits of building to a higher standard must be recognised. Building to a higher energy efficiency standard can help to reduce fuel poverty amongst our tenants. Achieving a better build quality can reduce defects and future maintenance programmes and lessons learnt from current development will be factored into future proposals.

Development sites

29. Wherever possible the programme will build new council homes on council owned land. Appropriating suitable sites from the General Fund into the HRA. This provides a market value for the General Fund but also ensures appropriate sites are offered for council house building ahead of being marketed to the wider development sector.
30. The current list of development sites (included within the 'Additional Build' programme), are detailed in **Appendix 3**, including those site

proposed to be appropriated. All of these sites have been discussed with relevant Ward Councillors, although public consultation will have only taken place if a scheme has been submitted for Planning.

31. In order for these sites to be developed for housing purposes notwithstanding interference with any easement or other right attached to the land approval is sought for these sites to be appropriated (pursuant to Section 122 of the Local Government Act 1972) for "Planning Purposes" so that Section 203 of the Housing and Planning Act 2016 applies with the relevant land not being needed for its current purpose during development. Delegation is sought for the Corporate Director People & Communities to appropriate sites.
32. Before appropriating any site which includes public open space the Council is required to publish notice of its intention to do so on two consecutive weeks in a newspaper circulating in the area and to consider any objections which may be made to the appropriation. Delegation is sought for the Corporate Director, People & Communities to publish notices and deal with any responses.
33. In some circumstances the schemes will deliver a range of tenures including social rent, Assisted Home Ownership and private sale. By virtue of Section 233 of the Planning Act the council is empowered to dispose of land held for planning purposes for development of open market housing. Any income and profit from private sale and AHO will be ring-fenced for the new build programme and will be used to offset the costs of building council homes. Delegation is being sought to the Corporate Director for People & Communities to approve each disposal as necessary.

Cardiff Living – existing Partnership with Wates Residential.

34. Phase 1 of The Cardiff Living programme has been a real success. All 10 sites in this phase have achieved planning consent, 1 scheme has been completed, a further 6 are on site and the remaining 3 will commence on site before the end of this year. The Cardiff Living Programme is delivering in volume and at pace and has set high standards across all tenures for quality of build, energy efficiency, improving the standards in the private sector and has delivered new homes for sale for local markets where new build for sale would not normally be delivered.
35. There has been a wide range of community benefits delivered to date, which has seen a significant investment in the SME sector and within our local communities.
36. There have been cost increases across Phase 1 due to agreed indices uplifts covering development costs and land values (set out in the Development Agreement) and due to previously unknown ground conditions. Due to the fact no ground condition surveys were available during the tender period due to the associated cost and timescales each Bidder was instructed to assume good ground conditions requiring standard foundations. However, every site across Phase 1 had poor

ground, many sites with contamination issues and other previously unknown factors such as inadequate drainage (not able to soak-away), unknown utilities requiring diversion, planning issues and archaeological requirements.

37. Since tender submission there have also been changes in Building Regulations (sprinklers) and Planning requirements (SUDS), all of which have added cost to the original tender sum.
38. In compliance with the Development Agreement, each site within Phase 1 has an updated financial submission (known as a Stage 2 draw-down) which updates the tendered sum for that site and which is reviewed and approved before Wates can draw the site down for development. The updated development costs are benchmarked against known market costs and against Welsh Government ACG's.
39. In compliance with the Development Agreement, Wates have re-submitted the inter phase financial appraisals for the phase 2 and 3 sites and are seeking approval to roll onto the next phase of development.
40. The updated costs for delivering the phase 2 & 3 sites are detailed in **Appendix 4** along with the updated list of phase 2 & 3 sites and the total number of new council homes to be delivered across these sites. These updated costs have regard to ground conditions across the phase 2/3 sites and for updated planning requirements. The updated Cardiff Living costs have been included within the 2019/20 HRA Business Plan to ensure all of the other development routes set out in the New Build Strategy can be delivered within the overall financial parameters.
41. The phase 2 & 3 re-submission also includes updated proposals for delivering Community Benefits across the Cardiff Living programme and will be used to update the KPI's set out in the Development Agreement.
42. Some sites originally ring-fenced for development with the Cardiff Living Programme are no longer viable having been deemed undevelopable due to reasons such as previously unknown ground conditions, previously unknown utilities or changes to planning requirements. These are detailed in appendix 4 along with sites to be added into the phase 2 & 3 programme.
43. The inter phase financial appraisals must be evaluated against the Cardiff Living criteria (as set out during the procurement stage) by the Housing Development Team and the Council's appointed advisers for the Cardiff Living Programme (BRE, GVA & Strong's) and a report submitted to the Cardiff Living Programme Board to recommend rolling onto the next phases of development or not. The updated appraisal must be assessed against the original appraisal and the Stage 2 draw-down costs approved through Phase 1 to ensure the scheme offers value for money and is affordable for the council. Furthermore, the council must ensure that the original criteria around energy standards, place making and community benefits continue to be delivered.

Reason for Recommendations

44. To ensure that the Council's new build housing development programme can be delivered within the set parameters.

Financial Implications

45. As identified in the Council's capital strategy approved by Council in February 2019/20 as part of the budget, increasing the supply of Council owned dwellings is a key part of Capital Ambition. The Housing Capital Programme approved in 2019/20 and the 30 year HRA business plan identifies a significant level of investment in new build council housing over the medium term. This includes significantly increased cost assumptions for the Cardiff Living project and estimated costs for various projects identified in this report. All expenditure incurred in new build programme should be in accordance with guidance as to what and what cannot be charged to the HRA. It should be of benefit to rent payers.
46. Whilst grants and contributions will be utilised where approved, expenditure is primarily paid for by additional borrowing in the Housing Revenue Account with any costs of servicing borrowing to be met by the rent payer. This level of investment is possible following the planned removal of the Housing debt cap introduced in 2015/16. Formal confirmation of removal of the Cap is awaited from Welsh Government.
47. The impact of all expenditure in the HRA capital programme must continue to be prudent, sustainable and affordable in the long term. Accordingly, the impact of additional borrowing on the HRA revenue budget must be closely monitored to ensure the committed costs of interest and prudent debt repayment remain affordable in the long term in light of other revenue budget pressures and the capital investment programme. This will need to include an ongoing review of revenue costs such as employees as well as repairs and revenue maintenance to ensure these are controlled within budgeted and acceptable levels.
48. New dwellings will be let at the Council's Social Housing Rent level. The investment in new dwellings must be affordable having consideration of the asset management and investment requirements of the existing dwellings stock in order to maintain Welsh Housing Quality Standards. It is essential that the investment requirements for existing stock are also clearly identified, understood in the long term and reviewed annually as part of the business planning process.
49. The HRA business plan approved by Cabinet in 2019/20 highlighted a number of risks to the achievement of the business plan priorities, some of which the Council will need to work closely with Welsh Government to resolve. This includes, the level of Major Repair Allowance Grant, revenue budget pressures, unforeseen cost increases in projects etc.
50. A key risk remains the uncertainty and control of future rent policy, which is only confirmed for one year, whereas the levels of investment

proposed in this report and requirement to produce a thirty year business plan is a significantly long term commitment. Financial resilience will need to be strengthened and monitored closely within the HRA, to mitigate against some of these unforeseen risks including ensuring an acceptable balance of general reserves, a prudent approach to viability and strong cost control and assurance mechanisms for all expenditure. Should there be a significant change in these variables then the investment programme and priorities will need to be reviewed.

51. The report highlights that quality of new dwellings is a key priority. This has additional development cost implications and impacts on land value. Any schemes should only be undertaken in line with the detailed capital programme approved and scheme viability assessments prepared at key stages and compared to agreed parameters. Proposals should be approved by the Governance Board to provide assurance of schemes proposed, costs and post project evaluation in line with project management principles. Where schemes are approved to proceed which do not meet agreed viability parameters, the rationale for doing so should be clearly documented.
52. Where land acquisitions are proposed, the costs of this and associated development will need to be managed with the approved capital programme. The report identifies sites which are proposed to be appropriated from the General Fund to the Housing Revenue Account. Valuation advice is essential to ensure that such an approach delivers a market value to the general fund in line with other options that could be considered to demonstrate best value for sites. There are key sites with an assumed value that are planned for appropriation in 2019/20, and these must be progressed in conjunction with estates and education as soon as possible to ensure no adverse financial implications.

Legal Implications (including Equality Impact Assessment where appropriate)

53. The Council needs to ensure value for money from both its works procurements and its disposals of land. Hence decisions made pursuant to the proposed delegations will need to take account of advice from external Valuers and cost consultants

HR Implications

54. A new team structure has been approved to bring in the additional resources required to deliver the development programme. Recruitment is currently underway.

RECOMMENDATIONS

To note the progress made to date on the Council's new build housing programme and to note the strategy's approach to housing mix, place making & standards and to adopt a 'Cardiff Design Standard' for the programme.

To approve the list of development sites identified in Appendix 3 and to approve the appropriation of these sites to "planning purposes" (under Part IX of the Town & Country Planning Act 1990), due to land not being required for its present purpose during the development period and following completed construction works to appropriate the Council housing back into the Housing Revenue Account.

To approve the continuation of the Cardiff Living programme onto the next phases of development within the updated financial parameters set out in Appendix 4, subject to a satisfactory review of the Phase 2 & 3 inter phase financial appraisals.

To Delegate authority to the Corporate Director for People & Communities to conclude the appointment of Wates for Phase 2 & 3 of the Cardiff Living programme subject to the approval of the Phase 2 & 3 inter phase financial appraisals & to instruct the Director for Legal Services to make amendments to the Cardiff Living Development Agreement as necessary.

To approve the updated list of sites ring-fenced for the Cardiff Living programme.

NAME OF DIRECTOR: Sarah McGill, Corporate Director, Housing & Communities

Date: 18th April 2019

The following appendices are attached:

Appendix 1: Progress to date against targets

Appendix 2: Care Ready standard

Appendix 3: Schedule of development sites held in 'additional build' programme

Appendix 4: Updated costs & details of sites for Cardiff Living Programme.