

<b>SUBJECT:</b>	<b>Update on proposals to create a Development Company</b>
<b>MEETING:</b>	<b>Cabinet</b>
<b>DATE:</b>	<b>14th December 2020</b>
<b>DIVISION/WARDS AFFECTED:</b>	<b>All</b>

**1. PURPOSE:**

To update members on the Council's ambition to disrupt the local housing market through the construction of low cost homes by the Council and the future creation of a development company.

**2. RECOMMENDATIONS:**

- 2.1 That Cabinet agrees to the proposals to commence a project to undertake the construction of low cost homes on the site adjacent to Caldicot Comprehensive School in Caldicot as illustrated in appendix 1.
- 2.2 That Cabinet agrees to the continuation of the planning for the development company so that it can be implemented when opportunities or a land supply pipeline are secured and the requirement for a development company is both justified and required by law.

**3. KEY ISSUES:**

- 3.1 In April 2019, Council considered an initial feasibility study into the potential benefits for establishing a development company to intervene in the housing and commercial market place. The rationale behind this proposal was to facilitate the construction of affordable housing as the disparity between house prices and income was continuing to accelerate, particularly for the indigenous population.
- 3.2 At the time of the report the 2018 Local Housing Market Assessment (LHMA), identified the mean average house price in Monmouthshire at £307,600 and the gross average income for those living and working in the county at £25,360. The most recent LHMA indicates that despite the current pandemic the mean average price in Monmouthshire in September 2020 was £336,760. Average earnings have increased to £29,640 for those living and working in the county and to £36,119 for those out commuting.
- 3.3 The Monmouthshire housing stock is distinct from other parts of Wales. Terraced housing, which is usually entry level, makes up 40.85% of the Welsh average stock, whereas in Monmouthshire it accounts for only 27.83%. Conversely, detached properties comprise 44% of Monmouthshire's housing stock, whereas the average for Wales is 27%. When

considering the tenure breakdown of properties in Monmouthshire, 73.6% of the housing stock is owned outright or mortgaged, 0.4% is shared ownership and 24.6% is rented (13.8% socially rented and 10.8% private).

- 3.4 As is evident from these figures, it is becoming increasingly difficult for new entrants to either home ownership or the rented sector in Monmouthshire. This increasing disparity between house prices and average earnings led Council to ask officers to prepare a detailed business case on the establishment of a development company with particular reference to financial viability, governance structures and social outcomes.
- 3.5 Council officers have worked with Saville's to consider the potential benefits, financial and legal consequences, and policy delivery and governance arrangements that establishing a development company may create. The business case considered the financial viability of three potential sites currently allocated in the LDP, two of which Rockfield Farm and Chepstow Road, Raglan are now being advertised for disposal.
- 3.6 The business case concluded that the proposal to establish a development company would:
- Enable the company to exert greater influence and control over the property and tenure mix on developments
  - It would provide the company with the opportunity to deliver affordable and intermediate housing products that might not otherwise be delivered by developers in the market.
  - The company will be able to control all design and quality standards, including size, build-standard, materials, and including enforcing carbon reduction objectives.
  - The Council will be able to control the way in which profits and receipts from land sales are invested and reinvested in future programmes, thereby ensuring that the advantages of housing market growth in Monmouthshire are retained for the benefit of local residents
  - The company could facilitate the building of local supply chains in Monmouthshire if a pipeline of sites is secured.
- 3.7 A key component of the future viability of a company is the need to generate a supply pipeline that will provide both longevity, supply chain development, spreading of financial risk and the opportunity to provide a meaningful intervention to the local housing market.
- 3.8 The current pandemic has resulted in a delay to the progression of the Council's replacement Local Development Plan, which will also be influenced by the emerging National Development Framework and the Strategic Development Plan to be prepared by the soon to be constituted Corporate Joint Committee. The consequence of these wider planning policy framework delays is that at this time, we are unable to secure a pipeline of sites beyond those within the existing LDP.
- 3.9 The Council's ambition to undertake an interventionist approach to positively contribute to affordable housing however remains. It is therefore proposed that rather than take a passive approach and wait for the wider planning policy environment to be established,

that the Council seeks to develop a site to test and challenge our development aspirations, build capacity and learning and provide affordable housing units.

- 3.10 The Council continues to hold a residential development site in Caldicot, adjacent to the new school, which can accommodate up to 14 affordable residential units. The proposed development could be undertaken in conjunction with an external development partner or could be delivered in partnership with Housing colleagues if grant funding could be secured to support construction costs. Both options will enable the Council to positively contribute to much needed affordable housing supply, which is particularly acute as a result of an increase in homelessness referrals over the pandemic.
- 3.11 The benefit to this proposal is that it avoids the set up and holding costs of a development company, it allows the Council to undertake a pilot, the lessons from which can be used to influence the articles of association and governance structures of the development company. It also allows time to secure a pipeline of sites to ensure long term viability and supply chain development. The Council subject to an appropriate procurement process for a development partner is able to undertake not for profit development without creating a separate entity. Developing out the housing ourselves will also enable us to determine the specification and policy ambitions that we wish to pursue ensuring that we target specific tenures and unit types in collaboration with the Council’s Housing team.
- 3.12 There will be financial implications to the Council should this proposal proceed and they will be dependent on the development process progressed. Whichever delivery method is followed the land value of the asset will be foregone to support the development costs. If the development is undertaken with an external partner then the Council would seek to secure nomination rights over the properties, if the Council constructs the properties they will be retained by the Housing department and used to support homeless need.
- 3.13 This proposal is considered a positive and proactive interim stage, which will allow the Council to intervene in the affordable housing market, minimise risk exposure and provide invaluable learning for the future development company. Work will continue on finalising the proposed governance structure and learning from other wholly owned development companies so that in the event that a land supply can be realised, our development company could, subject to member approvals, be established and operating quickly.

**4 EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING):**

- 4.1 This proposal does not have any safeguarding and corporate parenting implications. The proposal fully aligns with the principles of sustainable development and the well-being principles.

**5 OPTIONS APPRAISAL**

Option	Benefits	Disadvantages	Recommendation
Do Nothing	<ul style="list-style-type: none"> <li>• No financial loss</li> <li>• No risks incurred</li> </ul>	<ul style="list-style-type: none"> <li>• Affordability disparity continues to widen</li> </ul>	This approach will do nothing to support local communities and those in need.

		<ul style="list-style-type: none"> <li>• The number of homeless households continues to grow</li> <li>• Financial gain from housing development is not retained within the county</li> </ul>	
Establish the development company and build out the 14 units	<ul style="list-style-type: none"> <li>• Housing would be constructed</li> <li>• The company would have the ability to capitalise on opportunities presented</li> <li>• The company could intervene in the housing market and develop commercial sites to yield a profit</li> </ul>	<ul style="list-style-type: none"> <li>• Affordable housing does not generate profit, therefore the company would need to run at a loss until other opportunities could be identified</li> <li>• No supply pipeline</li> <li>• Taxation implications</li> <li>• Governance and staffing costs would increase the financial burden to the company without a commercial pipeline.</li> </ul>	The development company has significant advantages at the point a supply chain can be identified. It is not recommended that this vehicle be used to build the 14 units due to the potential cost burdens that will arise to the Council.
The Council develops the 14 unit site in Caldicot with or without a development partner	<ul style="list-style-type: none"> <li>• Upskill staff</li> <li>• Provide 14 affordable housing units</li> <li>• Provide learning and proof of concept</li> <li>• Intervenes in housing market to signal intent.</li> </ul>	<ul style="list-style-type: none"> <li>• Financial risk as the site will not be profit generating</li> <li>• Risks that a development partner or construction partner unable to meet the Councils carbon neutral aspirations due to affordability, lack of supply / expertise or intent</li> <li>• Lack of in house capacity to deliver site in a timely manner</li> <li>• Costs and risks escalate during the process due to the impact of the current pandemic.</li> </ul>	Whilst it is acknowledged that there are risks associated with this proposal, the potential benefits exceed these and this is the recommended option.

## 6 EVALUATION CRITERIA

- 6.1 The project will be evaluated against financial and policy criteria following the completion of the proposed dwellings.

## 7. REASONS

- 7.1 The current market mechanisms are failing to meet demand and indigenous populations are increasingly being forced to re-locate as housing prices and rental levels become more and more unaffordable. This proposal would enable the Council to undertake a pilot development project, which would provide learning to support the planned creation of the development company, intended to speed up supply and meet design parameters that reflect the wider social justice agenda.

- 7.2 The current pandemic has resulted in an increase in homeless referrals and there is insufficient stock to meet these demands. The development of these 14 units would increase the available stock, provide learning, capacity and expertise, which could be encapsulated into a development company if a supply chain or opportunities present.
- 7.3 If the Council's other LDP allocations are not sufficiently progressed or fail to meet affordable housing expectations, the Council will have gained sufficient expertise to step into these developments and drive them forward.
- 7.4 The proposal will be the first pro-active intervention into the housing supply, which will meet a long held policy aspiration of the Council and provide up to 14 affordable residential properties.

**8. RESOURCE IMPLICATIONS:**

- 8.1 The proposal to build out up to 14 affordable housing units will result in an opportunity cost to the Council, as the value of the land will be lost to subsidise the development of the properties. It is anticipated that the site will be developed in conjunction with a development partner who will contribute the capital funding for the construction of the scheme. If however, the Housing team is able to secure grant funding or a business case can evidence that the revenue returns from the completed properties can fund any borrowing costs, and then this option will be explored.

**9. BACKGROUND PAPERS:**

Council Report – April 2019 – [Proposed Development Company – Initial Appraisal](#)

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# Appendix 1

