

Report to: Scrutiny

Date: 11 July 2022

Title: Housing development update

Report of: Ian Fitzpatrick, Deputy Chief Executive and Director of Regeneration and Planning

Cabinet member: Councillor Alan Shuttleworth, Cabinet member for direct assistance services

Ward(s): All

Purpose of report: To provide an update on the progress of the Council's housing delivery programme.

Decision type: Key Decision

Officer recommendation(s) to the Cabinet:

- (1) To note the progress of the Council's housing delivery programme as set out in Appendix 1.
- (2) To approve the Cavalry Crescent development, making an allocation within the Housing Revenue Account (HRA) Capital Programme of up to £6m, and entering into a construction contract in accordance with the business case as set-out in Appendix 2 (Exempt).
- (3) To approve the Fort Lane development, making a revised allocation within the Housing Revenue Account (HRA) Capital Programme of up to £3m, and entering into a construction contract in accordance with the business case as set-out in Appendix 3 (Exempt).
- (4) To authorise entering into an Access Agreement to enable the Council to use the "Framework Agreement for the Provision of Modular Housing" dated 30th July 2021 between Lewes District Council and Boutique Modern Limited to call off contracts for off-site manufactured house building solutions, to aid in the delivery of the Capital Programme alongside other procurement routes.
- (5) To authorise the Director of Regeneration and Planning, in consultation with the Portfolio Holder for Housing, also the Chief Finance Officer, to carry out all necessary actions to facilitate the recommendations including financing, appointment of professional services, award of contract, development, lettings, and determining the terms of, and authorising the execution of, all necessary documentation, in accordance with the business case(s).

Reasons for recommendations: To progress the development of new homes across the borough to provide new affordable housing options.

Contact Officer(s): Name: Nathan Haffenden
Post title: Head of Development, Investment and Delivery
E-mail: nathan.haffenden@lewes-eastbourne.gov.uk
Telephone number: 01323 436422

1 Introduction

- 1.1. The Council continues to assess its assets and progress its housing delivery programme. In bringing forward new scheme proposals for approval and identifying opportunities to support the capacity of the Housing Revenue Account (HRA) the authority is able to increase the supply of new homes across the borough in a highly challenging market.
- 1.2. This report provides an update on the progress of the programme and with recommendations to progress new schemes to meet the objectives of the Corporate Plan 2020-2024 in the context of the current operating environment.

2 Background

- 2.1. The Corporate Plan sets out to increase the number of low-cost rented and home ownership initiatives across the borough and directly available to the Council through both new build and acquisitions. In increasing the range of housing options that meet locally defined needs it helps to reduce the reliance on temporary/emergency accommodation. New build homes will aim to be accessible, sustainable, and energy efficient, also utilising the capacity of the Council's housing companies including Eastbourne Housing Investment Company Ltd (EHICL) and the joint venture with Lewes District Council (LDC) - Aspiration Homes Limited Liability Partnership (AHLLP).
- 2.2. The Council has been able to successfully bring forward new homes and build upon a pipeline for ongoing future delivery. However, since the Corporate Plan was adopted, changes in the world globally cannot be ignored. The implications of the Covid-19 pandemic, Brexit, and Russia's invasion of Ukraine have shown unprecedented impacts on the economy. In March 2022, the Consumer Prices Index (CPI) increased by 6.2%, with the latest predictions reportedly showing expected levels up to a staggering 10% by the end of the year.
- 2.3. These factors have a direct impact on the cost of construction and building new homes, specifically within a financially sustainable funding envelope. Therefore, the Council's ability to directly deliver viable housing schemes, specifically within the tolerances of the HRA Business Plan and as a result of the current economic circumstances, has undoubtedly been made even more challenging.
- 2.4. The Council's social housing stock continues to reduce as a consequence of the government Right to Buy (RTB) scheme and as the demands on the Housing Waiting List continue to remain significant. Prior to the statutory reforms from 1st April 2021, the Council also had the additional pressures of having to spend previously built up 1-4-1 RTB receipts by strict government deadlines. Although the receipts helped to support

the development of new homes, they do not cover the whole cost (30% at that time) and have now all been committed to schemes in progress within the programme. The Council will therefore need to secure other sources of supporting finance and will rely significantly on central government to provide grant funding to keep Council rents as low as possible.

- 2.5. In February 2022, Cabinet approved its annual HRA Budget for 2022/23 and Capital Programme. Although the HRA is now uncapped, it is not unlimited, and the Council must continue to carefully balance available headroom capacity to increase, maintain, and decarbonise the housing stock. This reinforces the significance of obtaining government funding, such as through the Affordable Homes Programme 2021-26 and also the brownfield funding announced in the Levelling Up White Paper, to help reduce reliance on borrowing for new build developments. The Business Plan will need to be closely monitored and, in addition to external grants, alternative delivery options considered including the continued use of EHICL and AHLLP.

3 Construction and Property Market

- 3.1. In the context of the current economy, the construction industry and property market have (and continue to be) increasingly volatile. In the height of the global pandemic, material costs increased by up to 70% and delays, shortages, and labour pressures created a 'perfect storm' the likes of which had not been seen for over 40-years. With the predictions for rising inflation, it is expected that costs within the building industry will also continue to increase and with no clear indication of when they will return back to previous levels (if ever). The Council will therefore be operating within a 'new normal' and will need to consider how it approaches value for money and measures financial viability in its efforts to deliver sustainable affordable homes.
- 3.2. In addition, the value of land and property nationally has increased since 2020. In the Southeast specifically this increased over the last 12 months up to February 2022 by 12%, making affordability even more difficult. Equally, new entrants to the market generally (e.g., first time buyers) will continue to look to the public sector for support. This will have an impact on the financial viability of acquiring land and property for new development within the capacity and constraints of the HRA.
- 3.3. The rising inflation, specifically when considering fuel, food, and energy prices, will have detrimental impacts on our residents and especially those who are deemed as vulnerable and/or most in need. Eastbourne Borough Council (EBC) is the first UK local authority to declare a cost-of-living emergency, introducing a support fund for local people. It is therefore critical that any new homes are built at pace, utilising available government grants, and with the carbon reduction agenda at the core to develop homes that are sustainable and affordable to both rent and live in.

4 Housing Delivery Programme

- 4.1. In the face of these multiple and complex market pressures, the Property and Development team have continued to grow the housing programme, building a pipeline of Council rented and low-cost homeownership schemes to support the rising local demand. These homes have also been built toward with the Council's strategy for sustainability and carbon reduction targets, driving forward modern methods of construction (MMC) including modular, as was seen at The Foundry (Langney Road),

utilising new and emerging renewable technologies, and taking an overall “fabric first” approach to development.

4.2. Appendix 1 enclosed sets out the current programme position across the Council and its companies since the current Corporate Plan was adopted, categorised by project stage. Showing a combination of completed homes, acquisitions, schemes in construction, projects at the pre-build stage, and others in the growing pipeline, the Council will have identified, advanced, and completed up to 288 homes to meet local housing requirements. In order to maintain and increase upon these levels, the Council will need to continue to identify new opportunities for maximising its own land and property estate.

4.3. The programme reflects a number of successes, with schemes completed in recent years delivering over 48 new mixed tenure Council homes:

Projects – complete since 2020	Entity	Scheme	Units
Next Steps Accommodation Programme	HRA	Acquisition	3
Rough Sleepers Accommodation Programme	HRA	Acquisition	7
HRA Acquisitions Programme	HRA	Acquisition	4
AHLLP Acquisitions Programme	AHLLP	Acquisition	9
EHICL Acquisitions Programme	EHICL	Acquisition	1
The Addison (Northbourne Road)	AHLLP	New Build	12
The Foundry (Langney Road)	AHLLP	New Build	12

4.4. There are also several other schemes showing in Appendix 1 well into the design and planning stages, with business cases for projects ready to enter into construction contracts as recommended and set out in this report. The programme has also been diversified by using a combination of the HRA, EHICL, and AHLLP, as well as taking a mixed approach to delivery through acquisitions, S106 purchases, asset conversions, and new build developments to find the best solutions to land, assets, and partnerships.

4.5. The Council's approach to development, taking a strong fabric first approach - focusing on insulation, heating, and cooling, has helped to shape the programme to meet carbon reduction objectives. The Council's Employers Requirements (ERs) for new build developments incorporate a “checklist” to ensure homes are as sustainable as possible within the context of the available budgets and continue to explore new methods of sustainable construction (e.g., low carbon concrete).

4.6. The programme incorporates new technologies, increased biodiversity, and a new perspective on the re-utilisation of land and assets. The Property and Development team continue to explore other opportunities, especially in a constantly changing and evolving market, including green roofs, green living walls, and new approaches to sustainable development.

4.7. The following key updates on projects within the programme should also be noted:

- **Bedfordwell Road** – The Council’s Planning Committee approved in August 2021 100 x new homes on the site. The Pre-Construction Services Agreement (PCSA) with Willmott Dixon is nearing completion, with the scheme now at a ‘shovel ready’ stage, pending a viable business case. The challenges of the site, specifically the Pump House, and the current market pressures mean additional funding is required to support the project. The Property and Development team continue to engage with Homes England and await the outcomes of the £1.8bn brownfield funding expected and announced in the government Levelling Up White Paper.
- **Biddenden Close** – The Council exchanged contracts with the Eastbourne Community Land Trust (CLT) in February 2022 to bring forward 5 x new affordable homes for the town, with completion subject to securing the required funding. The Council continues to manage the enabling of the site (including demolition and security) to support the delivery of the new homes.
- **Brede Close** – The scheme to develop 6 x new affordable homes is currently underway and scheduled for completion in Q3 2022/23.
- **The Foundry (Langney Road)** – Utilising AHLLP, the Property and Development team were able to deliver the first Council modular housing scheme in Eastbourne, consisting of 12 x new affordable homes for both keyworkers and customers from the Housing Waiting List. The scheme completed in March 2022.
- **The Glenn (Southfields Road)**– The scheme is to develop 19 x affordable homes and is currently on site, with a completion date estimated by Q3 2023/24. The development includes grant funding secured from Homes England and the One Public Estate (OPE) managed Brownfield Land Release Fund (BLRF).
- **Law Courts (“MOJ”)** – The scheme proposed is for 35 x new affordable homes, currently awaiting presentation to a future Planning Committee.
- **Rough Sleepers Accommodation Programme (RSAP)** – In 2021/22, the Council successfully secured government funding as a joint bid with other East Sussex authorities to secure managed move-on accommodation in Eastbourne and to help reduce the reliance on emergency accommodation. The Council was able to acquire 7 x homes to meet the funding objectives. A new bid has now recently been submitted for 2022/23 for up to a further 10 units, pending approval.
- **Victoria Mansions** – The repair and restoration programme to this key town centre asset continues to progress positively. Forming an integral part of the Levelling Up Fund (LUF) programme, the residential aspects of the property are being let for both affordable housing and holiday lettings, with further completions due throughout July 2022.

5 Cavalry Crescent

- 5.1. On 22nd March 2021, Cabinet authorised commencement of the project to develop the brownfield site known as Cavalry Crescent in Eastbourne Old Town up to the planning

stage, subject to further approval at the appointment of a contractor and the commencement of any construction works.

- 5.2. The site is currently occupied by 8 x semi-detached Parkinson framed houses, which are underperforming assets, expensive for the Council to maintain, and also for residents to run. The scheme has been considered in some detail since 2018, with various options considered and design iterations explored.
- 5.3. Following approval by the Planning Committee in September 2021, the final design proposed is to develop 20 x new homes, including adaptable units on the ground floor and a fully accessible family house, as follows:

Unit Type	Persons	Size (m2)	Total units
1 bed flat	2	63	5
2 bed flat	3	73	6
2 bed flat	4	85	3
3 bed house	6	112	5
4 bed house	7	149	1

The properties will be built in excess of Nationally Described Technical Space Standards, to ensure that the homes not only meet local housing need but also provide quality and spacious living environments.

- 5.4. The scheme will also incorporate the following key sustainability features:
- High insulation levels (“fabric first”)
 - Communal air source heat pump
 - Individual air source heat pump for houses
 - Solar PV
 - Some areas of green living roof
 - Large cycle store to promote sustainable travel
 - Communal growing area

This results in a scheme that has significant improvements to insulation levels, air tightness, and overall building performance standards, including an increase to the national average for CO2 reductions. This meets the requirements of the Council’s sustainability strategy.

- 5.5. The scheme has also been competitively tendered and procured in accordance with the Council’s Contract Procedure Rules (CPRs) using the new Social Value Charter, with Trinity Homes Ltd as the preferred bidder based on price, quality, and social value. The forecast project timeline assumes commencement in Q2 2022/23 over an 18-month on-site construction programme.

The construction costs have been impacted by current market challenges however, following the open and competitive tender exercise, the Council's appointed Employers Agent (EA) has deemed the costs to be reasonable and present value for money, especially when factoring the high sustainable elements.

- 5.6. It is therefore proposed that the Council approves an allocation within the HRA Capital Programme up to £6m in-line with the business case enclosed, which includes the costs of demolition and construction, project on-costs, project management fees, and a reasonable client contingency. The project shall be funded utilising a combination of available HRA borrowing capacity and external grants now secured. The full financial assessment and supporting business case underpinning the proposals is included in Appendix 2 (Exempt).

6 Fort Lane

- 6.1. On 22nd March 2021, Cabinet authorised the development of a site in Fort Lane, sited within the Devonshire Ward, to deliver 7 x affordable houses in the place of redundant light industrial buildings. Those buildings have now been demolished making the site clear for construction.
- 6.2. In the context of the current market and since the business case was approved, working with agents and contractors, the costs of the scheme have increased. It is therefore necessary for the previously approved budget to be increased and based on an updated business case as included within Appendix 3 (Exempt).
- 6.3. Subject to the approval of the updated business case, it is proposed to utilise an existing Modular Housing Framework to appoint Boutique Modern to deliver the scheme, again utilising the benefit of off-site modular construction, with a forecast commencement in Q2 2022/23 over an estimated 12-month programme.
- 6.4. It is therefore proposed that the Council approves an increased allocation within the HRA Capital Programme of up to £3m, in accordance with the business case and to be met from a combination of HRA borrowing and external grants now secured.

7 Modular Housing Framework

- 7.1. In 2021, the Council completed a joint procurement with LDC to procure a contractor under a Modular Housing Framework. LDC entered the resulting Framework Agreement as the lead authority.
- 7.2. The framework was advertised and completely procured in the market, utilising the Social Value Charter, and with a specific emphasis on skills, training, and employment. The tenderers were assessed not only on cost but also on the sustainability of their processes, final product, and their ability to employ and train local people. The framework agreement was awarded to Boutique Modern Ltd, based in Newhaven.
- 7.3. Boutique Modern now has the ability to be awarded contracts, for appropriate development projects, over a 4-year period from 2021. This will help to provide additional pipeline and business certainty for a part of the sector that is hugely important to the sustainability agenda but typically suffers from inconsistent work. This is in-line

with the governments national agenda to support and scale-up the delivery of homes using MMC.

- 7.4. The framework has also been made optional to other local authorities across Sussex and Greater Brighton, which will determine the overall value and scope of the framework agreement. This supports a strategy for OPE, working collaboratively with other public sector partners to collectively bring forward new Council homes but to operate more efficiently whilst doing so in practices around procurement, resource, and skill sharing. In order to be able to use the framework, the other public bodies, including the Council, are required to enter an Access Agreement.
- 7.5. It is recommended that the Council now enters into an Access Agreement to utilise the framework. It will certainly not be the only method of procuring contractors to drive the housing pipeline, which will in fact still include traditional methods of construction, but it increases the available options whilst diversifying delivery. It provides an additional tool when bringing forward new sustainable housing projects and at pace, in-line with government objectives.

8 Outcomes expected and performance management

- 8.1. This report provides an update on the progress of the Council's housing delivery programme and in the context of the Corporate Plan 2020-2024. In the face of highly challenging external factors and variables, the Council has been able to build a programme and pipeline to bring forward more affordable and sustainable homes using the HRA, EHICL, and AHLLP toward the Plan target.
- 8.2. The developments at Cavalry Crescent and Fort Lane, subject to approval, will provide 27 x new affordable homes to meet the demands of the Housing Waiting List. The homes will aim to meet a range of local needs, utilising sustainable construction methods, and reducing costs to residents in the renting and running of the properties.
- 8.3. Subject to the Access Agreement, the Modular Housing Framework is in place and with the ability to support the Council's housing delivery programme, inputting into the pipeline in terms of design, costs, and delivery. The framework is managed using ten Key Performance Indicators (KPI), monitored on an annual basis over the 4-year period.

9 Consultation

- 9.1. The programme remains subject to robust consultation with Portfolio Holders, Members, Ward Councillors, Resident Voice, residents, and other key stakeholders. Any new sites identified (in addition to the programme in this report) will be presented to Cabinet in the usual way.
- 9.2. Cavalry Crescent was subject to a public consultation in March 2021, prior to a planning submission. This took the form of an outline presentation and questionnaire, with comments being fed back into the design process as part of the planning submission. The tenants that need decanting from the existing properties proposed for demolition also received further additional consultation and support through the house move process.
- 9.3. Fort Lane was subject to a public consultation in November 2014, again prior to a planning submission. This took the form of an in-person event at a nearby hall where

residents had the opportunity to review the proposed design and provider feedback as part of the planning process. Discussions with surrounding residents, businesses, and other stakeholders have and will continue leading up to a start on site.

10 Corporate plan and council policies

10.1. The Corporate Plan 2020-2024 sets out clear priorities and objectives to provide more Council homes in the area that are both highly sustainable and truly affordable.

10.2. The housing delivery programme as set out directly and positively contributes to the Plan objectives, increasing supply using new and innovative construction methods to help reduce the cost of living and positively contribute to the carbon reduction agenda. This has been achieved against an unprecedented shift in the construction industry as the cost of materials and labour reach a reported 40-year high.

10.3. The Modular Housing Framework will specifically:

- Increase sustainable house building using modular construction.
- Use our power as a public sector body to buy and procure locally, and create local supply chains and ecosystems of enterprises, through use of circular economy principles.
- Develop local skills, supply chains, and employment through partnership working including East Sussex College Group (ESCG), other public sector organisations, social enterprises, cooperative businesses, as well as other forms of business, particularly focussing on clean, green technologies.
- Focus spending within the borough, directly benefitting residents, communities, and local companies.
- Improve the energy efficiency of homes including supporting low-carbon heating technologies in our own council houses as part of the decarbonisation agenda.
- Enable more sustainable and energy efficient homes across the borough, that are more cost-effective to run and cheaper to live in.
- Improve our understanding of council carbon emissions and how those are best measured, as well as reducing greenhouse gas emissions to net zero.
- Reduce waste, increasing re-use and recycling to top quartile performance.

11 Financial implications

11.1. The programme and pipeline are being progressed in the context of the approved HRA Capital Programme and, where applicable, the EHICL and AHLLP Business Plan(s). The capacity and tolerances of the HRA will continue to be monitored and tested through the Business Plan(s) and any variances highlighted to Cabinet accordingly.

11.2. Subject to the approval of the business case, it is proposed that Cabinet approves an allocation within the HRA Capital Programme of up to £6m for the Cavalry Crescent development. This request is being made within the capacity of the HRA Budget 2022/23 approved in February 2022 and in-line with the Business Plan. Upon creation of a capital budget, the feasibility revenue costs incurred to date shall be capitalised. The project will then be subject to close monitoring, including ongoing financial due diligence and risk management, within the project management parameters in place. The project is to be financed by a combination of borrowing and secured external grant funding as detailed in Appendix 2 (Exempt).

- 11.3. Again, also subject to the approval of the updated business case, it is proposed that Cabinet approves an increase to the existing allocation within the HRA Capital Programme of up to £3m for the Fort Lane development. This request continues to be made within the capacity of the HRA Budget 2022/23 approved in February 2022 and tolerances of the HRA Business Plan. Full details are included within Appendix 3 (Exempt).
- 11.4. Further financial assessments shall be provided on each scheme as they are worked up and presented to Cabinet in the future, supported by a fully detailed business case.
- 11.5. The Modular Housing Framework Access Agreement does not commit the Council to any capital expenditure. Each individual scheme will require Cabinet approval.

12 Legal implications

- 12.1. The Council can rely on section 9 of the Housing Act 1985 (HA 1985) to undertake the development of affordable rent housing. This is a power to provide sub-market rented housing for its area - i.e., to address a gap in the housing market and meet the needs of the local community. The RTB will apply to these properties but, in summary, any discount to which anyone exercising the RTB is entitled will be limited with the effect that the discount cannot take the price paid by them to less than the cost price of the property.

The Council will take full advice on any title issues associated with the developments and in respect of appropriate ways to address any issues revealed.

- 12.2. Section 32 of the HA 1985 will permit the Council to let on secure tenancies without the requirement for Secretary of State consent.

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13 Risk management implications

- 13.1. The key risks and mitigations at this stage are set out in the following table:

	Risk	Mitigations
1	Costs for developing small sites may prove too high to be viable	By selecting small local firms to deliver sites, overheads can be kept to a minimum. Some sites can be delivered as part of a wider agreement by a modular house builder. Consideration is also being given to available government grant funding.
2	External/world pressures (Covid-19, war in Ukraine, Brexit) increasing construction costs and impacts on	The market continues to be monitored closely and the viability of each scheme in the pipeline will be assessed on their own merits, with reference to the Business Plan(s). Specialist / external advice will also be taken from independent agencies and the Council will look to enter into fixed price contracts wherever possible.

	development viability	
3	Planning may be refused on some sites	Extensive pre-application discussions are taking place on all sites prior to a formal submission. The sites presented for business case approval (Cavalry Crescent, Fort Lane) have already received planning approval.
4	Abortive costs as a result of sites not taken forward	The feasibility budget was approved on this basis, understanding there is a risk element to exploring scheme capacity, which will be managed, monitored, and minimised in the early stages. Schemes without sufficient viability and strategic benefit will be abandoned to reduce the risk of unnecessary cost exposure.
5	By selecting a single supplier for the modular framework there may be a limit on the number of homes that can be delivered at one time	The successful company will have had to submit provisional plans to expand supply where necessary. The Council will continue to also utilise other procurement means to deliver the pipeline, including both MMC and traditional builds.

14 Equality analysis

14.1 The reports previously presented to Cabinet (as listed below) for the proposed developments, including the decanting of existing residents, were subject to Equality and Fairness (E&F) assessments and communication strategies that have resulted in the relocation of tenants so that the properties requiring demolition are now empty.

14.2 The proposals for Cavalry Crescent and Fort Lane include:

- Disabled ready ground floor flats (3) and 1 x house, being designed for individual end users to meet specific needs.
- Design proposals for high quality specification sustainable units, to reduce running costs for the end user.

All other properties at Cavalry have been designed to M4(2) building regulation standards, that provide greater flexibility and are adaptable to a wider range of residents.

14.3 Any new developments that are taken through the Modular Housing Framework will be subject to their own E&F screenings and assessments where needed as part of a business case for Cabinet approval.

15 Environmental impact analysis

- 15.1 All new council housing developments as set out in this report have and/or will be designed to high thermal performance and detailing (fabric first approach), including sustainable and renewable features (where financially viable) both for the construction and use of residents. This is in accordance with the Council's corporate priorities, ensuring reduced Co2 emissions and lower running costs to customers.
- 15.2 Where proposed developments require demolition of existing properties, the demolition contractor will be required to assess the properties, ensuring all recyclable materials are identified and recycled, and any waste materials and contaminants properly removed and disposed of.

16 Appendices

- Appendix 1 – Housing Delivery Programme
- Appendix 2 (Exempt) – Cavalry Crescent Business Case
- Appendix 3 (Exempt) – Fort Lane Business Case (Updated)

17 Background papers

The background papers used in compiling this report were as follows:

- EBC Cabinet - Housing Development Update (22 March 2021)