



Cabinet Member for Homes, Energy & Service Transformation

Special Cabinet – 23 January 2020

**Marketing of Housing Revenue Account (HRA) Sites
and Joint Venture Opportunity**

Purpose:	To outline the Council's intention to undertake a procurement exercise to appoint a development partner or partners to deliver mixed tenure housing schemes on a range of HRA sites as a joint venture arrangement.
Policy Framework:	More Homes Strategy, Local Housing Strategy.
Consultation:	Access to Services, Finance, Legal.
Recommendation(s):	It is recommended that: <ol style="list-style-type: none">1. The Council proceeds to undertake a procurement exercise to appoint a development partner or partners to develop a selection of HRA sites2. Prior to commencing the procurement exercise, the Council undertakes the due diligence required.3. Appropriate legal, financial and planning support to support the process will be procured as necessary.4. Any further decisions relating to the process will be delegated to the Director of Place and the Cabinet Members for Homes, Energy and Transformation.
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1. Introduction

- 1.1 As part of the Council's ambition to return to house building at scale, the More Homes strategy outlined opportunities to deliver mixed tenure new housing schemes by procuring a partner or partners to work with the Council. This approach has been explored as a means of developing larger HRA sites for mixed tenure housing. This is in addition to the direct build projects to deliver 100% social rented units on smaller HRA sites.
- 1.2 High level valuation, viability and market testing of all potential HRA development sites to determine the feasibility and appetite from the private sector for working with the Council has been undertaken. A two stage process was adopted. Stage 1 was the high level viability and valuation of HRA land to inform a programme and/or packaging of development sites. Stage 2 is intended to be the procurement of a partner or partners to deliver the programme of development.
- 1.3 This report sets out a proposed way forward to secure a Joint Venture partner or partners and seeks authority to proceed with a formal OJEU marketing exercise via Sell2Wales inviting offers from developers through following a competitive tendering procedure.

2. Background

- 2.1 Informed by the work carried out during the Stage 1 study, the Council published a Prior Information Notice (PIN) in April 2019 to gauge interest in the proposals and the 30 sites that had been included in the study. A total of 36 expressions of interest were received for the HRA PIN. Officers have met informally with a number of parties responding to the PIN.
- 2.2 These meetings have proved useful in determining the appetite in the market to work with the Council and to better understand the capacity and various delivery models that could be applied to the HRA development programme. This has informed the process as follows:
 - A number of delivery models are available that can be explored.
 - There are a range of developers and housing associations who may be potential partners. All however have different attitudes, aims and objectives which influence their appetite to work with the Council.
 - There are different views on sites, locations, and levels of market and affordable housing.
 - The package of sites that has been compiled could, pending further investigations, require additional subsidy, over and above land value, to maximise delivery of affordable housing numbers.
 - A range of external expert advice is required to protect the Council's interest and advise the Council prior to and during the development process.
 - Due diligence processes will need to be commenced to better inform the desktop viability studies that have been completed on the development sites.

- Some sites have the potential to support and encourage commercial developments on the sites or on adjacent land.

2.3 In addition to the meetings about the sites above, the Council has received enquiries from a local Housing Association which is keen to explore working in partnership with the Council on the development sites within the Penderry ward. Further consideration will be given to removing the sites located in the Penderry ward from the proposed package and exploring the feasibility of developing these sites in partnership with a Registered Social Landlord as part of the regeneration framework.

3. HRA Development Sites to be marketed

3.1 From the 30 sites within the Stage 1 study and based on the valuation, viability study and market testing carried out 9 sites were identified as priority sites to be included in the potential development programme. These are as follows:

Potential Development Programme – 1-5 years

Ty Draw Road/Llanerch Road (55 dwellings)

Penrhos Place (60 dwellings)

Scurlage Monksland (25 dwellings)

Skomer Place/Westdale Road (28 dwellings)

Milford Way (40 dwellings)

Milford Way – Site B (54 dwellings)

Brokesby Road South (40 + dwellings)

Land at Graigola Road (25 dwellings)

Tanycoed Road (20 dwellings)

3.2 The study determined that these sites have the potential to provide around 347 dwellings of which approximately 61 would be affordable assuming all are LDP policy compliant. However the Council would like to explore the potential to maximise the affordable (social rented) housing on the sites to around 40%. Initial desktop studies indicate this could be viable, however detailed studies would be required and additional subsidy may be needed to achieve this. Based on a 40% affordable social rented housing split, would mean that there is potential for 138 affordable units and 208 market sale units across the 9 sites.

3.3 Property Services have also published a PIN to explore opportunities for a Joint Venture approach to building for commercial sale on a package of sites owned by the General Fund. Depending on the outcome of this, an opportunity may exist to combine some of the General Fund sites within the HRA package, through the HRA acquiring specific general fund sites at market value.

4. Procurement Options

4.1 The proposal is to market up to 9 sites for delivery over 8 years involving approximately 350 properties of which up to 40% would be affordable.

4.2 These could be delivered by either of the following methods:

- a Contractual Joint Venture (JV) where the Council procures a contractor/s to develop the Council's masterplan and build out the houses, or
- a Corporate JV where the land transfers to the JV partner/s and the land could be treated as equity for the purposes of a revenue share.
- any other appropriate model which would result in the delivery of the Council's objectives.

4.3 With these options the contractor/s would take the risk and sell the market housing for profit, and an agreed percentage of housing would be returned to the HRA as council housing stock.

4.4 The next steps will be to select a Joint Venture partner or partners through a Competitive Process. However, prior to marketing this opportunity, further due diligence work will be required in the form of the studies referred to in paragraph 3.2, before progressing to a formal procurement process.

4.5 Expert advice will need to be engaged to support the Council through the process including Planning Consultants, specialist site surveys on habitat and ground conditions and architectural design in terms of site massing and design. Expert legal and financial advice will also be required to protect the Council's interest in any partnership arrangement. The Council has identified expert legal advisors for the Council's Strategic Sites procurement exercise, so it is proposed that these advisors are also used for the HRA exercise.

4.6 Further preparation work will also need to be done to ensure that there is sufficient information available regarding the sites and the Councils proposals. This will include:

- Providing relevant property information (including plans, surveys, site investigations, identifying opportunities and constraints) together with reports on title and planning policy background for each site that would be uploaded to a data room to be shared with potential bidders so that they have sufficient information to be able to develop their proposals, prepare appraisals and formulate a financial offer.
- Understanding viability of the sites as a package to estimate the level of subsidy required to achieve the Council's objectives of achieving a mix of 40% council housing across the sites.
- At the time of writing, under the Housing Act 1985 only secure tenancies can be offered under the HRA. This will mean that any other affordable

products which may be required or determined as part of the overall package or mix of housing (such as shared ownership or Rent to Own) may need to be offered or sold by the partner/s, which could be private developers or Registered Social Landlords.

- Agreeing a specification for the affordable housing. It is assumed for the purposes of this report that the affordable housing will be built to Welsh Government Design Quality Requirements (DQR), and any council housing will also be built to the agreed Swansea Standard. WG are also considering decarbonisation standards for affordable and market housing, and this will need to be factored in when negotiating standards.
- Understanding the type of JV that the Council wants to enter into and the level of control that it wants to retain. WG are currently reviewing the HRA guidance with regard to Housing developments within and outside the HRA (such as a JV), and this will inform how the model will operate, and how the land and properties will be treated within the arrangement.

4.7 In order for the process to run smoothly governance is a key issue that needs to be addressed, and it is proposed that a Project Board is set up comprising officers from Housing, Planning, Legal, Procurement and Finance that will report through Housing Futures Programme Board and Members Steering Group.

4.8 It is envisaged that a competitive process will could take between 12 and 18 months.

4.9 Once a preferred bidder or bidders have been identified then a report would be brought back to Cabinet outlining the bids received and providing detailed information on the terms proposed by the preferred bidder/s for a decision on whether to proceed to enter into the JV agreement/s.

5. Equality and Engagement Implications

5.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above.

5.2 An EIA Screening Form has been completed and a full EIA report is not required at this stage. Each site will need to be considered in detail once

the development proposals are known. This will be subject to a further report.

- 5.3 This project is a good example of the 5 Ways of Working promoted by the Wellbeing of Future Generations (Wales) Act 2015 and will make a significant contribution to the 7 well-being goals. It is an example of collaborative working between the public and private sector in a sustainable way resulting in a long term partnership with the objectives of developing key sites within the city for the benefit of future generations.
- 5.4 This is a major public and private sector investment programme, assisting in the regeneration of vacant HRA sites, looking to develop affordable and market houses in areas that have in the past attracted little interest from developers. It is hoped that this approach will stimulate the housing market and promote economic growth, addressing issues such as poverty, inequality, jobs and skills which directly contributes to the council's obligations to act in a sustainable way pursuant to the WFGA.

6. Financial Implications

- 6.1 The HRA Business Plan includes a budget of approximately £5m per annum for More Homes over the next 30 years. At present, it is difficult to know what additional subsidy, over and above the land may be required as a result of developing mixed tenure schemes, as this will be subject to negotiation as part of the joint venture. A full analysis of the financial implications will be detailed in a future report.
- 6.2 It is also assumed that any advice required prior to or during the procurement exercise will be met from the More Homes HRA revenue budget. It is estimated that a sum of £100k is allowed for this.
- 6.3 Any potential grant funding opportunities will be explored as part of the process. WG are currently reviewing the financing of affordable housing delivery, so at present assumptions cannot be made about any potential grant subsidy to support the schemes.

7. Legal Implications

- 7.1 The competitive process to appoint a partner/s will be undertaken in accordance with the provisions of the Public Contracts Regulations 2015.
- 7.2 The Council must consider how it will evaluate any proposals submitted by the bidders. This will require a detailed prior understanding of the various models that are available and their potential financial and legal benefits and risks.
- 7.3 The Council proposes the appointment of specialist external legal advisors with significant experience in this legally complex area to assist in house

lawyers with this project. The appointment process will be progressed separately in accordance with the Council's Contract Procedure Rules.

- 7.4 External legal costs will be met from the More Homes budget and any additional resources required will be shared with the other Council JV projects where appropriate. It is recommended that the same legal advisors are appointed for the procurement for both HRA/General Fund sites and the Strategic Sites. It is envisaged that the appointment of the same legal advisors on both projects will result in economies of scale, consistency of advice and avoid duplication of resources wherever possible.

Appendix 1 - EIA Screening Tool

Background Papers: None