

**Report To:** Greater Cambridge City Deal Executive Board

27 March 2015

**Lead Officer:** Alex Colyer, Executive Director (South Cambridgeshire District Council)

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## Proposal to establish a Greater Cambridge City Deal Housing Development Vehicle

### Purpose

1. To seek Board approval for funding to support the establishment of a City Deal Housing Delivery Vehicle (HDV) to take forward the building of new homes in the City Deal area.
2. The City Deal contains a commitment from the partners to deliver an additional 1,000 dwellings on exception sites by 2031. This paper sets out proposals to facilitate this commitment.

### Recommendations

3. It is recommended that the Board:
  - a) Approves funding of £200,000 in 2015/16 and £200,000 in 2016/17 to support the establishment of a City Deal HDV

### Reasons for Recommendations

4. The establishment of an HDV would enable the effective and efficient delivery of the various new build programmes associated with the City Deal including: the development of County Council land holdings, Housing Revenue Account (HRA) developments for South Cambridgeshire and Cambridge City, including the recent proposal for the city council to invest General Fund (GF) capital in housing, Ermine Street Housing, other City Deal Joint Ventures (JVs) or Special Purpose Vehicles (SPVs).

This would ensure good project management and control over costs as well as generating a potential revenue surplus for the City Deal partners. An HDV would maximise the benefits of both HRA build programmes and other new build programmes being channelled through the agency and would share costs and risks.

### Background

5. In 2012 Cambridge City Council and South Cambridgeshire District Council each approved HRA new build strategies that identified the delivery of around 2,000 new homes.

6. In November 2013 South Cambridgeshire District Council approved the creation of a public limited company called South Cambs Ltd (now trading as Ermine Street Housing). If the long term plans are approved in 2015 this shall require the building of around 1,000 new homes.
7. The Greater Cambridge City Deal announced in March 2014 secured investment of £500m. The City Deal negotiation housing 'asks' were about releasing public sector finance capacity to complement and sometimes lead what is largely a private sector led housing development process. The most significant of these 'asks' was principally a licenced exception to borrow more money against the HRAs. Despite these housing 'asks' not being granted, the City Deal partners committed to deliver an extra 1,000 homes in addition to those identified in the local plans for Cambridge City and South Cambridgeshire.
8. At the same time, the County Council has undertaken a review of the commercial development opportunities for its own land holdings with a view to retaining a long term stake in any subsequent development and the draw down of revenue income streams. This portfolio could form part of the land required to deliver the build programmes identified by the district councils.
9. Taken together this represents a build programme of at least 4,000 homes with the potential to deliver up to 8,000 if the business plans allow. Over a 16 year period this equates to at least 250 homes per year.

### **Considerations**

10. Both Cambridge City and South Cambridgeshire District Councils have a need to deliver their own HRA build programmes. The early stages of these developments have involved a relatively small but a growing number of properties and have been delivered by a small in house team together with support from external agencies to help provide the technical advice and assistance required to take schemes forward.
11. The County Council need to identify development partners to unlock the potential of their land holdings.
12. The volume of new builds to be delivered through HRA funding is projected to grow exponentially requiring extra staff resources which would push up staffing costs to both councils in addition to paying fees to external agencies of at least £240k pa on a £8m programme. In addition the same technical skills will be required to take forward the build programme of the County Council, Ermine Street Housing and any of the JVs or SPVs set up.
13. To coordinate the efficient project management of this delivery programme it is proposed that Cambridgeshire County Council, Cambridge City Council and South Cambridgeshire District Council establish a shared HDV. Establishing the HDV in partnership would allow start up cost and risks to be shared but in return for more effective and efficient delivery of new housing.
14. The district councils have housing development staff capacity that has been developed in relation to their respective local contexts. Discussions have already started about how the teams can work more closely together and how a shared service could potentially evolve. It has been agreed to start work on a single Local Plan in 2019 and this, together with discussions around shared planning services, sets the timeframe for a move towards shared housing development services.

15. As a starting point the district authorities have agreed to share the funding of a Housing Development post for a year. The postholder started work in January 2015. The key activities of the post will be;
  - Consider JV and SPV models that will capture new funding to optimise housing delivery, for example, a model that may work with the University as a partner. The JVs and SPVs can be specific to one partner or may involve all partners.
  - Work up the options for a shared development team i.e. from a 'collaboration model'; through a 'shared service'; to a separate legal entity – a Housing Delivery Company.
  - Work on the feasibility and viability of the first set of County owned sites in South Cambs that could be developed to contribute towards the 1000 new homes.
  - Contribute to early work on larger sites in the City Deal partners ownership should they move into development.
  - Work on new opportunities to bid for funding related to housing delivery - for example through the LEP.
16. Advice from an independent development consultant obtained by South Cambridgeshire in 2014 suggested that the scale of public sector led housing delivery in the City Deal area could support a bespoke development team; a Housing Development Vehicle (HDV).
17. Using an assumption of a 300 unit delivery year, a rate of 3.5% of build costs (currently in use on the Cambridge Southern Fringe sites) and at an assumed build cost rate of £140,000 per unit (unit costs are currently higher in the City), it is estimated that the HDV could be self funding and have the potential to produce a surplus income. (Note, the fee charged by the HDV could vary depending on the objectives of the partners as they contract with the HDV on a scheme by scheme or venture by venture basis). This HDV would also give the City Deal partnership much greater oversight of the delivery of the development programme and could enable a faster delivery of the sites. There is only partial in house capacity at present to take this work forward and programme delivery would have to be contracted out or grown incrementally if an in house HDV were not established.
18. Work has now begun on a more detailed analysis of this outline business model including a review of the development pipeline. It is planned that findings by June 2015.
19. The HDV is intended to be a non-asset owning project management service provider, which would undertake the following key housing development activities:
  - Seeking new housing development opportunities – either from partners or by acquisition from the market on behalf of the partners.
  - Securing financial commitments for schemes/programmes, from partners and funding agencies such as the HCA.
  - Undertaking appraisal and risk analysis of potential schemes for presentation to, and approval by, partners.
  - Appointment and management of consultants, valuers, legal advisors etc.
  - Procurement and contract management of building construction on behalf of the partners.
  - Achievement of Planning and other consents.
  - Handover of completed stock into management, dealing with post-contract defects etc.
  - Sale of shared ownership and market sale stock.

## Options

20. If the Board chooses not to help fund the establishment of the HDV then Cambridge City and South Cambridgeshire Councils could try and form a closer working partnership to share skills and capacity to deliver the HRA programmes. This approach however is likely to have the following problems:
  - They will still require procurement of contracts with specialist agencies
  - Potential duplication of work.
  - Would not necessarily provide the capacity to work with the County Council
  - Would not provide a platform for delivering the service for other City Deal JVs
  - Does not provide the opportunity of a financial return to the City Deal partners.
  - The cost of professional fees would leave the City Deal partners to be spent on external agencies.
  - Lack of oversight over development pipeline.
  - Would not be able to generate the full income stream until the development pipeline was sufficiently developed and the councils may not be able to afford the full team required.
21. The danger is therefore that the HDV would not be able to get established leaving the delivery of new housing fragmented.
22. If the Board chooses to help fund the HDV then it would have the following advantages:
  - Partners would benefit from expertise within the new team.
  - Provides useful separation of roles for council delivery and regulation functions such as planning.
  - Has potential to provide a financial return to the City Deal partners if desired, or reinvested in housing programmes.
  - Initial set up costs shared.
  - Provides a strong platform to develop useful partnerships with external agencies and the ability to offer a service to City Deal JVs and SPVs.
  - Offers greater certainty over delivery of the City Deal 1,000 new homes target.

## Implications

23. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered: -  
  
***Financial and other resources***
24. Based on initial models, the cost of a fully staffed team would be around £350k per year. There will also be other on costs and other initial set up costs. Fee income may initially be around £140k per year with the likelihood that the HDV will run at a loss in the early years before a full pipeline is established.
25. To bridge this shortfall, funding from the City Deal is sought for £200k per year for two years.
26. When the flow of work is sufficient to be met by a percentage fee the HDV has the ability to raise income from its activities by levying a charge against the transactions it processes. The income stream will vary depending on the nature of the programme but there is the potential to generate on which could then be reinvested in the priorities identified by the partners.

27. Further clarity will be needed to be developed on the sharing of any surpluses generated.
28. Specialist tax advice will be sought in finalising the business model.

### ***Legal***

29. Separate advice is required on the exact form that the HDV takes; principal options include a trading company or retained as a type of shared service team or some other arrangement.
30. The principal Council powers to participate in new housing development through the HDV are the general power of competence under Section 1 of the Localism Act 2011 and the ancillary power of local authorities under Section 111 of the Local Government Act 1972.
31. If either council is to transfer any HRA land to a JV or SPV, its power to do so is contained in Section 32 of the Housing Act 1985 (the 1985 Act). The use of the Section 32 power is conditional upon obtaining the prior consent of the Secretary of State.
32. The council's power to transfer general fund land to a JV or SPV is contained in Section 123 of the Local Government Act 1972 (the 1972 Act). The use of this power is also conditional upon obtaining the prior consent of the Secretary of State in certain circumstances.
33. If the council intends to provide financial assistance to a JV or SPV by granting or loaning it money, guaranteeing its obligations, or transferring land to the JV or SPV at an undervalue, and the financial assistance is in connection with the provision of housing accommodation to be let by the JV or SPV, the Council must use its power under Section 24 of the Local Government Act 1988 to do so. Again, the exercise of this power is subject to Secretary of State consent. This power would not apply to financial assistance provided by the Council to the JV or SPV in connection with land to be developed by the JV or SPV for shared ownership (or outright sale). Reliance would therefore need to be placed on the general power of competence if the JV or SPV were to carry out such activities
34. The HDV will require its own governance arrangements. These need to reflect the complementary housing aspirations of the partners to meet the range of housing needed in Greater Cambridge – from social rent to market options - and the investments of any of the participating JVs, SPVs or other partners, that will, in effect, contract with the HDV.

### ***Staffing***

35. This will depend on the scale of the programmes but to date considerations have been for a team typically requiring around seven staff that could include for example:
  - a lead manager/director,
  - two development managers,
  - a sales and marketing manager,
  - a programme manager (to provide programme management support, governance and audit co-ordination, reporting and monitoring systems) and
  - two support officers.

36. To progress the development of the HDV, around five staff will need to be recruited as soon as possible. In part, this may be met from current in-house staff that may be able to transfer into the HDV. To this end some up front funding is required and without which it would not be possible to build this area of work.

***Risk Management***

37. By establishing an HDV the councils would be placing themselves in potential competition with other housing associations and developers. Care will need to be taken in managing these relationships for example to avoid inflating the price of land.
38. The HDV will need to establish its own development viability and financial appraisal tools as well as a risk template. These core tools will also need to be shared by the investor partners.
39. A formal process of decision making will also need to be established to ensure that all projects are full risks assessed and a clear sign up process is in place reflecting the scale and complexity of the proposal under consideration.

**Consultation responses and Communication**

40. None

**Background Papers**

No background papers were relied upon in the writing of this report.

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