



**Report for:** CABINET

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Date of Meeting: 29 August 2023

Subject: **HOUSING REVENUE ACCOUNT (MID DEVON HOUSING) LARGE SITES OPTIONS**

Cabinet Member: Councillor Simon Clist, Cabinet Member for Housing and Property Services

Responsible Officer: Simon Newcombe, Corporate Manager for Public Health, Regulation and Housing

Exempt: None

Wards Affected: Directly – Tiverton Castle and Lowman, Cullompton Padbrook. Other wards indirectly through the provision of new social housing

Enclosures: Annex A shows options analysis for each large site. Annex B shows development programme option profiles

### **Section 1 – Summary and Recommendations**

The reports sets out options for potential large sites within the Housing Revenue Account (HRA) development programme. The sites considered are Post Hill, Tiverton, St Georges Court, Tiverton and Knowle Lane, Cullompton. These sites are presently within the control of the Council with Post Hill held within the HRA

The purpose is to agree the 5-year HRA development programme (2023/24 to 2027/28) in respect of these large potential sites for new social housing within Mid Devon Housing (MDH) stock taking into account the options analysis presented.

## **Recommendations:**

- 1. That Cabinet approve the acquisition of St Georges Court, Tiverton by the HRA subject to an agreed valuation.**
- 2. Delegated authority be granted to the S151 Officer and the Corporate Manager for Public Health, Regulation and Housing (in consultation with the Cabinet Members for Finance and Housing & Property Services) to complete the purchase of St Georges Court, Tiverton.**
- 3. Subject to Recommendations 1 and 2, that Cabinet approve a local lettings approach for the allocation of social housing at St Georges Court as primarily over-60 years accommodation with a mix of 28 social rent and 11 affordable rent units.**
- 4. That Cabinet approve the HRA undertaking a feasibility study into the acquisition and development of Knowle Lane, Cullompton as social housing for potential inclusion later in the HRA 5-year development programme.**
- 5. That Cabinet agree the HRA will not progress its proposed development and relevant tender for Post Hill, Tiverton.**
- 6. Subject to Recommendation 5, that Cabinet grant delegated authority to the S151 Officer and the Corporate Manager for Public Health, Regulation and Housing to explore alternative options for the delivery of affordable housing at Post Hill, Tiverton including potential sale or transfer of the site. This is to be brought back to Cabinet for consideration in due course.**

## **Section 2 – Report**

### **1 Introduction**

- 1.1** Mid Devon is facing the challenges of a local housing crisis with circa 1k residents registered on Devon Home Choice locally waiting for affordable, social housing.
- 1.2** As part of a wider Housing Strategy response, MDH have a 5-year social housing development programme with a target of 500 social housing units. This programme is included within the Housing Revenue Account (HRA) Medium Term Financial Plan (MTFP) 2023-2028 approved March 2023. The MTFP is currently fully budgeted for Years 1-3 but has a projected budget deficit for Years 4-5.

- 1.3 A deficit occurs where the revenue costs of capital borrowing and asset depreciation exceed rental revenue and costs to deliver the wider housing service. This includes rising cost pressures generally alongside essential stock maintenance, safety requirements/improvements and modernisation in order to sustain a compliant stock overall.
- 1.4 The HRA development programme is currently projected to cost £92.2m gross and is currently scheduled to achieve 496 units at the end of Year 5. Profiled as:
- Over 30 infill, regeneration projects with a combined estimate of 404 units. Mostly modular, modern methods of construction (MMC) with some traditional build (Years 1- 5)
  - 12no. buy-back acquisitions (Years 1 – 5)
  - 70no. units Post Hill, Tiverton (Years 2 – 3)
- 1.5 Modular units are currently provided via direct award under the SWPA (South West Procurement Alliance) procurement framework. A new modular housing framework is due later in 2023 and suppliers/available solutions will be kept under review. Ad-hoc traditional build is undertaken by individual tender. Post Hill has recently undergone a separate JCT (Joint Contracts Tribunal) tender exercise with a decision required by November 2023 (see Section 2).
- 1.6 £20m has been included in the current HRA capital programme for Post Hill. With this allocation in place, the MTFP has a present budget deficit of £2.0m at end of Year 5 (£92.2m expenditure against £90.2m available) with a high capital borrowing profile accounting for c£49m within the programme.
- 1.7 The Post Hill tender submissions are relatively closely matched with an average cost for final delivery of £21m. Including c£0.5m spend to date on design, planning and the tender process plus outstanding s106 contributions/indexation the final potential project cost to the HRA is now estimated at c£22.5m which will widen the MTFP deficit further. This excludes the initial, reduced land purchase cost and preliminary S106 payment made from the general fund in 2018 and 2019 (see Section 2).
- 1.8 The preferred tender (under a technical tender evaluation) has a price of £20m however all tenderers were only able to hold prices for 30-days against a requested 6-months due to current inflationary pressures and material/labour cost rises. Consequently, before any award of contract the price will require renegotiation. A relatively modest 5% rise would equate to £21m and this figure has been modelled in the options analysis below. However, an increase beyond 5% i.e. greater than £21m would not be unfeasible based on current interest rate trend. Construction price inflation has in recent months been running at levels in excess of 10%.
- 1.9 Grant funding is available for all units in the programme and built into the MTFP as set out below.

- 1:4:1 receipts @ 40% per scheme (fixed; from Right to Buy (RTB) sales of existing stock)
- Homes England Affordable Homes Programme (AHP) @45% (prudent average)
- One Public Estate Brownfield Release Fund (OPE BRLF) @15k per unit (prudent average)

The exception is Post Hill which has no eligibility for either 1:4:1 or AHP due to planning gain and the S106 in place. As a greenfield site, it is also ineligible for OPE (Brownfield Release Fund) funding.

- 1.10 Recent flexibilities in the use of 1:4:1 RTB receipts (two-year 100% retention) and an improved Public Works Loans Board (PWLB) borrowing rate (from June 2023) introduced by the Department of Levelling Up, Housing and Communities (DLUHC) have enhanced the MTFP position but not enough to close the Year 4–5 gap based on the current programme/projects. Changes to the AHP announced in July 2023 (regeneration and ability to claim for all units not just additional ones) have not been fully modelled however an initial estimate is built into an improved pipeline of sites in Years 4-5.

## **2 Post Hill, Tiverton acquisition and implications**

- 2.1 How the Council entered in contract to purchase this site for the purpose of providing affordable homes and the delivery restrictions imposed as a result is relatively complex. A summary of this process and the current position in respect of restrictions to grant funding and planning obligations under the site S106 agreement (section 106 Town and Country Planning Act 1990) is set out below.
- 2.2 In 2014, an original outline planning application (13/01616/MOUT) was submitted by Barratt Homes (which became Barratt David Wilson / BDW) and was subsequently approved. This encompassed the whole Post Hill site for 330 dwellings. Determination of the application included consideration of affordable housing matters and other contributions to education etc.
- 2.3 Following Planning Committee, a S106 legal agreement was signed in September 2015, securing relevant contributions.
- 2.4 A further report went to Planning Committee in July 2016 agreeing amendments to the S106. This set out the delivery of 21.5% affordable housing i.e. 70 units together with a financial contribution towards the affordable housing of £120k which would be delivered overall through a reduction in the cost of the land to the Council.
- 2.5 In essence, the Council agreed to enter into a contract with the wider developer and landowner for the provision of the overall affordable housing allocation at Post Hill on the basis of securing an appropriate single parcel of land within the wider Post Hill development at a reduced price. The S106 therefore requires affordable housing to be delivered on the basis of this planning gain which makes the site ineligible for utilising any 1:4:1 or AHP funding.

- 2.6 Following the Committee Decision of July 2016, a Deed of Variation was agreed in 2017 finalising the current S106 agreement for the site.
- 2.7 Consequently, in December 2017 a contract for the sale of freehold land at Post Hill was signed between BDW Trading Ltd, Waddeton Park Ltd (land owners) and MDDC. As a result, the Council purchased the site for £410k under the contract terms and became legal owners of the land.
- 2.8 Under these terms, in addition to the purchase price, an initial S106 payment of £509k for relevant contributions was made in 2018 and a further £661k (excluding a disputed £21k) is now due, based on a trigger point of no. units built by developers on the wider Post Hill site. This outstanding payment has an indexation clause and the amount is currently increasing by circa £5k per month.
- 2.9 A restrictive covenant within the contract of sale sets out that the land shall not be developed with more than 70 dwellings. This commercial contractual transaction does not limit delivery to affordable dwellings, however there are planning policy considerations given that no affordable housing has been provided elsewhere at Post Hill with this site allocated for 100% affordable delivery. Nonetheless, if the Council wanted to erect more dwellings and/or non-affordable dwellings on the land it would need to renegotiate the S106 with the sellers to reflect the increased land value and remove current restrictions in both the current contract and S106 agreement.
- 2.10 The site was held in the Council General Fund for several years and then transferred more recently into the HRA. This transfer occurred on the basis that MDH would take forward a design and feasibility study leading to securing full planning permission and evaluation of a subsequent tender. The intention being that the HRA may deliver the 70 affordable homes for retention in MDH stock.
- 2.11 Following a subsequent Cabinet procurement decision, a RIBA (Royal Institute of British Architects) Stage 1-4 contract was entered into with an external engineering construction consultancy in 2021. This provided for concept and feasibility studies through to detailed technical design and submission of a full planning application. Internal project management was undertaken by the corporate lead for property and assets supported by MDH (as the prospective client).
- 2.12 Planning permission 22/01255/MFUL was granted by Planning Committee in June 2022 conditional on delivery of 70 affordable homes. Due to queries regarding education and NHS Devon contributions (under the S106) which are now resolved, the decision notice was not issued until June 2023.
- 2.13 Following grant of planning permission in 2022, following a further Cabinet decision, a JCT tender exercise was completed from September 2022 - June 2023. The tender evaluation has been completed which provided the

modelled delivery cost of £21m, subject to inflationary renegotiation/confirmation as set out in Section 1.

- 2.14 A Cabinet decision is now required on whether or not to award a contract to the preferred tenderer. This must be made by November 2023 at the latest under the formal tender process.
- 2.15 Following tender evaluation and with detailed delivery costs known, an in-depth financial assessment has been carried on the viability and value for money (VFM) position for the HRA to deliver this site which has informed this analysis.
- 2.16 In essence, viability considerations set out to establish whether the HRA *can* afford to develop the site taking into account legal obligations to have a sound long-term position as a registered housing provider (5 year MTFP and 30 year financial plan). This covers matters such as the pay-back period/asset depreciation and revenue implications arising from capital borrowing alongside the wider revenue budget and capital programme for required overall stock safety compliance, maintenance and modernisation versus projected rental income. VFM considerations determine whether the HRA *should* develop a site where it is technically viable to do so; a determination set against overarching legal obligations to spend tenant money responsibly i.e. make effective financial decisions that represent value for money.
- 2.17 Given the above, a decision on the whether to proceed with the Post Hill tender needs to be made in isolation (i.e. scheme viability and VFM in its own right) but where it is nevertheless helpful to consider this in the context of the respective merits of other large site options available to the HRA. This will ensure the HRA retains long-term sustainability whilst seeking to deliver meaningful growth in its stock where possible under a rolling development programme. In doing so, that the Council safeguards MDH for the benefit our tenants, at present and in the future.

### **3 Other large sites – opportunities outside of the current programme**

- 3.1 Post Hill is presently the only large single site (>35 units) within the current 5-year HRA development programme. However, there are two further available sites with potential to deliver additional or alternative MDH stock for consideration as potential options. These sites are with MDDC control;
- St Georges Court, Tiverton (39 units) – full planning, nearing completion
  - Knowle Lane, Cullompton (estimate 74-90 units) – land acquisition only
- 3.2 Currently, no other large market sites (or smaller sites in combination) outside of current MDDC ownership capable of accommodating 35+ units have been identified as viable additional options from initial screening.

### **4 Options analysis – Post Hill, St Georges Court and Knowle Lane**

- 4.1 Annex A sets out the potential pros and cons of MDH (HRA) taking forward each of these larger option sites. The approximate location and site boundary for the respective sites is also set out in Annex A.

4.2 Overall, the analysis presented in Annex A is underpinned by the following considerations and assumptions:

- Any delivery interdependencies across the development programme
- Impact on wider, main development programme – any net reduction or uplift on overall 500 unit target
- Viability – affordability to the HRA (site specific basis)
- VFM to the HRA (site specific basis)
- Overall HRA MTFP considerations
- Enable maximum use of present funding flexibilities and grant opportunities
- Housing Strategy delivery – meeting current objectives in response to the housing crisis together with a priority that we deliver maximum social housing

4.3 Conclusions on the overall viability of each site are further set out on a site-specific basis. Within the scope of these conclusions, current and several option profiles are shown in Annex B setting out the varying impact on the programme numbers, social/affordable rent mix and costs (including mix of funding and borrowing level).

4.4 The potential options in Annex B are summarised below. These are designed to be informative, estimated projections that show how key elements of the current MTFP and HRA capital programme may be impacted overall if they are taken forward.

- Current Programme with Post Hill – 496 units by 2027/28, £92.2m gross cost, 53% borrowing (£48.8m) with a projected MTFP deficit of £2.0m minimum
- Option 1 – Current Programme without Post Hill – 426 units by 2027/28, £72.2m gross cost, 48.2% borrowing (£34.8m) with a projected MTFP surplus of £2.4m
- Option 2 – Current Programme without Post Hill with St Georges Court (with some adjustment) - 446 units by 2027/28, £62.9m gross cost, 50.6% borrowing (£31.8m) with a projected MTFP surplus of £2.1m
- Option 3 – Current Programme without Post Hill with St Georges Court (no further adjustment) - 465 units by 2027/28, £80.9m gross cost, 49.6% borrowing (£40.1m) with a projected MTFP surplus of £1.8m
- Option 4 – Current Programme without Post Hill with St Georges Court and Knowle Lane at 74 units (with some adjustment) - 499 units by 2027/28, £78.9m gross cost, 51.5% borrowing (£40.6m) with a projected MTFP surplus of £1.49m

4.5 As with any forward development programme and related MTFP/capital programme, these contain a number of (reasonable) assumptions such as; site valuations, unit numbers deliverable by site, design assumptions/net carbon-

zero specification and estimated unit costs, borrowing costs against rental revenue, grant levels/availability and other funding opportunities or flexibilities etc. Consequently, the development programme and HRA will continue to be refined on a rolling basis with greatest certainty at the front of the plan and least towards the end of the 5-year period. Nevertheless, depending what recommendations are agreed, a full update to the overall HRA MTFP will be provided in Q3 of 2023/24 to ensure the most current projections and assumptions are available in-year and go forward into the detailed 2024/25 budget setting process.

- 4.6 This paper including Annexes A and B is therefore presented to enable Cabinet to provide a clear steer on the outcomes for these large sites and set the way forward in terms of delivering the overall MDH development programme within an affordable, balanced budget position for the HRA.

## **5 Recommendations**

- 5.1 In the context of above and the conclusions set out in Annexes A and B, six recommendations are made as set out in full in Section 1. These recommendations align with Option 4 described above and in greater detail within Annex B.

- 5.2 Option 4 is preferred for the following reasons:

- Provides clarity on the outcomes or next steps regarding the utilisation of each site against local housing needs and the specific opportunity to bring forward designated over-60s affordable accommodation in a preferential location
- Meets the HRA viability requirements and represents best overall VFM, therefore is compliant with the broader legal considerations of the Council as a Registered Provider of social housing
- Maximises the projected number of units delivered within the 5-year HRA development programme within a balanced (surplus) MTFP position
- Enables early, maximum use of present funding flexibilities regarding 1:4:1 receipts with c£8m less borrowing across the programme compared to current programme
- Meets the overarching priority of the Housing Strategy 2021-25 to increase delivery of quality designed, well-built affordable homes. Specifically aligns with Strategy Objectives 3 and 5 (secure more affordable housing and retain a viable Council Housing Stock)
- Represents the most balanced, lowest overall risk position in the context of the long-term viability of the HRA and the ambitions of the development programme



- 5.3 Recommendations 1, 2 and 3 cover the potential acquisition of St Georges Court by the HRA for specific use as over-60 years accommodation under a local lettings approach. Recommendation 4 sets out the provision for further feasibility studies for the development of Knowle Lane by the HRA and recommendations 5 – 6 set out that the HRA do not proceed with the Post Hill tender and explore alternative options for the provision of affordable housing on this site for future Cabinet consideration.

### **Financial Implications**

The activity of MDH including its development programme is funded through the HRA. The HRA is ring fenced and subject to specific financial controls. There are direct MTFP and longer-term financial implications arising from this report as set out.

### **Legal Implications**

The Council is (and must be) a registered provider of social housing and therefore is required to comply with the regulatory framework operated by the Regulator for Social Housing (RSH). As such, in general terms, all of its decisions must be made with the tenant at the heart of its decision-making and with assurance that tenants money (i.e. rental income and investment across the HRA) is being spent responsibly in a way that benefits tenants both in the short and long-term, therefore must demonstrate VFM and protect the overall viability of the HRA.

Under the regulatory framework, the RSH sets out economic and consumer standards that registered providers of social housing must comply with. In terms of economic standards, these cover:

- Governance and Financial Viability Standard – how well the organisation is run and is it financially viable
- Value for Money Standard – does the provider make the best use of its resources to meet its overall objectives
- Rent Standard – are rents set on accordance with Government policy for social rents

As a local authority, we are expected to maintain wider financial viability and set balanced budgets against prudent financial decisions at all times. As such, the RSH does not have specific powers to intervene with the Council under the economic standards (except rents). Nonetheless, it has full powers to intervene with all providers including the Council with regard to the consumer standards set out below. As such it will undertake considerations in respect of any major decisions which represent poor VFM and viability likely to result in an avoidable, therefore unacceptable, impact on wider compliance.

The framework has recently been updated in respect of the consumer standards with the inclusion of a new Tenant Satisfaction Measures (TSM) standard, bringing the total number of consumer standards to five:

- Home Standard – quality of accommodation/safety, repairs and maintenance
- Tenancy Standard – how properties are allocated/exchanged and terms around tenure

- Neighbourhood and Community Standard – issues around neighbourhood and communal areas and anti-social behaviour
- Tenant Involvement and Empowerment Standard – customer service and complaints, tenant rights and involvement
- Tenant Satisfaction Measures Standard – reporting against the TSMs, which cover information on areas such as repairs, safety checks and complaints (from 1 April 2023).

This overarching framework consequently sets the legal standards for the compliance and performance required of MDH. Under legal changes introduced by the landmark Social Housing (Regulation) Act 2023, the RSH also now holds substantial new powers to intervene where failures to meet standards have caused, or could have caused, serious harm to tenants and/or where we have failed to put tenants at the heart of the service we provide. Overall, this significant change in the regulation of social housing brings forward the following changes which the Council must be mindful of when making key decisions that impact MDH and therefore the HRA:

- Strengthening of the RSH to carry out regular inspections of the largest social housing providers and the power to issue unlimited fines to rogue social landlords
- Additional Housing Ombudsman powers to publish best practice guidance to landlords following investigations into tenant complaints
- Powers to set strict time limits for social landlords to address hazards such as damp and mould
- New qualification requirements for social housing managers
- Introducing stronger economic powers to follow inappropriate money transactions outside of the sector

## **Risk Assessment**

The Council has approximately 3,000 homes in management and the performance of MDH impacts upon the lives of many thousands of tenants and their families. This represents a huge responsibility and investment, consequently a major area of risk.

Not providing an effective housing management service has the potential to result in failure to meet legal and statutory obligations including those relating to health and safety issues, repairs obligations, tenancy fraud and reputational issues which could result in our tenants feeling stigmatised.

Failure to collect rental income could impact the ability to fund necessary management and maintenance activities and/or the delivery of new housing into the MDH stock.

Furthermore, a failure to provide adequate information on service performance and effective service delivery for the purposes of governance and scrutiny is a specific area of non-compliance with the requirements of the RSH. Under new powers set out above, the RSH will be able to impose performance improvements and potentially fine registered providers where performance is poor and/or adequate assurance is not provided.

Given the requirements of the new regulatory regime with the enhanced enforcement powers available to the RSH, it is critical that the HRA is in a stable position to both address the housing crisis (through the provision of new social housing) but also ensure we are able to invest in and maintain our existing stock of housing effectively in order to meet these enhanced legal requirements and ensure the well-being of our tenants.

Overall, the delivery of an effective MDH housing service including the provision of new social housing is a key mitigation in respect of Corporate Risk 12: Housing Crisis which is currently judged at Risk Severity 4 / Risk Likelihood 3 (Status 12 / amber). As such it is important the Council continues to mitigate this risk which making balanced, reasonable and informed decisions on how it invests in the housing service going forward.

### **Impact on Climate Change**

None directly arising from this report.

### **Equalities Impact Assessment**

MDH has a collection of housing related policies. The use of these helps to ensure that service delivery is consistent and fair. These are currently being reviewed with the aim of aligning them more closely with the Regulatory Standards. There is a regulatory requirement for registered providers of social housing to tailor their services to meet the needs of tenants. MDH requests diversity data from tenants to enable compliance to be monitored.

MDH is required to work with people from all sections of society and having an agreed policy ensures that all tenants and other stakeholders are treated in the same way with adjustments being made to meet their needs, as necessary. The Housing Ombudsman Service Complaints Handling Code which MDH adhere to also requires landlords to have an awareness of accessibility so residents are easily be able to access the complaints procedure via several routes.

### **Relationship to Corporate Plan**

Homes and the Environment are a priority for the Council and this includes increasing the supply of affordable homes in the District.

### **Section 3 – Statutory Officer sign-off/mandatory checks**

**Statutory Officer:** Andrew Jarrett

Agreed by or on behalf of the Section 151

**Date:** 15 August 2023

**Statutory Officer:** Maria De Leburne

Agreed on behalf of the Monitoring Officer

**Date:** 15 August 2023

**Chief Officer:** Simon Newcombe

Agreed by or on behalf of the Chief Executive/Corporate Director  
**Date:** 10 August 2023

**Performance and risk:** Steve Carr  
Agreed on behalf of the Corporate Performance & Improvement Manager  
**Date:** 11 August 2023

**Cabinet member notified:** Yes

#### **Section 4 - Contact Details and Background Papers**

**Contact:** Simon Newcombe, Corporate Manager for Public Health, Regulation and Housing  
**Email:** [snewcombe@middevon.gov.uk](mailto:snewcombe@middevon.gov.uk)  
**Telephone:** 01884 255255

#### **Background papers:**

Mid Devon Housing Strategy 2021-25:  
<https://www.middevon.gov.uk/media/353400/housing-strategy-2021-25.pdf>

## Annex A – Options Analysis

Post Hill, Tiverton	Pros	Cons
<p><b>70 units</b></p> <p>8no. 1-bed apartments            12no. 1-bed terrace houses            22no. 2-bed terrace houses            20no. 3-bed semi-detached houses            8no. 4-bed detached houses</p> <p>62 Affordable rent            8 Social rent (1-bed apartments)</p> <p>Market valuation (independent) £18.5m            in Feb 2023</p>	<ul style="list-style-type: none"> <li>• MDDC ownership and full planning permission secured</li> <li>• Tender process undertaken, technically deliverable</li> <li>• High quality scheme</li> <li>• Zero-carbon, Passivhaus standard</li> <li>• High visibility and level of delivery</li> <li>• Meets local demand/helps to address existing limited provision of larger 4-bed homes (however see Cons - RTB)</li> <li>• Would complete the wider Post Hill development</li> </ul>	<ul style="list-style-type: none"> <li>• Challenging topography/expensive infrastructure</li> <li>• Not suited to modular build – traditional delivery with higher unit and overall project costs</li> <li>• Ineligible for grant funding or use of 1:4:1 receipts due to s106 agreement/contract/planning gain restrictions</li> <li>• Very poor Value For Money (VFM)               <ul style="list-style-type: none"> <li>○ £21m tender outcome with price renegotiation required</li> <li>○ Design, planning, tender and S106 costs increase overall project cost to £22.5m</li> <li>○ £321k per unit price (compared to average 2-bed costs of £185k modular/MMC, £205k traditional, £250k podium/flood zone modular new builds and £208k market buy-backs)</li> <li>○ Unit price is therefore 74% higher than lowest cost alternatives</li> <li>○ 80+ yrs cost-recovery (Link Report June 2023)</li> <li>○ Delivery cost is greater than market valuation</li> </ul> </li> </ul>

		<ul style="list-style-type: none"><li>○ RSH scrutiny/legal issues arising from poor VFM</li><li>● Not presently £ viable:<ul style="list-style-type: none"><li>○ Gap in MTFP/5-year HRA development plan budget - £20m currently allocated with existing £2.01m budget gap Years 4-5</li><li>○ Overall project costs will increase the MTFP budget deficit further</li><li>○ Adverse impact on wider HRA development programme (with better VFM/viability)</li><li>○ Lack of grant funding - HRA has to meet 100% build cost (compared to other schemes where 40-50% funding is possible, higher on some sites)</li><li>○ Already high affordable rent base – very limited provision to substantially increase rent return</li><li>○ Viability gap unlikely to be bridged in short to medium term (Year 5+/next development programme)</li></ul></li><li>● Value-engineering of site (non-essential Passivhaus) reduces delivery cost by c£1-1.5m – of which £0.5m cannot be realised due to new design, planning and tender costs. Due to the requirement for new planning permission then the permitted design outcome and final cost saving from this option is uncertain</li></ul>
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		<ul style="list-style-type: none"><li>• Cannot increase site unit volume to reduce overall unit costs (70 unit restrictive covenant/contract/S106). Doing so would also incur additional costs in any case as above</li> <li>• Attractive to RTB – high / potentially early level of future loss, especially larger units. Difficult to preclude RTB given site design restrictions and location</li> <li>• S106/Homes England considerations:<ul style="list-style-type: none"><li>○ Negotiation with former owners with legal and planning committee process to change s106 agreement (removal of restrictions/red-line to HE AHP funding)</li><li>○ Timeline – unlikely to be compatible with tender decision by November 2023</li><li>○ Uncertain outcome</li><li>○ Reputational impacts of varying an affordable housing S106 agreement – difficult messaging</li><li>○ If successful, overall costs and eligibility issues likely to limit grant to Mid Devon of 30% at best. HE have local project concerns re. AHP programme with better options in our pipeline they would set preference to fund, so this is not sufficiently certain to be a viable assumption in the MTFP in the future</li></ul></li></ul>
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		<ul style="list-style-type: none"> <li>• Remains ineligible for OPE BRLF grant (greenfield land)</li> <li>• Outstanding S106 contribution liabilities also need further determination (£660k with indexation)</li> </ul>
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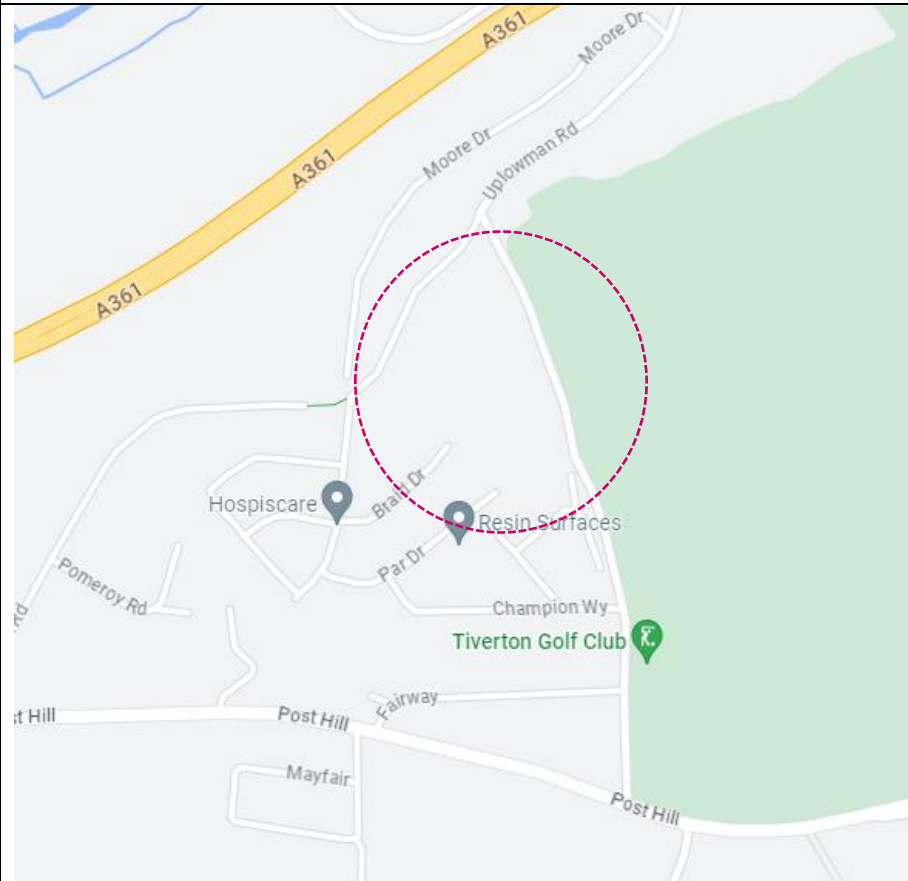
## Conclusions

- A. The site and development proposal is not £ viable and represents very poor VFM for the HRA. RTB losses may also be disproportionate
- B. Given the above, there is a requirement to explore alternative delivery of affordable housing at this site outside of the HRA. This will require appropriate legal resource in order to address the legal framework challenges around alternative development:
- Removal of specific S106 barrier to affordable housing grants – see Cons above/not without challenge and reputational impact but potentially essential in order to unlock barrier to affordable housing grant funding for other registered providers
  - Renegotiation of the S106 agreement around any uplift to the volume of units delivered on the site or amendment to level of affordable housing delivery
- C. The site can be held with minimal ongoing revenue cost (excluding S106 payment) whilst potential alternative options are explored:
- Sell/transfer to a regional or national RP (Housing Association) with strategic HE funding who can utilise without restriction (better VFM without RTB risks), affordable housing is still provided / broader development completed. Affordable housing could come forward at alternative to rent tenure, for example shared ownership or Rentplus model (rent to buy).
  - Retention of the site freehold and explore options to deliver part or all of the site for affordable custom and self-build dwellings or other mix of use

Overall, a specific business case will be required setting out alternative options for the site most likely to secure alternative housing delivery within the relevant legal framework constraints.



# Location



St Georges Court, Tiverton	Pros	Cons
<p><b>39 units</b></p> <p>15no. 1-bed apartments 13no. 2-bed apartments 9no. 2-bed terrace houses 1no. 2-bed semi-detached house 1no. 3-bed semi-detached house</p> <p>Mix of affordable or social rent tbc – options broadly are:</p> <ul style="list-style-type: none"> <li>○ All affordable rent (£224k rent pa based on comparison with Turner Rise)</li> <li>○ All social rent (£184k rent pa nationally capped, 23/24 base)</li> <li>○ Mix of 28 social rent (all apartments) and 11 affordable (all houses) (£209k rent pa) - preferred</li> </ul> <p>VFM and viability analysis undertaken on £8.65m impairment loan value estimate for the site.</p>	<ul style="list-style-type: none"> <li>• Within MDDC control</li> <li>• Near complete site – in-year delivery with high quality build and positive messaging as affordable housing</li> <li>• Early delivery of 39 units/64 beds in programme. Accelerated occupation and increased town-centre footfall</li> <li>• Unique opportunity to gain town-centre, level and adapted access site</li> <li>• Highly suited to local lettings approach to create new over-60s social housing community with Lifeline alarms built-in (rare opportunity)</li> <li>• Meets specific, high local demand</li> <li>• Downsizing potential of existing over-60 MDH tenancies/increase availability of larger, family properties across stock</li> <li>• Preclude RTB min 70% units; adapted, low mobility or full wheelchair access properties in place – 28 of 39 units (all apartments/will require min £100k investment in level access showers)</li> <li>• Potential cost/benefit of adapted conversions to houses and preclude RTB on remaining 11 units</li> </ul>	<ul style="list-style-type: none"> <li>• Independent market valuation not currently available</li> <li>• Not eligible for OPE BRLF or HE AHP grant funding as scheme has commenced – mitigation through use of available 1:4:1 receipts (noting wider benefits of this – see Pros)</li> <li>• Delivery timeline uncertainty – extent of remaining external works, snagging and intrusive BC sign-off required</li> <li>• Minimum £100k additional adaption works (level access showers all units/other works) required if RTB to be precluded on 70% of units – greater for 100% (see Pros). Long-term cost-benefit but this specific element may not be eligible for 1:4:1 spend (tbc) so full additional cost needs to be factored into overall project cost and purchase as worse-case</li> <li>• Some potential local resistance to switch of site to social housing – mitigation through political</li> </ul>

<p>Valuation for potential HRA acquisition to be confirmed. District Valuer Services valuation of the site will be required to determine final rent basis and overall value</p>	<ul style="list-style-type: none"> <li>• Eligible for 1:4:1 @40% with earlier utilisation of 1:4:1 within wider development programme. Maximises current flexibilities and de-risks any DLUHC returns (residual remaining 1:4:1 can be aligned to a single project within timescale rather current, widely spread allocations / numerous projects)</li> <li>• Wider benefit of earlier utilisation of 1:4:1 receipts through switch of allocated funding on later projects to 45% HE AHP grant/reduced borrowing</li> <li>• Good potential VFM <ul style="list-style-type: none"> <li>○ £8.75m overall project estimate (£8.65m acquisition plus £100k additional bathroom adaption works)</li> <li>○ £224k unit price (compares well to both modular other market traditional @ £205k for average 2-bed with cost certainty in a market which is currently volatile)</li> <li>○ Final unit and overall project cost reduced by 40% (1:4:1 contribution - see viability).</li> </ul> </li> <li>• Good potential £ viability <ul style="list-style-type: none"> <li>○ Deliverable within current 5-year MTFP with relatively minor adjustments</li> <li>○ 40% 1:4:1 eligible/immediate available funding, applied retrospectively to final project cost</li> <li>○ Enables use of time limited flexibilities and priority enhanced 1:4:1 receipts. On this basis £4.1m of receipts are available</li> <li>○ An acquisition price of £8.65m enables eligible utilisation of £3.46m of 1:4:1 receipts with the following end unit costs:</li> </ul> </li> </ul>	<p>support, engagement with town council/local residents and local lettings/over-60s approach</p>
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		Projected acquisition spend	Eligible 1:4:1 receipts	Additional adaption works	Remaining funding required	Average end unit cost	
		£8,650,000	£3,460,000	£100,000	£5,290,000	£136k	

- Remaining funding requirement can be met by reallocation of buy-back budget (£2.5m across programme) and Phase 1 reduction of Knightswood site (Cullompton) later in programme (remainder)
- If the above option is chosen then there is a loss of c19 units in wider programme but still an overall c20 unit net gain
- HE AHP team supportive of increased pipeline due to early spend of 1:4:1 receipts
- Beneficial overall impact on wider HRA development programme with no major skew

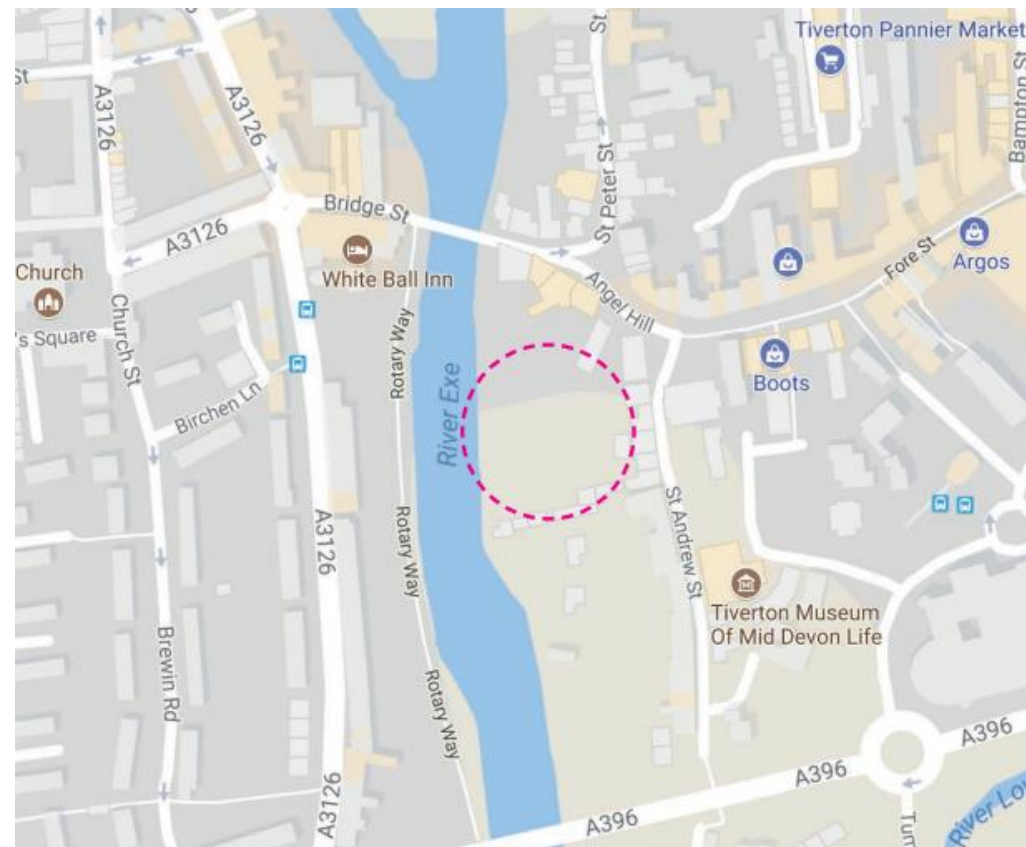
## Conclusions

- A. Subject to an independent market valuation, the site has strong VFM and viability for the HRA with a unique opportunity to create over-60s accommodation under a local lettings approach. Focus on downsizing of existing tenants in locality, freeing up more family homes in the wider MDH stock
- B. Site is suitable to proceed, subject to site completion / BC sign-off and handover in-year – ideally before end Q3 so wider programme stays on track and use of 1:4:1 funds remains timely
- C. Undertake additional adaption works and inclusion of lifeline alarms alongside local lettings approach to strengthen designated over-60 (non-general needs) accommodation approach with exemption of all adapted properties from RTB

D. 28/11 split of social rent and affordable rent mix offers best option to facilitate desired lettings approach as a mid-point on maximum rental return to the HRA

**Location**

(note: additional parking area on northern boundary permitted by Planning Application 22/00672/FULL included within site but not shown)



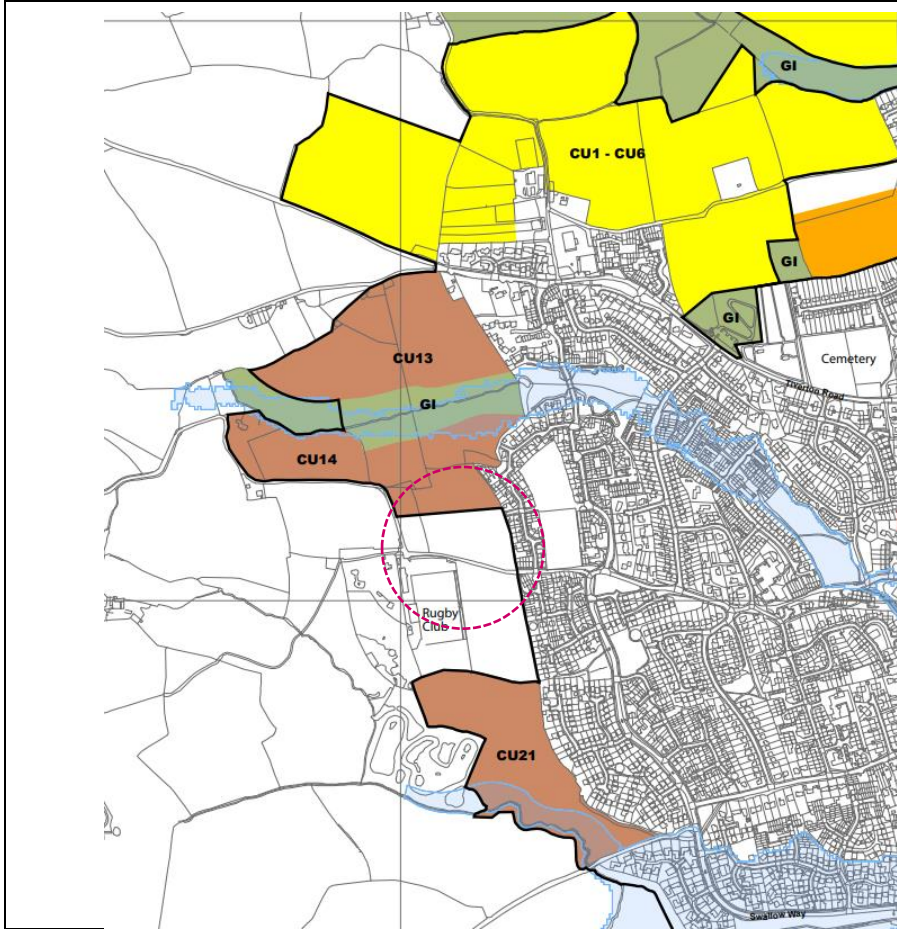
Knowle Lane, Cullompton	Pros	Cons
<p><b>Possible 74 – 90 units (full site)</b></p> <p>Mix to be determined but emphasis on 1-2 bed units with some 3-beds based on heat-map/DHC demand</p> <p>Emphasis on social rent but flexible, some affordable units (dependent on other adjustments in wider programme). Prospective split 50 social rent/24 affordable rent based on minimum 74 units</p> <p>Estimate current land valuation c£2.4m but new valuation required</p>	<ul style="list-style-type: none"> <li>• Within MDDC control</li> <li>• Previous planning permission for 74 larger units (mainly 3-bed)</li> <li>• Potential to provide up to 90 MDH units with greater emphasis on 1-3 bed units within same build footprint</li> <li>• Level site with good access (two points, one in place off Martin Way)</li> <li>• Below average infrastructure requirements</li> <li>• Part in Local Plan allocation for residential use (CU-13) – however see Cons / Planning uncertainty</li> <li>• Ability to meet high local demand with flexibility around rent approach</li> <li>• Suited to MMC with traditional appearance – reduced delivery cost</li> <li>• Above average RTB preclusion (50%+) which will meet current DHC adapted property requirements in locality</li> </ul>	<ul style="list-style-type: none"> <li>• Greenfield development – no regeneration benefit, albeit part of the site is allocated within Local Plan</li> <li>• Not eligible for OPE BRLF grant (max £15k per unit, only available on brownfield sites)</li> <li>• Some planning uncertainty - only 50% site within current Local Plan allocation CU-13. Previous application overcame this and traffic objections on appeal however the full requirements of CU-13 will need to be addressed alongside ‘exception’ policy (DM6) for affordable housing outside of settlement boundary</li> <li>• Progression may be delayed until greater certainty on relief road delivery</li> <li>• 50% site within CU-13 allocation less desirable option with higher unit cost and lower delivery. Access also less certain.</li> <li>• No detailed feasibility study in place to strain-test and refine assumptions/potential benefits or risks on full or part-site</li> </ul>

	<ul style="list-style-type: none"><li>• Eligible for HE AHP grant funding @45% or 1:4:1 @40% - preference on AHP given other 1:4:1 opportunities in programme and slightly enhanced grant contribution rate</li><li>• Good potential VFM<ul style="list-style-type: none"><li>○ £14/16m overall project est. including est. land purchase valuation for 74 or 90units</li><li>○ £189k/£177k unit price (before grant) for MMC with traditional appearance (compares well to both modular and just below full traditional @ £205k for average 2-bed)</li></ul></li><li>• Good potential £ viability<ul style="list-style-type: none"><li>○ Deliverable within current 5-year MTFP through replacement and reduction of allocation in place for Post Hill or other adjustments</li><li>○ 45% AHP grant assumption reduces overall project cost to est. £7.7m</li><li>○ Grant funding opportunity enables removal of £2.01m gap in Years 4-5 through a significantly reduced allocation requirement for a large site (vs Post Hill)</li></ul></li></ul>	
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	<ul style="list-style-type: none"><li>○ May provide surplus to roll-forward into next programme</li><li>○ Alternatively, MTFP can be retained as is through delaying later phases of Knightswood (Cullompton)</li><li>○ Phase 2/3 of Knightswood currently allocated to Years 4-5 would be delayed for delivery in next 5-year programme. Phase 1 Knightswood/40 units Year 3 retained.</li><li>○ Knightswood Phases 2/3 are more complex compared to delivery at Knowle Lane - would therefore reduce level of risk within current programme overall</li><li>○ All Knightswood land is HRA owned so future options remain for wider delivery at that location</li><li>○ Either option for programme adjustment above retains overall 500 unit programme with budget benefits as set out (assuming lower 74 unit delivery @ Knowle Lane)</li><li>○ Potential for 90 units @ Knowle Lane would increase projected 5-year supply by c15-20 units (net gain)</li></ul> <ul style="list-style-type: none"><li>● Overall, potential beneficial impact on wider HRA development programme through reduced risk and potential</li></ul>	
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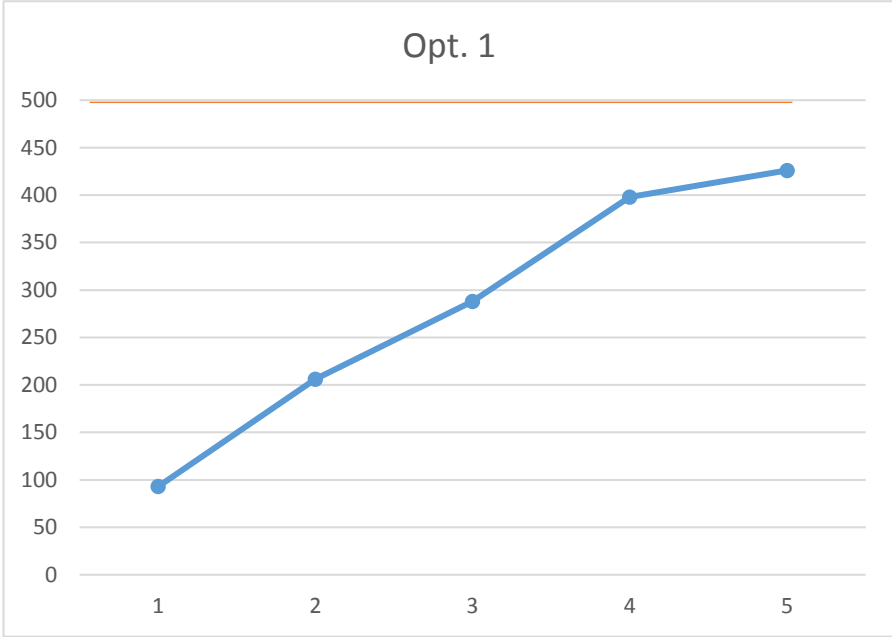
	closure of current MTFP Year 4-5 budget gap based on adjustment options described	
<b>Conclusions</b>		
<p>A. Site has strong potential £ viability and VFM to HRA therefore suitable to proceed with more detailed RIBA Stage 1-4 feasibility study. If delivered alongside St Georges Court there would be a net uplift in the overall programme within a net budget reduction (in comparison to current pipeline and MTFP)</p> <p>B. Feasibility study to review of assumptions around funding (HE AHP pipeline/discussion) and Knightswood/other sites within current programme plus detailed pre-application planning advice on compliance with Local Plan policies CU-13 and DM6. Affordable housing provision would need to be assessed against actual housing need and the layout; scale density; would have to reflect the need</p> <p>C. Subject to feasibility study, seek potential decision to include within MDH HRA programme for estimated delivery Years 4-5 on assumption of minimum 74 units (programme parity or uplift). Delivery may be delayed due to Relief Road considerations</p>		
<b>Location</b>		



## Annex B – Current and Options Profiles

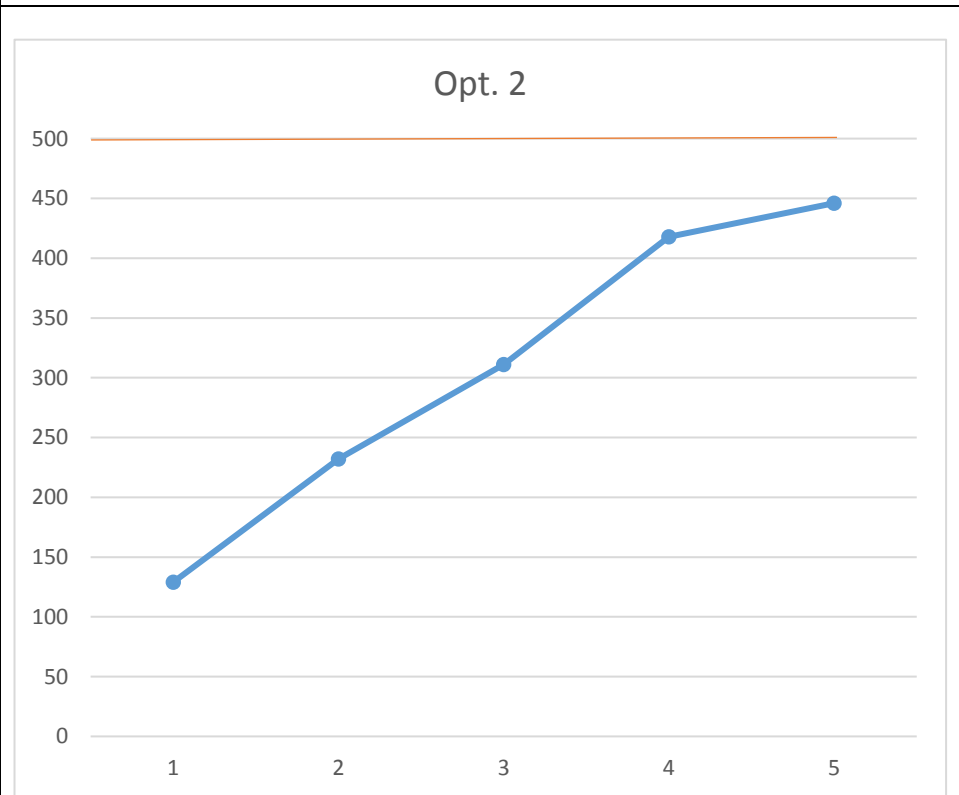
CURRENT programme including Post Hill (excluding additional Post Hill project costs and outstanding S106 payment)																	
Projected Profile	Est. No. units at Year 5	Social rent (SR) Affordable rent (AR) mix	Est. Gross programme cost	Est. Funding mix	Est. Deficit / Surplus over 5-years (approx. versus current MTFP)												
<p>Current</p> <table border="1"> <caption>Projected Profile Data</caption> <thead> <tr> <th>Year</th> <th>Units</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>93</td> </tr> <tr> <td>2</td> <td>241</td> </tr> <tr> <td>3</td> <td>358</td> </tr> <tr> <td>4</td> <td>468</td> </tr> <tr> <td>5</td> <td>496</td> </tr> </tbody> </table>	Year	Units	1	93	2	241	3	358	4	468	5	496	496	SR – 434 AR – 62	£92.2m	Borrowing £48.8m (53%)  HE AHP £30.5m (33.1%)  OPE £4.6m (5%)  1:4:1 £3.6m (3.9%)  Reserves £3.7m (4%)  S106 £1m (1.1%)	Deficit -£2m
Year	Units																
1	93																
2	241																
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4	468																
5	496																
93      241      358      468      496 2023/24   2024/25   2025/26   2026/27   2027/28																	

**OPTION 1 Current programme minus Post Hill**

Projected Profile	Est. No. units at Year 5	Social rent (SR) Affordable rent (AR) mix	Est. Gross programme cost	Est. Funding mix	Est. Deficit / Surplus over 5-years (approx. versus current MTFP)												
 <p>Opt. 1</p> <table border="1"> <caption>Projected Profile Data</caption> <thead> <tr> <th>Year</th> <th>Units</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>93</td> </tr> <tr> <td>2</td> <td>206</td> </tr> <tr> <td>3</td> <td>288</td> </tr> <tr> <td>4</td> <td>398</td> </tr> <tr> <td>5</td> <td>426</td> </tr> </tbody> </table>	Year	Units	1	93	2	206	3	288	4	398	5	426	426	SR – 426 AR – 0	£72.2m	Borrowing £34.8m (48.2%)  HE AHP £24.5m (33.9%)  OPE £4.6m (5%)  1:4:1 £3.6m (6.4%)  Reserves £3.9m (5.4%)  S106 £1m (1.4%)	Surplus +£2.4m
Year	Units																
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93	206	288	398	426													
2023/24	2024/25	2025/26	2026/27	2027/28													

**OPTION 2 Current programme minus Post Hill, with St Georges Court (adjusted for buy-backs/Knightswood P1)**

Projected Profile	Est. No. units at Year 5	Social rent (SR) Affordable rent (AR) mix	Est. Gross programme cost	Est. Funding mix	Est. Deficit / Surplus over 5-years (approx. versus current MTFP)
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446	SR – 435 AR – 11	£62.9m	Borrowing £31.8m (50.6%)  HE AHP £16.4m (26.1%)  OPE £3.0m (4.8%)  1:4:1 £7.1m (11.3%)  Reserves £2.1m (3.3%)  S106 £1m (1.6%)	Surplus +£2.1m
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129 2023/24	232 2024/25	311 2025/26	418 2026/27	446 2027/28
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**OPTION 3 Current programme minus Post Hill, with St Georges Court (no other adjustment)**

Projected Profile

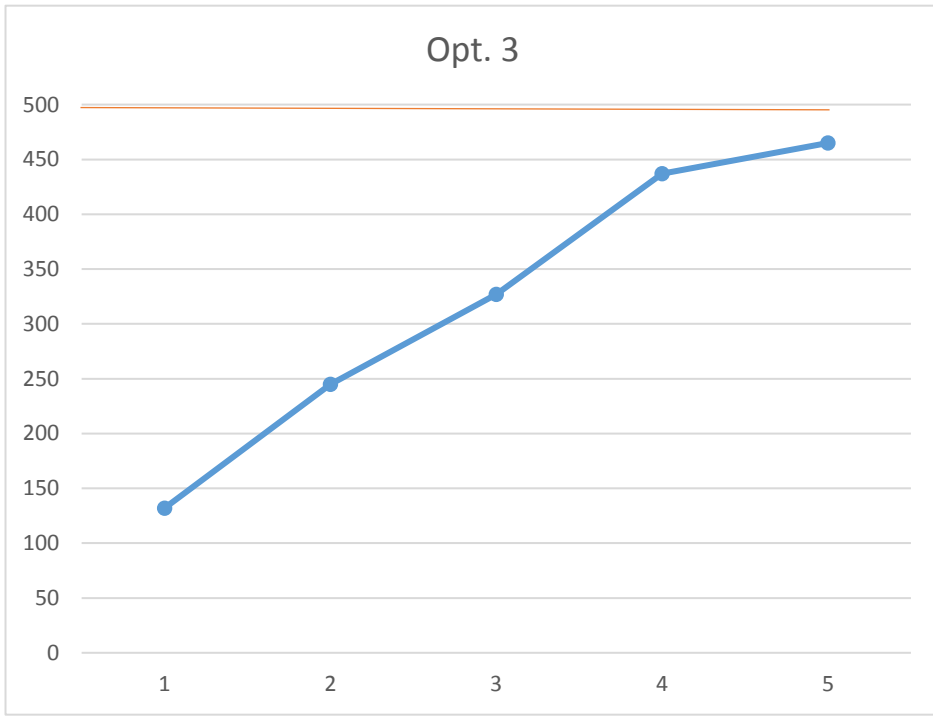
Est. No. units at Year 5

Social rent (SR)  
Affordable rent (AR) mix

Est. Gross programme cost

Est. Funding mix

Est. Deficit / Surplus over 5-years (approx. versus current MTFP)



465

SR – 454  
AR – 11

£80.9m

Borrowing  
£40.1m  
(49.6%)

Surplus  
+£1.8m

HE AHP  
£24.5m  
(30.3%)

OPE  
£4.6m (5.7%)

1:4:1  
£7.1m (8.8%)

Reserves  
£2.1m (2.6%)

S106  
£1m (1.2%)

132	235	327	437	465
2023/24	2024/25	2025/26	2026/27	2027/28

<b>OPTION 4      Current programme minus Post Hill, with St Georges Court/with Knowle Lane (74units) (adjusted for Knightswood phases 2/3)</b>																	
Projected Profile	Est. No. units at Year 5	Social rent (SR) Affordable rent (AR) mix	Est. Gross programme cost	Est. Funding mix	Est. Deficit / Surplus over 5-years (approx. versus current MTFP)												
<p>Opt. 4</p> <table border="1"> <caption>Projected Profile Data</caption> <thead> <tr> <th>Year</th> <th>Units</th> </tr> </thead> <tbody> <tr> <td>2023/24</td> <td>132</td> </tr> <tr> <td>2024/25</td> <td>245</td> </tr> <tr> <td>2025/26</td> <td>342</td> </tr> <tr> <td>2026/27</td> <td>471</td> </tr> <tr> <td>2027/28</td> <td>499</td> </tr> </tbody> </table>	Year	Units	2023/24	132	2024/25	245	2025/26	342	2026/27	471	2027/28	499	499	SR – 464 AR – 35	£78.9m	Borrowing £40.6m (51.5%)  HE AHP £23.6m (29.9%)  OPE £3.0m (3.8%)  1:4:1 £7.1m (9%)  Reserves £2.1m (2.7%)  S106 £1m (1.3%)	Surplus £1.49m
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2026/27	471																
2027/28	499																
<p>132      245      342      471      499 2023/24   2024/25   2025/26   2026/27   2027/28</p> <p>499 of 500 unit/5-yr target met. c£3.5m less than current plan within MTFP (deficit current v surplus). c£8m less borrowing– much stronger VFM/£ viability HE AHP likely to be more supportive of this as a pipeline / opposite is true of options including Post Hill</p>																	