Report to:	Cabinet	**Date of Meeting:**	6th April 2023
Subject:	Council Housing Business Plan		
Report of:	Assistant Director of Place (Economic Growth and Housing)	**Wards Affected:**	All
Portfolio:	Cabinet Member - Communities and Housing		
Is this a Key Decision:	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	No, however, the information contained in Appendix II is NOT FOR PUBLICATION by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. The Public Interest Test has been applied and favours the information being treated as exempt		

Summary: This paper outlines the draft Council Housing Programme Business Plan, a proposal that will see approximately 46 Council owned homes acquired over the next 5 years as part of a first phase of growth to re-establish Council Housing once again in Sefton.

Recommendation(s):

Cabinet is asked to:

(1) Note the contents of this report, and endorse the approach that is being taken to the Council Housing Programme

(2) Approve the adoption of the Council Housing Business Plan

(3) Note that further reports will be presented to Cabinet relating to the purchase of properties on each site

Reasons for the Recommendation(s):

Cabinet is required to approve the Business Plan for the Council Housing Programme, Although further reports on each scheme will also be brought to Cabinet separately consideration of this paper is required to ensure that these scheme proposals are developed in line with an approved plan.

Alternative Options Considered and Rejected: (including any Risk Implications)

Do nothing

Sefton could choose not to become a stock holding local authority and to rely solely on Registered Providers for the provision of new affordable housing in the borough. However, as outlined in the strategic business case for the provision of new Council Housing considered by Cabinet in January 2021, and reiterated in this paper, to adopt this approach would limit the availability of truly affordable social rent properties in the borough.

A Council Housing Programme would also allow the Council to make strategic decisions on the provision of housing based solely on the objective of meeting housing need in the borough. The proposal outlined in this paper will establish the programme through a first phase of growth of 'general needs' properties, and this will give the authority flexibility on managing this stock. Once the programme is established consideration can be given to developing more specialist housing to complement the delivery on existing Registered Providers in the borough.

What will it cost and how will it be financed?

(A) Revenue Costs

For the first phase of growth of the programme, as outlined in the proposed Business Plan, it is not anticipated that additional staff will be required over and above those already within the Strategic Housing Team.

As detailed within the report it may be necessary from time to time to employ specialist consultancy support in order to deliver the programme, and it is anticipated that this will either be contained within the existing Housing Budget or capitalised following formal project approval. Separate papers will be brought for approval to acquire properties on each site and will include detailed financial proposals.

(B) Capital Costs

The potential capital costs associated with this Business Plan are outlined in the body of this report. Total capital expenditure for the programme will be contained within the approximately £5m of available budget accrued through the Right to Buy Sharing Agreement with One Vision Housing and S106 Commuted Sum income.

The Business Plan considers all capital costs associated with this proposal including the acquisition of the properties, their management and maintenance costs.

As outlined above separate papers will be brought for approval to acquire properties on each site and will include detailed financial proposals.

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): Financial resources are required to fund the acquisition of properties from Sandway Homes as a capital cost. Revenue resources are required to fund the housing management and maintenance service that the Council will offer to its tenants through an appointed Housing Management Agent, the cost of which will be fully funded by rental income received for the properties. Specialist external advice is required to support in a number of areas to enable the operational activity in delivering council housing including legal and project management of the acquisition. The procurement and financing of external support was approved at Cabinet in January 2021. There will be an asset implication resulting from the acquisition of properties, although the management and maintenance of which will be managed by a Managing Agent following a compliant procurement process.
Legal Implications: A local authority may hold up to 199 homes outside of a Housing Revenue Account under a Government direction subject to writing to the Secretary of State for Housing Communities and Local Government to apply to hold specific homes outside of an HRA. The proposal outlined in this paper will not exceed this number. Sefton Council have registered as a Registered Provider of Social Housing with the Regulator of Social Housing based on the intention to provide social housing as is required under Section 114 of the Housing and Regeneration Act. The Council will be subject to regulatory and legislative requirements and compliance through its new landlord duties. There would be a requirement to provide tenancy agreements for each property determined by the Housing Act 1985, Housing Act 1996, and Localism Act 2011. Standard tenancy agreements would need to be developed with the support of expert legal advice. Such agreements could then be utilised for any future council housing properties considered. Section 27 of the Housing Act 1985 allows local authorities to enter into management agreements in relation to their housing stock. Under this Section 27, local authorities which are Registered Providers of social housing are required to seek the approval to these agreements from the Regulator of Social Housing. Further, the Council would need to enter into contract with the appointed Housing Management Agent. The Council would need to enter into a new supply contract with Homes England to agree to the terms and conditions attached to any grant offer and ensure compliance with the AHP.
Equality Implications: An Equality Impact Assessment has been undertaken through development of the Business Case and no negative impacts have been identified. The EIA found that

the provision of council housing and subsequent landlord service will have a positive impact on the protected characteristics of age and disability. The EIA will be reviewed and updated at the relevant review point and as work continues with the operational requirements to enable the Council to provide council housing. A copy of the EIA is appended to this report at Appendix III.

Climate Emergency Implications:

The recommendations within this report will

Have a positive impact	N
Have a neutral impact	N
Have a negative impact	Y
The Author has undertaken the Climate Emergency training for report authors	Y

Building of new homes will have a negative impact on the Climate Change Emergency as a result of the construction and build process. Sandway Homes have included mitigation measures within their design for the development and will be undertaking the development in a manner compliant with Planning policy EQ7 Energy efficient and low carbon design.

Measures introduced at Buckley Hill Lane to reduce the carbon footprint through construction include:

- Electric vehicle charging points to each dwelling and to the apartment block
- Energy efficient design with high thermal efficiency values to reduce heat loss, high efficiency boilers and heating systems
- Sustainable design and landscaping throughout the site with ‘green streets’
- Surface water drainage integrated into landscape features to encourage wildlife

Similar measures are anticipated on all future sites covered by the proposed Business Plan.

Contribution to the Council’s Core Purpose:

Protect the most vulnerable:
New council housing will provide secure, quality homes to those most in housing need. Homes will be let at social rent level which offers the most affordable route to social housing. Homes will be developed to high energy efficiency standards which will help to reduce energy bills for tenants

Facilitate confident and resilient communities:
Provision of new council housing will provide additional housing choice to local communities in Sefton. Homes will be offered through Council tenancies enabling stability for households and families in housing need creating sustainable, confident, and resilient communities. A new housing management and maintenance service will be in place for tenants of any new council owned homes and will

support tenants and communities through this service. Provision of shared ownership homes will provide an added housing offer and alternative route to home ownership.
Commission, broker and provide core services: Provision of new council housing will become a core service. A housing management and maintenance service will be procured, and the Council will work with a Registered Provider of Social Housing to deliver this for new Council tenants. Homes will be let through the existing allocations scheme, Property Pool Plus which is already in place as a core service.
Place – leadership and influencer: Not Applicable
Drivers of change and reform: Delivery of new council housing will offer homes at social rent adding to the existing provision of social housing in Sefton and providing an alternative social housing offer to those in housing need.
Facilitate sustainable economic prosperity: Having a good place to live is essential for the future success and prosperity of our residents. Development of new council housing will generate direct and indirect employment and training opportunities supporting economic prosperity. Supply chains such as contractors, suppliers, technical and professional services will be supported throughout the development process.
Greater income for social investment: Rental income generated by new council housing can be reinvested back to deliver the positive social impacts outlined in this paper.
Cleaner Greener: Newly developed council housing will provide high quality homes and be energy efficient with low carbon design measures. Design of the homes has been developed by Sandway Homes to be compliant with Planning policy and Building Regulations.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD7187/23.) and the Chief Legal and Democratic Officer (LD5387/23.) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

None

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Appendices:

The following appendices are attached to this report:

Appendix I Business Plan – Part A (Option Appraisal)

Appendix II Business Plan – Part B (not for publication)

Appendix III Equality Impact Assessment

Background Papers: None

1. Introduction/Background

1.1 In January 2021 Cabinet considered a Strategic Business Case proposal to re-enter the Social Housing market through the acquisition of properties from Sandway Homes, at their site at Buckley Hill Lane for use as affordable housing.

1.2 At the January 2021 meeting Cabinet agreed:

(1) the strategic case for Sefton Council re-entering the social housing market through the provision of council housing for rent set out in this report;
(2) give authority to negotiate the terms to acquire one block, comprising nine apartments, as the start of its future stock of council housing from Sandway Homes, as part of Sandway's development at Buckley Hill Lane Netherton;
(3) give approval to register Sefton Council with the Regulator of Social Housing as a social housing provider;
(4) give authority to apply to Homes England to become an Investment Partner;
(5) instruct officers to develop a Business Plan for council housing provision which sets out greater detail for the operational requirements, including financial modelling and management arrangements;
(6) give authority to pursue the procurement of a suitable housing association to provide the required housing management services, and delegate authority to the Head of Economic Growth and Housing in consultation with the Cabinet Member for Communities & Housing to appoint a management agent;
(7) to the procurement and appointment of suitable consultant(s) to assist undertake associated tasks set out in this report and arising from the recommendations in this report. The costs will be met from within the existing budget for the Economic Growth and Housing Service. Delegate the appointment of the consultants to the Head of Economic Growth and Housing in consultation with the Cabinet Member for Communities and Housing; and

(8) that a further report will be submitted to Cabinet setting out the terms to acquire the council housing stock from Sandway Homes, and which sets out the Business Plan and proposed operational arrangements.

1.3 The Council currently has approximately £5m of capital available to fund the acquisition of Council Housing as a result of the Right to Buy Receipts Sharing Agreement with One Vision Housing and from commuted sums secured via S106 agreements. It is made up as follows: uncommitted receipts of £4.7m and S106 commuted sums of £380k.

1.4 In December 2021 a Workshop was held with Cabinet to sketch out the plan the approach which was to be taken to this work.

The key conclusions from the Workshop session were as follows:

- There is a strong corporate commitment among Councillors and Senior Officers to take forward Council housing in Sefton. It is important that we continue to move forward with this and move forward positively;
- It is important to understand what we want to achieve and how we are going to achieve it and be clear on the aims and objectives of a programme;
- It was recognised that Sefton are not setting out to achieve a large development programme but will rather start small, take a cautious approach and grow slowly ensuring that housing need is at the heart and centre of a programme;
- Financial resource is finite and will determine the scale and pace of a programme with grant funding opportunities to be maximised;
- The relationship with Sandway Homes offers the lowest risk option including opportunity to target housing need through early identification of homes required and this unique position should be prioritised;
- Ensure that the programme connects to wider corporate objectives including that of the housing management requirements;
- Commit to Social Rent tenure being the starting point ensuring true affordability but consider the use of Affordable Rent on a scheme-by-scheme basis;
- Consider structures that could reduce the financial risk of Right to Buy.

2. Progress to Date

2.1 Since the Cabinet resolution of January 2021 a considerable amount of work has been undertaken to establish a new Council Housing Programme (CHP):

- *Buckley Hill Lane (recommendation 2 and 8)* – Cabinet considered a report in May 2022, approving the acquisition of 9 apartments for social rent, and 4 houses for Shared Ownership. This mix of properties represented the Planning Policy compliant affordable housing requirement on the site.

In December 2022 Planning Committee approved the removal of the affordable housing requirement on the site due to viability concerns. Grants through Homes England's Affordable Homes Programme 2021 – 2026 are only available to fund schemes where there is <u>no planning requirement to provide affordable housing</u> and therefore removal of the condition has presented the opportunity for the Council to apply for grant funding to help fund the acquisition of properties on the Buckley Hill Lane site.

Negotiations are currently underway to potentially acquire an additional block of apartments on the site to bring the total number of affordable homes to 18. This is a revision to the mix previously agreed by Cabinet:

- December 2021 – Cabinet approved the acquisition of 1 apartment block at Buckley Hill Lane comprising 9 x 1 and 2 bed apartments;
- May 2022 – Cabinet approved the acquisition of 4 houses on the site for use as Shared Ownership properties, in addition to the 9 apartments previously approved such that the Council proposed acquisition was in line with the affordable housing requirement outlined in the Council's Planning Policy;
- April 2023 (current position) – negotiations are currently underway to acquire both apartment blocks on the site for social rent increasing the total number of affordable homes on the site to 18 x 1 and 2 bed apartments, compared to the planning policy compliant requirement of 13 units. This is due to market changes affecting Sandway which have seen a reduced demand for apartment sale properties, and in order to ensure that the first tranche of Council housing is sustainable.

Subject to Homes England's agreement to provide grant funding to acquire 18 apartments for social rent on the site and reaching financial agreement with Sandway a further paper will be brought to Council to update and amend proposal first considered by Cabinet in May 2022. For the purposes of this Business Planning exercise it has been assumed that the Council will acquire 18 apartments on this site.

- *Regulator of Social Housing (recommendation 3)* – In November 2021 the Council successfully registered with the Regulator of Social Housing as approved by Cabinet in January 2021.

- *Register as an Investment Partner with Homes England (recommendation 4)* – positive discussions have been held with Homes England about Sefton's Council Housing Programme and officers have kept the agency updated as development of the programme progresses. Homes England anticipate receiving a grant application following Council approval of the revised mix of Council Housing properties at Buckley Hill Lane and upon approval of this grant the Council will be registered as an Investment Partner.

- *Development of a CHP Business Plan (recommendation 5)* – Ark Consultants were appointed in July 2022 to help officers prepare a Business Plan as instructed by Cabinet in January 2021. This paper outlines the proposed Business Case for Cabinet approval.

- *Procurement of a Management Agent (recommendation 6)* – Preparation of tender documentation to procure a Management Agent is nearly complete with a view to having a provider appointed by the summer 2023.

- Consultant Team (recommendation 7) – in order to help develop the CHP external consultants have been procured and used where necessary to provide specialist advice to officers.

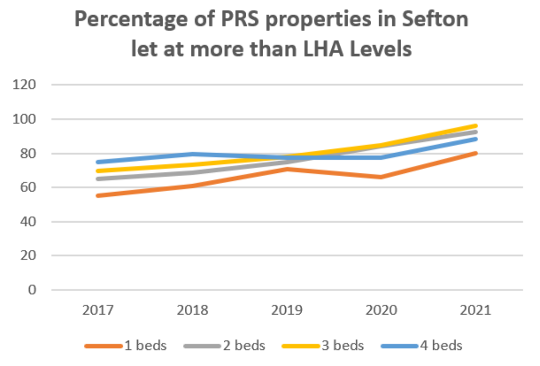
3. Strategic Rationale

3.1 Over the past few years there has been a growing acceptance in Government that councils need to play a greater role in meeting new build housing targets. Although very little additional council housing has been developed in the last 50 years the active participation of local councils acting as developers and landlords is something that government are actively encouraging. Sefton Council has already partly responded to this through the establishment of Sandway Homes, its wholly owned private housing development company and the Cabinet resolution of January 2021 agreed the strategic rationale for the Council to once again provide council housing in Sefton, an updated version of which is outlined below.

3.2 Over the last 15 to 20 years, nationally, there has been a change in the housing market and the growth of the Private Rented Sector (PRS), indicating a growing demand for rented homes. Sefton has similarly seen a growth in the levels of its PRS and between 2011 and 2021 the number of PRS properties in the borough increased by 44% (6,655) and now makes up 18.3% of all properties in the borough. In part this growth in PRS and demand has been fuelled by a shortage of (alternative) social housing provision. The PRS offers a different kind of tenure option. While it may seem more accessible to many households, or in preferable locations, it also comes with perceived shortcomings for some households: e.g. a reliance upon short term tenancies and variable quality of provision offered – in particular the poor quality often offered by the lower to middle end of the PRS market.

3.3 In recent years the levels of private rents in Sefton have increased significantly, particularly in the last 12 months. Local Housing Allowance (LHA) is a means tested benefit paid to those who live in private rented accommodation and who are claiming housing benefit. LHA *does not* apply to social housing tenants. LHA is a useful benchmark with which to assess residential rental levels in Sefton. Over the last 5 years private rental levels have increased such that the cost of the vast majority of Private Rented Sector (PRS) properties now exceeds the LHA:

Percentage of PRS properties in Sefton let at more than LHA levels	2017	2018	2019	2020	2021
1 beds	54.9	60.7	70.9	65.9	80.2
2 beds	64.8	68.6	75	84.4	92.5
3 beds	69.9	73.3	78.1	84.5	96.1
4 beds	75	79.6	77.5	77.3	88.1



SOURCE: Northern Housing Consortium

3.4 The demand for the return to 'Council housing' has also been partly driven by the perceived commercialisation and independence of the broader housing association (HA) movement. In some cases HAs are perceived to have moved away from their traditional role of rehousing people in 'housing need'. Over recent years HAs pursuing Government grant funding to support new housing developments have been forced to build for 'affordable rent', which in many parts of the country can result in much higher rent levels than traditional 'social rents'.

3.5 Sefton's Local Plan identifies the need for a supply of affordable (including rented) homes. The latest Strategic Housing Market Assessment (SHMA) 2019 evidence continues to support the need for more affordable rented homes; particularly in the north of the borough. Therefore, the Council may wish to be seen to contribute to meeting such needs by directly delivering new council housing for social rent.

3.6 The Council has a statutory duty to maintain a social housing allocations policy and housing register, which is administered via the Property Pool Plus (PPP) scheme in Sefton. All HAs would normally offer at least 50% of their property vacancies under this scheme (75% for OVH), though some offer a higher proportion than required. Direct provision of council houses would allow all (100%) vacancies to be let via PPP to households in need.

3.7 The Council adopted a new Housing Strategy (2022-27) in November 2022. The Strategy recognises the importance that good housing plays in the lives of our residents to enable them to live fulfilling and successful lives in Sefton. The strategy identifies 5 key priority themes:

- Driving housing quality in communities and neighbourhoods;
- Meeting people's housing needs;
- Enabling people to live independently;

- Tackling barriers to obtaining suitable housing for the most vulnerable and ensuring equal access to housing services;
- Effectively utilising Council assets to support housing delivery.

The provision of new high quality council housing supports all of these priority themes outlined in the new Housing Strategy.

3.8 A trend among some HAs is a desire to target the rehousing of economically active households. For HAs they probably see this as a way of creating mixed and sustainable communities, and also not relying on rental income from a large portion of tenants on Welfare Benefits. However, it could also be seen as turning away from households who have greater (affordable) needs for social housing. The Council could take a slightly different approach and offer 100% of its own stock, under its (PPP) Allocations policy, and ensure it all gets allocated to households with the greatest needs.

3.9 The majority of the existing HA social rented stock will have rents set at (historic) Social rent levels. But since 2011, nearly all of the new-build HA rented stock will have rents set at Affordable rent levels. Social rent typically provides lower rents at 50-60% of the market rent, and are based on a formula for calculating rent levels. Affordable rents are usually higher, set at 'up to' 80% of market rent. By providing new homes at social rent levels the Council will be providing homes at more affordable rental levels.

3.10 SHMA evidence suggests the greatest social housing need is increasing the supply of 1- and 2-bedroom properties. Some HAs are reluctant to deliver new 1 bedroom homes, due to perceived longer term demand risks, and a desire to target the traditional family housing market.

3.11 The provision of council housing will help support the Council's Climate Emergency declaration because new properties are built to current Building Regulations which are being progressively tightens to reduce carbon emissions from new housing. The latest example of this took place in June 2022 when Part L of the Building Regulations were updated to ensure that new homes must produce 31% less carbon emissions than the previous Part L regulations.

3.12 Accepting the evidence of the need for more social housing in Sefton, the Council could opt to rely upon Housing Associations (HA) to continue to deliver affordable rented housing for the borough. While the provision of HA affordable rent housing is generally welcomed, provision of council housing can offer a complementary alternative. Benefits of council housing over HA provision could include; - rents could be set at lower social rent levels - all the homes could be offered to households on the Council's social housing register - the Council can have greater control over the types of housing units provided - the Council can have greater control and influence over how the homes are managed - provision and management of social housing becomes democratically controlled.

3.13 Based upon the above analysis, the case for the Council contributing towards the provision of social rented housing is strong.

4. Delivery Model Option Appraisal

4.1 Specialist housing consultancy Ark Consultants were appointed to prepare the Business Plan and with reference to the conclusions of the December 2021 Workshop event followed a process agreed with officers to complete this commission. In preparing the Business Plan Ark carried out a number of interviews with key officers as well as speaking to Cabinet Member Housing and Communities. The initial stage of the Business Planning process was the preparation of an options appraisal study evaluating a number of different delivery models. Following approval of the preferred option following the Option Appraisal stage they began work on the Council Housing Business Case.

Options Appraisal – Business Plan Part A

4.2 Four delivery models were appraised as part of the Option Appraisal process:

A) Direct Delivery via the Council's General Fund
B) Establishing a Special Purpose Vehicle (or expanding the role of Sandway)
C) A Joint Venture with a Private Developer/Contractor
D) A Joint Venture with a Registered Provider (housing association)

4.3 Each of the delivery models were assessed against 14 criteria:

- Strategic Fit
- Council Control
- Capital Cost/Viability
- Start Up Costs
- Operational Revenue Costs
- Retained Equity
- Legal Implications
- Tax Implications
- Right to Buy Implications
- Skills/Experience
- Flexibility
- Resilience
- Social Value
- Balance of Risk

4.4 The delivery models were scored against each of the above criteria and the full analysis is contained within the Option Appraisal report appended to this paper at Appendix I and summarised below:

Option	Strategic Fit	Council Control	Capital Cost	Start Up Cost	Operational Revenue Cost	Retained Equity	Local Implications	Tax Implications	RTB Implications	Skills/Experience	Flexibility	Resilience	Social Value	Risk	Total
Direct Delivery	8	7.5	4.5	1	6	7.5	4	2.5	1	2	4.5	4.5	4	4.5	**61.5**
SPV/Sandway	6	4.5	3	1	6	6	2	1	4	3	6	3	3	3	**51.5**
JV with Developer	4	3	6	1.5	8	3	3	1.5	2	3	3	4.5	3	4.5	**50**
JV with an RP	4	3	6	4.5	6	3	3	1	3	4	4.5	3	3	6	**54**

4.5 As can be seen the direct delivery option scored the highest of all of the options.
This option would entail the Council developing new council homes, primarily rented homes, 'on balance sheet' and under the auspices of the Council's direct operations. The scale of development and ownership of homes permitted within the General Fund accounting format is 199. Beyond that number of homes, the Council would be required to re-establish a Housing Revenue Account (HRA).

4.6 A future decision will need to be made as to whether and when to re-establish a Housing Committee. Certainly, if the level of new homes provision requires an HRA, the Council ought to carve out a precise oversight role for one of its committees. However, the stock holding proposed within this Business Plan falls well below the 199 that would require the operation of an HRA and this is not proposed.

4.7 In the early stages, the direct delivery model will mean that development delivery will require an agent or external resource. Over time, and dependent on scale, it may be more economic to recruit to at least one Development Manager role.

4.8 Housing management and maintenance will require an outsourced service as in house provision of a management service would not be viable for a stockholding of less than 300 homes.

4.9 Under the direct delivery model homes will be in the legal ownership of the Council and the programme under the Council's direction, control is at a high level. Because the Council has already registered with the Regulator of Social Housing an application can be made to access Homes England grant on eligible schemes. The Council will also make an application for Homes England Investment Partner status alongside our first grant application, which is likely to be for the Buckley Hill Lane site. We do not anticipate any issues with this process and extensive discussions have already taken place with

Homes England over an extended period about our Council Housing Programme and they are very supportive. The control environment will need an appropriate level of policy, process and authorisation procedures.

4.10 For modelling purposes in the Business Plan, the average unit costs for the direct delivery options have been assumed to be; £186k with land cost, and £152k with no land cost. Best cost assumptions include on-costs. Funding will come from the Right to Buy and Section 106 receipts with grant funding where possible.

4.11 Under the direct delivery option agency development and management support is scalable to match the programme/portfolio size. Project development costs will be around 4% of programme value. Housing services costs will be around 12% of rent roll not including direct maintenance outlay and allowance for voids.

4.12 The set-up costs of a direct delivery programme can vary significantly dependent on the complexity of the governance and management model created. The overall scale of ambition will influence the initial start-up outlay. Avoiding re-establishing the HRA will help initially to keep costs down and has been covered an HRA is not proposed in this case. Costs to develop the programme in 2022/23 have been contained within the Housing Revenue budget, however, this is not sustainable, and it is proposed to capitalise programme costs going forward, subject to scheme approval.

4.13 There is an underlying viability challenge for all new affordable homes when there is no historic stock revenue surplus to offset early years revenue deficits. It is on this basis that it is proposed to double the first tranche stock holding from 9 units approved by Cabinet in January 2021 to 18 units.

4.14 There are minimal legal implications for the direct delivery model, aside from the normal legal aspects of developing new homes. The Council has the power to immediately begin developing new homes and so would not have to create a legal construct to frame a development programme with this option.

4.15 Under the direct delivery model the Council is able to reclaim VAT on its day-to-day activities. Although new-build construction is zero rated for VAT, consultancy fees and development and management agency arrangements will attract VAT at 20%, which the Council can reclaim. Any profits received from development activity will not attract a Corporation Tax liability.

4.16 The strengths and weaknesses of the direct delivery model are as follows:

STRENGTHS	WEAKNESSES

Straightforward and deliverable Enables the Council to retain ownership of assets Most rented homes developed will be social rented Tenants have high security of tenure The Council will have an additional tool in its box to support affordable housing development in Sefton	There is less flexibility with tenure than in some other models Over 199 homes will require HRA re-establishment Tenants of social rented homes will have the Right to Buy Outsourced services for development and management will be required There is an additional scheme viability gap for the Council to bridge Achieving an effective governance and organisational model can be difficult

4.17 Cabinet is particularly asked to note that the direct delivery model will mean that there will be a risk that properties can be bought under the Right to Buy. However, some protection against this provided by the ‘Cost Floor Rule’:

A special limit on the amount of discount may apply if the property is newly built or acquired, or where there have been improvements, repairs or maintenance work on the property. This is known as the 'cost floor rule'.

If a total of £5,000 or more has been spent in the 10 years (15 years for properties built or acquired by the landlord on or after 2 April 2012) before the right to buy application, the discount must not reduce the sale price below the amount that has been spent.

Ongoing repairs and maintenance work to existing properties (as opposed to work on recently acquired dwellings) can only be counted if the cost of the work exceeds £5,500.

4.18 The ‘cost floor rule’ will mitigate the risk that properties wll be lost to Right to Buy but *not completely remove it*. Should a property be lost to Right to Buy (RTB) the Council will automatically retain 25% of the receipt with the remaining 75% paid to central government. However, under changes introduced by government in April 2021 to the RTB pooling arrangements local authorities can apply to retain a greater proportion of receipts for reinvestment into affordable housing delivery.

4.19 In April 2012, the government raised the maximum cash cap on Right to Buy discounts to £75,000 and confirmed that receipts generated by additional sales resulting from the discount increases (against a baseline of sales forecast before the increases) would be used to fund replacement stock on a one-for-one basis nationally. At the same time, the government offered to enter into an agreement with any local authorities that wished to retain their own receipts from additional RTB sales so that they could reinvest them in new affordable housing themselves.

4.20 To retain their “additional receipts”, local authorities must enter into an agreement with the Secretary of State under section 11(6) of the Local Government Act 2003 (as substituted by section 174 of the Localism Act 2011). Under this agreement, authorities can retain receipts arising from additional RTB sales provided the authority spends a sufficient level of those receipts on replacement social housing within a 5-year period.

4.21 Additional restrictions apply to acquisition of properties, however, all local authorities are free to use any retained receipts to acquire up to 20 replacement properties each year.

4.22 It is difficult to anticipate the level of RTB interest that there will be in the new stock, however, the ‘cost floor rule’ is likely to be a significant disincentive to potential purchasers. As part of their commission Ark Consulting considered an Exit Strategy of selling the portfolio of stock to an existing Registered Provider should RTB sales undermine the Business Plan. Any sale of the portfolio to an existing Registered Provider will ensure that it is retained as affordable housing.

Business Plan Overview

4.23 As outlined in the January 2021 Cabinet Paper the proposal to acquire residential properties for the purposes of making them available as Council housing is supported by a capital budget accrued through the Council’s share of Right to Buy receipts from One Vision Housing under the terms of the Stock Transfer Agreement in 2006.

4.24 In addition, the Council is also in receipt of Section 106 Commuted Sums payments from developers who have not been able to provide planning policy compliant affordable housing on their sites.

4.25 Taking account of ongoing potential liabilities and income over the period of the Council Housing Programme Business Plan it is estimated that approximately £5m is available to fund the acquisition of new Council Housing in Sefton.

4.26 Based upon the conclusions of the Workshop held with Cabinet in December 2021 that the lowest risk option for the Council was to work with Sandway Homes during an initial phase of growth to establish the Council Housing Programme. Sandway plans to develop 3 sites over the next 5 year period:

Site	Total Units	Affordable Housing	Start on Site (estimate)	Completion (estimate)
Buckley Hill Lane, Netherton	63 units	18 units	July 2023	April 2024
Bootle High, Netherton	63 units	8 units	April 2024	Dec 2025
Bentham’s Way, Southport	150 units	45 units	Sept 2024	Oct 2027

4.27 As has already been covered the discussions are underway to acquire 18 apartments from Sandway on their Buckley Hill Lane site and a separate paper will be brought for approval on this proposal later in the year, however, for the purposes of Business Plan modelling an acquisition of 18 units on the Buckley Hill Lane site has been assumed.

4.28 Should members not wish to pursue the acquisition of the additional apartment block and revert to the mix approved in May 2022 the Business Planning assumptions remain the same and the Business Plan can simply be updated. In either case the Business Plan will remain a 'live' document and will be updated periodically to reflect approved changes to the programme and to update market assumptions.

4.29 Cabinet is also asked to note that separate papers will be brought with specific proposals relating to all of the sites in the programme. Acquisition of properties is subject to successfully negotiating with Sandway and agreeing a purchase price based on open market value of the properties. Detailed appraisals for each tranche of properties will be prepared and presented for approval.

Estimated Acquisition Costs

4.30 Ark Consulting modelled the estimated acquisition costs for the properties the Council proposes to acquire based on anticipated values, and assumed discounts for bulk purchase based on market rates. These are set out in the Business Plan appended to this report at Appendix II.

Scenario	Description	No. of Units	Assumption
A	Funded with grant and Council housing capital – no borrowing assumed.	46	Both Scenario A & B assume the following: Buckley Hill Lane properties will be purchased at 85% of open market value and Homes England grant will be available to the scheme. Bentham's Way and Bootle High will be purchased at 75% and 55% of open market value for shared ownership and affordable rent homes respectively and with no Homes England grant.
B	Funded with loan finance and based on the assumption that borrowing is limited to a level that ensures that revenue breaks even from the first year of the operation of schemes.	71	
C	Funded with grant and Council housing capital – no borrowing assumed	46	Both Scenario C & D assume the following: Buckley Hill Lane properties will be purchased as in Scenarios A & B. Bentham's Way and Bootle
D	Funded with loan finance and based on the assumption that	71	

	borrowing is limited to a level that ensures that revenue breaks even from the first year of the operation of schemes		High will be purchased at an average of 75% of open market value for both tenures. Homes England grant is assumed.

4.31 The ‘no borrowing’ option is recommended to Cabinet for several reasons:

- It represents the low-risk option compared to borrowing to part fund the programme;
- The income from the Right To Buy Sharing Agreement with One Vision Housing as part of the stock transfer continues to be paid. This is the primary source of the capital accrued to fund the first phase of acquisition of the new Council Housing Programme. The sharing agreement remains in place until 2036 and although there are no guarantees that income will remain at current levels the Council currently receives in the region of £0.75m per annum;
- Commuted sums on private development sites continue to be paid where necessary, and the Council may choose to prioritise the payment of Commuted Sums in future in order to help fund further programme acquisitions;
- The ‘no borrowing’ option will ensure that the programme shows a strong ‘cashflow positive’ position from Year 1 to potentially fund additional property acquisitions as part of a self-sustaining model;
- Borrowing may become more viable in the future after the programme has been established through the first phase of growth over the next 5 years.

4.32 On the basis that the ‘no borrowing’ option is adopted the first phase of acquisitions will result in approximately 46 properties being secured.

4.33 The split of the 46 of the 71 affordable units to be acquire on the site has yet to be determined but will based on the mix of affordable properties available on each site set against the strategic housing need, and on discussions with other Registered Providers required to acquire the balance of units on the 3 sites in order to comply with planning policy.

5 Management and Maintenance

5.11 Arrangements to manage and maintain the new housing stock was first considered by Cabinet in January 2021, and a recommendation was approved to procure an existing Registered Provider to provide a management and maintenance service.

5.12 The development of a management specification and model contract has been progressed over the last year with a view to procuring a Management Agent by summer 2023, ahead of the first units coming into management in April 2024.

5.13 However, advice that we have received from our external legal advisor is that if the procurement process is restricted just to providers registered with the Regulator of Social Housing the Council may be in breach of Public Procurement Regulations at risk of a legal challenge so Cabinet is asked to note that this will no longer be a specific requirement.

5.14 However, performance and specifically customer service will be central to the selection of the Management Agent and the selected provider will be required to meet key performance targets to ensure the best possible service for tenants.

5.15 It is recommended that the Development Agent role is kept separate from the procured provider who will manage the stock on our behalf. Although some local authorities have gone down this route in our case there is a potential conflict of interest in Sefton.

5.16 Any Development Agent who is part of the negotiations with Sandway and potentially other developers on the acquisition of future properties for use as council housing will be aware of the details of any agreed terms. If that development agent is also a Registered Provider (housing association) who is active in the borough having knowledge of such commercially sensitive information would be an advantage for them in any future negotiations that they may have with Sandway to acquire Affordable Housing. The most immediate example relates to the 71 affordable housing units that will be developed by Sandway on the Buckley Hill Lane, Bootle High and Bentham's Way sites. The council will only be in a position to acquire 46 of these 71 units so another provider will be required to negotiate with Sandway to acquire the balance of these properties. Knowledge of the terms agreed with the Council would potentially compromise Sandway's negotiating position. Instead, it is proposed that consultant support is used to provide Development Agent support on future sites as it has been on the Buckley Hill Lane scheme.

6 Programme Risks

6.1 A Risk Profile is included in the Business Plan Part B (Appendix II). This outlines a number of risks to the ongoing development of the Council Housing Programme.

6.2 The key risks, identified as having a 'medium residual risk score' identified by the risk profiling exercise include:

Key Programme Risks	
Key Risk	**Mitigation**
2. Buckley Hill – Grant is not agreed with HE	If HE will not provide grant Council renegotiate with Sandway
6 Handover delays for Sandway – All Sites	The payments will mitigate the financial impact of delays – but the impact on future tenants can be high – Careful management between Sandway/Sefton & the managing agent should manage this issue.
7 Sandway's contractor enters	The contract will require Sandway to find the

	administration	solution at their cost.
8	Total scheme costs increase.	The Plan is modelled with a 10% contingency
9	The Council cannot procure a managing partner	The Council could self – manage or appoint an agent to manage all or elements of the management and maintenance of the homes.
14.	The revenue position takes too long to become positive.	Bear down on costs and maximise income

6.3 Programme risks will be actively managed by the project team, and current oversight is provided by an officer Steering Group and reporting to Cabinet Member.

7 Key Timescales

- Phase 1 Business Plan Agreed – April 23
- Agreement with Sandway on terms for Buckley Hill Lane – April 23
- Homes England Grant Application Process – May 23
- Revised Buckley Hill Lane Proposal considered by Council – June 23
- Management Agent Procurement Completed – June 23
- Controls and Governance Arrangements in place – Sept 23
- Onboarding 1st tranche of properties – April 24

APPENDIX I – OPTIONS APPRAISAL (BUSINESS PLAN PART A)

ARK
CONSULTANCY

SEFTON

Option Appraisal

August 2022

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Background And Scope Of ARK's Appointment

In January 2021, Sefton Council (the Council) approved in principle an objective to establish a programme of new council housing provision. The Council's key drivers for wishing to establish this programme are summarised in the following section of this document.

Sefton is a sizeable metropolitan borough situated to the north of Liverpool and incorporating urban and suburban parts of the northern city conurbation and its fringes and some coastal and semi-rural areas which were traditionally part of West Lancashire.

The Council is seeking to consider options for how best to further its aspirations to directly develop new affordable homes. The Council appointed ARK Consultancy (ARK) to provide support in assessing its options, developing a business case for a preferred approach and then formulating a more evolved business plan for the preferred approach.

The scope of ARK's assignment to support the Council in furthering its aspirations and plans to develop new affordable homes falls into two phases of work:

A. An assessment of the market and policy context, some initial briefing for the Council, consultation and engagement with stakeholders and the development of an option appraisal. This phase is expected to culminate in a Gateway Approval step to decide whether to proceed to Phase B.

B. More detailed research on opportunities, exploration of viability and appraisal assumptions and development of the business case evaluation and of the business plan forecasting to a more detailed level.

This document is the principal output of the Phase A work and is intended to support the Gateway Approval step. It includes the outputs of ARK's assessment of the policy context for delivering affordable housing in Sefton, a brief assessment of the condition and functionality of the various housing markets in Sefton, the outcome of a series of consultation meetings with key personnel, a structured appraisal of realistic options available to the Council to intervene more directly in affordable housing provision and a suggested preferred approach.

Phase A has been undertaken largely in July and August 2022, having commenced at the end of June. This is a fairly condensed timetable for the work involved and time pressures have been exacerbated when aiming to complete consultation and engagement tasks during a period when most personnel have some holiday commitments.

SEFTON'S DRIVERS FOR DIRECT DEVELOPMENT

As mentioned in Section 1, the Council had decided in principle to re-establish the direct development and ownership of affordable homes back in January 2021. At present the Council does not own any social housing having transferred its housing stock in 2006 to One Vision Housing (now The Sovini Group).

The Council has previously set up a wholly owned development company, Sandway Homes, which was established for the purposes of developing market housing on sites in the Council's ownership. Sandway schemes will bring forward affordable housing as a result of planning obligations in Section 106 agreements. So, in particular, the Council is motivated to acquire the affordable housing produced as a result of Sandway's activity.

Aside from enabling Sandway schemes to be fairly self-contained in terms of the participants and the outlet for affordable homes produced, the other key drivers for the Council wishing to develop affordable homes more directly include:

- adding to the capacity of providers active in the borough
- focusing more on achieving social rented homes within the programme of affordable housing production because rents are more genuinely affordable
- having a provider more likely to engage effectively with smaller schemes
- having a provider fully attuned to the strategic priorities for the type of affordable housing needed in different parts of the borough
- adding impetus and timeliness on bringing schemes forward and to fruition
- simplifying the development process for affordable housing being produced on land in the Council's ownership by avoiding the land transfer stage.

The Council ran an internal workshop session for key officers and members back in December 2021 and an output of that session is an underlying preference for more direct affordable housing development to be 'on balance sheet' and controlled entirely by the Council. However, the terms for engaging consultancy support did expect that work to test and analyse available options and ensure that the Council's initial preference was justified. Part of that process needs to include a thorough assessment of the implications and a solid comparative analysis of the realistic options available.

LEGISLATIVE AND LOCAL POLICY CONTEXT

This section focuses on legislation and policy at both a national and local level and putting into context other aspects of the Option Appraisal. Appendix A provides a more detailed analysis of the legislative and policy environment.

NATIONAL LEGISLATION AND POLICY

There is a raft of legislation that places obligations and duties on local authorities. One of the most significant pieces of legislation in recent years is The Localism Act 2011 which introduced substantial new freedoms (the General Power of Competence) for local authorities to act with the scope in law which any individual person would have.

However, any specific extant powers relating to local authorities supporting new housing development in their areas largely remained in place and these powers still take precedence in terms of a council's statutory powers.

Easing of borrowing constraints on local authority housebuilding by the removal of the borrowing cap on housing debt attributable to the Housing Revenue Account took place in 2018. This enabled local authorities to more readily consider programmes of new council housebuilding.

Other significant relevant legislation includes the Housing and Planning Act 2016 and the Neighbourhood Planning Act 2017, both of which contain provisions that amend the operation of the planning system. The National Planning Policy Framework (NPPF) which sets out how the Government expects planning policy to be applied, has been amended and updated to reflect the changes in legislation.

The Homelessness Reduction Act 2017 places new duties on councils in relation to the prevention of homelessness. These requirements have underlined the importance to councils of being able to access a sufficient supply of suitable affordable housing.

There are a number of important bills currently making their way through parliament. The Regeneration And Levelling Up Bill signals further significant changes to the planning system, including how affordable housing is delivered. It includes measures to simplify compulsory purchase powers and encourage regeneration of towns. The Social Housing Regulation Bill is intended to improve the regulation of social housing, to strengthen the rights of tenants and to ensure better quality, safer homes.

THE LOCAL CONTEXT

Sefton borders the city of Liverpool to the south, the borough of Knowsley to the south-east, and West Lancashire to the east.

Sefton is a member of the Liverpool City Region Combined Authority (LCRCA), which brings together six local authorities; Halton, Knowsley, Liverpool, Sefton, St Helens and Wirral.

Sefton is a diverse borough and it is noted in several council documents that, although Sefton may appear as a fairly average borough in terms of key indicators, it is in fact polarised in a number of areas including income, economic activity and home ownership.

This is illustrated by areas in the south of Sefton, such as Bootle, Netherton and Seaforth, being in the 20% most deprived areas in the country, whilst Birkdale, Ainsdale and Crosby are in the 20% least deprived.

The Council recognises that an important way to address the disparities across the borough is through economic development and regeneration and enabling the local economy to become more resilient and diverse.

To support this ambition the Council's priorities for investment and growth include infrastructure, regeneration in Bootle and Crosby and investment in Southport town centre and its leisure facilities.

A number of these projects have attracted significant investment from the LCRCA.

COUNCIL VISION

The Council has developed a vision called Sefton 2030. This includes in the Vision Framework a pledge to "Work together to ensure choice across all types and tenures across the borough."

This flags that, although there is not a specific strand relating to housing within the vision document, housing choice is regarded as an important objective and a contributory factor to the delivery of the vision.

HOUSING STRATEGY

The corporate recognition of the importance of housing flows through into the latest Housing Strategy. The previous Housing Strategy covered the period 2016 -21, a new draft Strategy has recently been subject to a public consultation and will cover the period 2022 to 2027.

A key objective of both strategies is to prioritise land and assets in the Council's ownership to deliver its housing, including affordable housing and regeneration ambitions.

PLANNING POLICY

The Sefton Local Plan (the Local Plan) was adopted in April 2017 and is the document that guides development in Sefton. It covers the period up to 2030. In order to remain compliant with policy and legislative requirements the Council proposes that a review of the Local Plan will commence during 2022.

The Local Plan recognises the growing importance of the LCRCA in developing a joined-up approach in the city region to: “economic development and regeneration, employment and skills, transport and strategic housing.”

The Council does not currently have a Community Infrastructure Levy in place and, having deferred the matter in 2017, there appears to be no date fixed for its introduction.

DEMOGRAPHICS

Between 1981, when the population was 300,100, to 2017 the population has been in decline; although since 2017 there has been a slight increase and the population currently stands (2021) at 275,900. By 2030 Sefton’s population is projected to increase to 280,000.

According to the Strategic Housing Market Assessment 2019 (SHMA) there is a 33% increase forecast in the population aged 65+ over 2017-2036, potentially accounting for over 100% of total population growth.

This is reflected by the first release census figures 2021, which records 23% of residents as being aged 65 and over.

HOUSING SUPPLY REQUIREMENT

The Local Plan sets out the housing requirement for the period 2012 – 2030, stating that provision will be made for the development of a minimum of 11,520 new homes in Sefton. This requirement results in an average annual delivery rate of 500 homes per annum from 2012 to 2017 and 694 dwellings per annum from 2017-2030. Actual delivery to date is detailed below.

The net affordable housing need identified in the Local Plan is 434 affordable homes per year.

AFFORDABLE HOUSING POLICY

Affordable and Special Needs Housing and Housing Mix Supplementary Planning Document (SPD) was adopted in 2018 and a new affordable housing SPD is planned.

The Local Plan requires 30% of housing provided on sites of 15 dwellings or more to be affordable housing, with the majority (80%) provided as rented homes. In Bootle and Netherton, the percentage of affordable housing required is lower, at 15%, and only 50% should be for rent. There is provision allowing “special needs” housing as part of the affordable housing planning obligation if it is classed as meeting affordability requirements.

LAND SUPPLY

The Local Plan identified that the supply of brownfield sites was no longer sufficient to meet the housing and employment need. It was noted that some land would need to be released from the Green Belt.

According to the latest Authority Monitoring Report 2020/21, the Council has a 5.1 year housing supply. It currently has a call for sites in progress to support the proposed review of the Local Plan.

SEFTON OWNED LAND AND ASSETS

The Council's Asset Management Strategy (2023) and its Asset Disposal Policy (2023) set out how it will support its housing delivery objective. This policy highlights that the Council will normally dispose of sites for best consideration but may accept a lower bid where affordable housing is to be provided. Bidding can also be restricted to Registered Providers. Sandway Homes has been the beneficiary of a number of disposals.

QUANTIFICATION OF HOUSING NEED

The housing numbers identified in the Local Plan are based on surveys carried out to establish housing need (including market housing need) in Sefton up to 2030. This data has been updated through subsequent housing need surveys, the most recent being the Strategic Housing Market Assessment (SHMA) produced by Justin Gardner Consulting in 2019.

The SHMA assesses housing need for all tenures for Sefton at 645 dwellings per annum. This calculation has been based on household growth in the 2018-28 period and is similar to the housing need identified in the Local Plan. The SHMA states that there is a need for all sizes of housing within all tenure groups.

The SHMA identifies a net total net need of 7,400 additional affordable homes over the 19-year period (2017-36), this equates to 391 homes per annum. This is slightly lower than the number in the current Local Plan.

The highest need identified for affordable housing is in Southport. There is a small surplus of affordable housing in Bootle and Netherton. However, the SHMA suggests that in areas where there is an oversupply the existing housing stock may not meet the nature of local housing need and therefore affordable housing is still required.

The SHMA suggests a target of no more than 10% of affordable housing provision being provided as low-cost home ownership. It also points out that access to market housing is often restricted due to the lack of a deposit and other finance rather than affordability.

HOUSING REGISTER

The housing register is another indicator of housing need. The latest housing register data (June 2022) shows that there were 3,700 active household applications. Of those, 55% were in band A and B, which contain households assessed as having the highest housing need.

ASSESSMENT OF AFFORDABILITY

The SHMA makes the point that market rents in Sefton are low compared to those seen nationally, with increases being relatively modest, thus making this a more affordable tenure than in other areas. The average rent for a lower quartile 2 bedroom property is £525 per month and for a 3 bedroom property it is £625 per month (ONS 2022). This illustrates why the private rented sector can be an affordable option for some households.

The lower quartile house prices also assist in demonstrating affordability in the market sale sector with lower quartile house prices in 2021 ranging from £85,000 for an apartment to £165,000 for a semi-detached property based on actual sales data. ARK does recognise that these numbers are skewed by the relatively low prices in the south of Sefton and the following section of this document includes average house prices by sub-market gleaned by ARK's primary research.

The ONS identifies that lower quartile resident-based earnings in 2021 were £20k in Sefton. This compares with £21k across the North West and £23k across England. Again, this masks differences between the north and south of the borough, with the SHMA detailing that the lower quartile income in Bootle was nearly 30% less than the average lower quartile income for the borough as a whole.

The earnings-to-house-price ratio in 2021, based on lower quartile house prices, was 6.95.

The SHMA undertook analysis of housing affordability and concluded that around 50% of those defined as being in housing need were unable to meet their needs in the market. Although this is a relatively positive position compared to other council areas, it still demonstrates there is a considerable need for affordable rented housing.

THE CHARACTER OF SEFTON'S HOUSING MARKET

The SHMA provides a solid characterisation of the make-up of Sefton's housing market. As a component in developing the Option Appraisal and establishing an understanding of the operating context for the council when considering the direct development of affordable housing, ARK included a swift but incisive review of current housing market conditions across Sefton.

Appendix B, attached to this document, sets out the findings of ARK's review of the Sefton housing market. Those findings are summarised in this section of the main document. Aside from reviewing relevant demographic, statistical and pricing data, ARK's review was informed by dialogue with estate agents and with solicitors handling residential property transactions in the area.

GENERAL

Sefton overall enjoys a positive profile as a place to live and this, combined with the generally buoyant housing market conditions being experienced in recent times across most parts of the UK, means that housing demand is high. Supply is relatively constrained in most parts of Sefton and therefore, generally, the market is characterised by rising prices and swift turnaround of available homes.

The borough naturally sub-divides into a series of sub-market areas which revolve around towns or locales which have a distinct identity and market pull. These are:

- Southport
- Formby
- Maghull
- Crosby
- Bootle
- Netherton

Each sub-market has its own specific profile or characteristics as follows:

SOUTHPORT

A seaside resort including the adjacent neighbourhoods of Ainsdale, Birkdale, Churchtown and Crossens.

Although the town centre is less vibrant than in the past, however the Council is currently progressing an ambitious regeneration programme, including the development of a new Events Centre in the town. The residential market remains strong with owner occupation at over 73% of the stock and a significant private rented sector representing almost 19% of stock. The area has an ageing population and affordable housing need is significant.

There are a number of gaps in supply in the Southport area including low-cost home ownership and purpose-built retirement housing. The market rented sector may also need to be bolstered if the trend for landlords exiting the market gathers pace. The following table provides an overview of house prices and market rents:

Type	Average Price	Rent PCM

Flat	£125,000	£675
Terrace House	£175,000	£775
Semi-Detached House	£207,500	£900
Detached House	£365,000	£1,200

FORMBY

Sefton's most affluent sub-market which is relatively self-contained but does include the neighbouring villages of Ince Blundell and Hightown.

A stand-out feature of this sub-market is the very high level of owner-occupation at virtually 90% of stock. Over 35% of local people are over retirement age. This sub-market has a relatively overheated market with most good quality homes reaching the market receiving multiple offers (sometimes above the asking price).

Smaller dwellings, rented housing and low-cost home ownership are all pronounced gaps in this sub-market. The following table provides and overview of house prices and market rents:

Type	Average Price	Rent PCM
Flat	£160,000	£775
Terrace House	£235,000	£825
Semi-Detached House	£275,000	£1,150
Detached House	£475,000	£1,900

MAGHULL (AND AINTREE)

For housing market purposes, this area also includes Lydiate and the Old Roan and is somewhat less cohesive than some of the other Sefton sub-markets. Aside from its general desirability as a housing locale, the area is characterised by particularly good transport and community links.

Much of the local housing stock is semi-detached housing and a high proportion was developed in the post-war period, especially in the 60s and 70s. At 88%, this sub-market again has an extremely high level of owner-occupation. The area has a proportionately high number of identified residential development sites likely to add around 2,400 new homes in forthcoming years.

Good quality apartments and rented housing (market and affordable) are gaps in this sub-market, as is low-cost home ownership for first-time buyers. The following table provides an overview of house prices and market rents:

Type	Average Price	Rent PCM
Flat	£107,500	£650

Terrace House	£200,000	No data
Semi-Detached House	£225,000	£950
Detached House	£320,000	£1,500

CROSBY

As a housing sub-market area, Crosby includes the neighbouring areas of Waterloo, Seaforth, Blundellsands and Thornton. It has two distinct small 'town centre' locations being in Crosby itself and in Waterloo. This is Sefton's most diverse housing sub-market with quite a broad range of pricing and housing stock from its more prosperous areas to its somewhat more deprived. Much of the housing stock is Victorian although there is also a considerable amount of inter-war semi-detached housing and some post-war estates, including ex-council housing.

Crosby's town centre, 'Crosby Village', is a focus for regeneration and some of this will include new residential development (partly realised by conversion of commercial buildings). Otherwise, the area is characterised by a lack of residential development opportunities.

Agents point to a need for low-cost home ownership opportunities and for more market sales housing. There is also a noted shortage of purpose-built apartments. The following table provides an overview of house prices and market rents:

Type	Average Price	Rent PCM
Flat	£150,000	£650
Terrace House	£195,000	£850
Semi-Detached House	£275,000	£1,000
Detached House	£430,000	£1,800

BOOTLE

This sub-market area is closely aligned to neighbouring parts of Liverpool. This is Sefton's most deprived locality overall and its housing stock consists of a high proportion of smaller terraced houses and a relatively large amount of social housing (36% of the total supply). Market renting accounts for a relatively high proportion of homes in Bootle, at 17% of the stock.

The area is the focus for a regeneration initiative and there are a number of residential developments in the pipeline, including the potential conversion of some sizeable office blocks. The balance of tenure of new homes needs to be managed carefully as there is an oversupply of general needs family affordable homes.

Some identified gaps in provision in this sub-market include larger family houses and low-cost home ownership for first-time buyers. The following table provides an overview of house prices and market rents:

Type	Average Price	Rent PCM
Flat	£60,000	£425

Terrace House	£110,000	£625
Semi-Detached House	£150,000	£675
Detached House	Little Data	Little Data

NETHERTON

For the purposes of housing market functionality, the Netherton sub-market also includes Litherland. The latter area does include some large traditional properties (both houses and flat conversions) but otherwise this sub-market is characterised by post-war small houses and flats. Netherton was substantially composed of 1960s and early 1970s council housing, much of which is now in private ownership as a result of Right to Buy.

New build developments in the area have largely provided new market homes for sale and these have proven popular. Communication links to the area have been enhanced with the relatively recent construction of a relief road and this has opened up further residential development opportunities.

Suggested gaps for new provision in this area include further housing for market sale and good quality purpose-built apartments. Low-cost home ownership is also perceived to be a pronounced need. The following table provides an overview of house prices and market rents:

Type	Average Price	Rent PCM
Flat	£70,000	£450
Terrace House	£133,000	£650
Semi-Detached House	£175,000	£750
Detached House	No data	No data

Specific Aspects Of Affordable Housing Provision In Sefton

AFFORDABLE HOUSING PROVISION

In 2021 there were 19,500 affordable homes of all tenure types in Sefton; 80% of these were rented homes, 17% were supported housing/housing for older people and 3% low-cost home ownership.

The Registered Provider (RP) with the most stock is One Vision Housing with 55% of the affordable homes in Sefton. This is not surprising as One Vision Housing was the stock transfer recipient for the council's homes in 2006. The other larger stock holders are Riverside Group and Jigsaw Homes North; the rest of the RPs with a local presence have small stock holdings. There are 33 RPs operating in Sefton in total. Some of the larger organisations present, such as Places for People and Sanctuary Housing Association, have small holdings of stock and do not appear to be active in terms of development.

AFFORDABLE HOUSING PRODUCTION

To understand affordable housing production it is helpful to look at overall housing production for all tenures. Over the last five years (2016 to 21), Sefton has had an average net completions (after deducting demolitions and including conversions and additional bedspaces in communal dwellings) of around 650 additional dwellings per annum (500 per annum of these have been new build homes). However, in the early years of the current Local Plan, net completions were running at around 270 completions per annum, well below the forecast 500 homes per annum required.

This has meant that cumulative completions are behind the Local Plan target with the annual completion rate needing to increase markedly going forward in order to achieve the overall target.

There has been an average of 149 affordable homes per annum completed over the last 5 years. Similarly, if the target of 434 homes per annum is to be reached, production will need to increase considerably.

The number of affordable homes developed against overall new build housing delivery during the five years is 23% of the total housing development in that period, suggesting that the planning policy position is not being maintained. The percentage of homes for rent (social and affordable rent) completed is around 75% of the total affordable housing production over that period and this is compliant with planning policy.

It appears that the bulk of affordable housing delivery in Sefton is via the operation of the planning system.

There is a pipeline of sites identified providing around 1000 affordable homes over the coming years, although some sites earmarked for the latter years in particular are less certain. One Vision Housing, Jigsaw/Adactus and Torus seem to be the most active registered providers in relation to future provision.

Appendix A provides data on Sefton's affordable housing delivery in comparison with other councils in the wider Liverpool city region. Sefton's delivery is 33% lower than Knowsley's for example. This might suggest that there could be scope for increasing production in Sefton although AEK is aware that there are significant differences in the operating contexts as between Sefton and Knowsley.

Sandway Homes primarily provides affordable housing as a consequence of planning obligations on its market housing development sites. It is therefore not providing additional affordable housing, over and above what is achievable or would have been anticipated through the planning system.

There is clearly an undersupply of affordable housing and the number of RPs engaged in developing new affordable homes appears low. This is something the Council needs to address.

Summary Of Outcomes From Consultation/ Engagement

An important element of the Phase A assignment has been engagement with relevant Council and Sandway personnel.

The original project plan envisaged a range of one-to one meetings with the Cabinet member for Housing and with a number of Council officers and then, following completion of those meetings and other background research, a workshop session with various key personnel to help develop the appraisal of options.

Given that the meetings and workshop were expected to be conducted during July and August, there were inevitable constraints imposed because of people's holiday commitments. A decision was taken to adapt the original plan in order to achieve a meaningful level of consultation within the availability challenge. This meant in practice that the workshop session was curtailed in scope and combined with the consultation session with Cllr Hardy.

ARK was able to complete dialogue with a range of key personnel within the Council.

The findings from the various consultation sessions are extensive. Rather than attempt to exhaustively capture all of these in this document, and to avoid attributing specific feedback to particular consultees, the remainder of this section includes a bullet point summary of the most salient aspects of the feedback received:

STRATEGIC BACKDROP

The Council has considered carefully experiences among other local authorities when contemplating becoming a direct developer of affordable homes.

The Sandway role and the more direct provision of affordable housing by the Council are considered to be two different projects. The Council would need to think carefully about the strategic sense of combining them if this was an emerging preference.

The commitment among councillors to becoming a direct developer of council homes is robust.

The only commitments so far made by the Council to a new direct development of affordable homes is the 13 units at Buckley Hill Lane, Netherton.

Sandway is keen to be considered as a vehicle for development of affordable homes by the Council.

Sandway is currently on site with 73 homes where the affordable housing element is being sold to Together Housing.

OPERATIONAL BACKDROP

The Council has a small number of existing dwellings provided for school caretakers etc. The Council also operated a Gypsy and Traveller Site. It might be sensible to combine management of these with output dwellings from new council housing development.

The Assets and Estates teams brief is to maximise capital receipts to fund growth programmes when selling assets, unless there are some specific other objectives attaching to sites.

Although the working relationship between Planning and Housing Strategy is close, there is no formalised structure for joint working.

LAND SUPPLY AND PLANNING POLICY

The Council does have a reasonable level of land availability to support new affordable housing supply more generally via Sandway.

Overall, the Council perceives that general housing delivery levels are now at about the right level overall.

The Affordable Housing SPD is under review and will address spatial planning expectations but anything on decarbonisation would be expected to feature in the Local Plan review.

Generally, viability constraints on larger greenfield sites appear to be few and far between. Argument with developers tends to revolve more around dwelling mix.

Bellway is the only large developer active in Sefton which is addressing the regeneration needs of areas like Bootle.

At present, Sandway's role focuses on developing Council owned brownfield sites. There is recognition that Sandway's role could extend to acquisition of other non-council sites in the future.

EXPERIENCE WITH HOUSING SUPPLY TO DATE

The Council feels, despite its significant efforts to create a positive and up-to-date planning policy framework, that new housing provision does not always adhere to the Council's objectives. That is particularly true with affordable housing provision. Sandway is establishing a product which aims for consistency of standards between market and affordable homes and a focus on place-making.

CRITERIA FOR EVALUATING OPTIONS

It would be helpful if the Phase A output document did develop the descriptions for each of the appraisal or evaluation criteria.

The social value benefits of each option warrant a specific score in the option appraisal.

Council control, legal implications and the flexibility inherent in an option all warrant a significant weighting when appraising options.

Reputational management for the Council needs to be a particular aspect applied to weighing up the risks associated with different options.

The spread of weightings for option appraisal criteria ought to be widened to achieve a more distinct set of output scores for each of the options.

MANAGEMENT ARRANGEMENTS

Some informal canvassing of interest in providing both development project management and housing management services has taken place. There was considerable interest expressed by a number of RPs.

ARK's view that around 350 units in management is the approximate threshold for bringing a degree of that service in-house is an important insight for sharing more widely among Council members and officers.

VIABILITY

The initial viability challenge for developing new affordable homes without the benefit of historic stock revenues to help with some initial revenue deficits on new homes has been considered to a degree by the Council. Access to accumulated Right to Buy receipts and S.106 commuted sums can help to address this challenge.

There is recognition that addressing the early years' viability challenge for newly developed affordable homes is best included in the Phase B work when some more detailed financial modelling will take place.

OPTIONS FOR COUNCIL DIRECT AFFORDABLE HOUSING DEVELOPMENT

ARK's understanding is that the Council has weighed up its options for 'direct' development of new affordable homes previously. In so doing, we believe the Council concluded provisionally that it seemed appropriate to develop those homes within the envelope of the Council's exclusive ownership and accounting arrangements, i.e. 'on balance sheet'.

Despite the above, the Council's brief for the ARK business case assignment expected the realistic options for 'direct' development to be revisited and subjected to structured comparative evaluation. This will enable the Council to arrive at a fully assessed preference for its approach and to be able to evidence its reasoning.

This section of the Option Appraisal for a preferred approach identifies those options which offer realistic and deliverable methods for the Council achieving its aims for direct development of new affordable homes, including securing a step-change in the level and targeting of new supply.

Although the focus of the assessment work is on approaches to 'direct' development, there are options which see the Council taking a core role in the provision process but entering legal partnerships with other parties in order to achieve the desired results. In one form or another, these are best described as 'joint ventures'.

Another key option is an approach wholly controlled and owned by the Council but delivered via a separate legal entity. ARK would still regard this approach as a form of direct delivery by the Council.

So, taking on board the qualifications above, there are four key options available to the Council for direct delivery of new affordable homes, and these are:

A) Direct development via the Council's General Fund/Housing Revenue Account

B) Establishing a Special Purpose Vehicle (or Expanding the Role of Sandway Homes)

C) A Joint Venture with a Private Developer/Contractor

D) A Joint Venture with a Registered Provider (Housing Association)

The remainder of this Section of the Option Appraisal is a structured explanation and assessment of each of these options in a consistent pro-forma style. Hopefully, this will help the Council to begin weighing up the respective implications, strengths and weaknesses of each option before we provide a further appraisal of those options in Sections 8 and 9 of this document.

OPTION:	A	TITLE:	DIRECT DEVELOPMENT VIA GENERAL

			FUND/HRA

SUMMARY DESCRIPTION

This option would entail the Council developing new council homes, primarily rented homes, 'on balance sheet' and under the auspices of the Council's direct operations. The scale of development and ownership of homes permitted within the General Fund accounting format is 199. Beyond that number of homes, the Council would be required to re-establish a Housing Revenue Account (HRA).

GOVERNANCE AND ORGANISATION

The Council would need to decide within which directorate its direct new homes programme would sit. That would include deciding upon the relationship between the new council homes operation and the Housing Strategy function. The Council would also need to decide whether and when to re-establish a Housing Committee. Certainly, if the level of new homes provision requires an HRA, the Council ought to carve out a precise oversight role for one of its committees.

RESOURCING

DEVELOPMENT	MANAGEMENT
In the early stages, development delivery is likely to require an agent or external resource. Over time, and dependent on scale, it may be economic to recruit to at least one Development Manager role.	Housing management and maintenance will require an outsourced service until this portfolio is at an economic scale for in-house staffing. That is likely to be around 300 homes in management. An RP is the most appropriate source of agency services initially.

CONTROL

Because the housing will be in the legal ownership of the Council and the programme under the Council's direction, control is at a high level. In order to access Homes England grant, the Council would need to secure Registered Provider status and this will bring an enhanced degree of external regulation from the Regulator for Social Housing (RSH). The control environment will need an appropriate level of policy, process and authorisation procedures.

FINANCIALS

COST PROFILE:	A reasonably low-cost approach but with notable start-up costs and with an initial scheme viability challenge.
CAPITAL COST & FUNDING:	For modelling purposes, average unit costs can be assumed to be: (i) with land cost £186,000 (ii) with no land cost £152,000 Bost cost assumptions include on-costs. Funding will from the accrued capital with grant funding where possible.
REVENUE/ OPERATIONAL:	Agency development and management support is scalable to match the programme/portfolio size. Project development

	costs will be around 4% of programme value. Housing services costs will be around 12% of rent roll and not including direct maintenance outlay and allowance for voids.
ESTABLISHMENT COST:	The set-up costs can vary significantly dependent on the complexity of the governance and management model created. The overall scale of ambition will influence the initial start-up outlay. Avoiding re-establishing the HRA will help initially to keep costs down. There will be potentially abortive business development costs to allow for as well. Budget £120k for start-up and £40k for Yr 1 business development.
VIABILITY:	There is an underlying viability challenge for all new affordable homes when there is no historic stock revenue surplus to offset early years revenue deficits. General Fund support can help ride out the early years problems as can additional cross-subsidy from actual schemes.
ACCOUNTING:	Initially, accounting can be via the General Fund until such point as the Council clearly expects to exceed 199 homes in management. There are specific accounting conventions applying to HRA accounting over and above the normal CIPFA codes. See OBC main doc. for more detail.

LEGAL IMPLICATIONS

These are minimal aside from the normal legal aspects of developing new homes (which include acquisition agreements and transfers for schemes requiring new land and building agreements for construction contracts).

The Council has the power immediately to begin developing new homes and so would not have to create a legal construct to frame a development programme with this option.

TAX IMPLICATIONS

The Council is able to reclaim VAT on its day-to-day activities. Although new-build construction is zero rated for VAT, consultancy fees and development and management agency arrangements will attract VAT at 20%, which the Council can reclaim.

Any profits received from development activity will not attract a Corporation Tax liability.

ACHIEVABILITY

This is the most straightforward and deliverable option from a standing start.

The Council would need to arrange its agency services and put in place a basic 'infrastructure' of policy, processes and systems (a lot of which can come via agents).

RISK PROFILE

KEY RISK	PROB.	IMPACT	GROSS	MITIGATION
It is more difficult to achieve scheme viability than for established providers.	High	Med.	High	The Council will need to secure some additional subsidy.
It will be difficult to contain growth ambition once development is underway.	High	Med.	Med.	The Council may need to be realistic about having to set up an HRA.
Cost and programme control is very difficult with development.	High	High	High	Realism is important and ideally early schemes should rely on council land.

SWOT

STRENGTHS	WEAKNESSES
Straightforward and deliverable	There is less flexibility with tenure than in some other models
Enables the Council to retain ownership of assets	Over 199 homes will require HRA re-establishment
Borrowing via PWLB attracts low interest rates	Tenants of social rented homes will have the Right to Buy
Most rented homes developed will be social rented	Outsourced services for development and management will be required
Tenants have high security of tenure	There is an additional scheme viability gap for the Council to bridge
The Council will have an additional tool in its box to support affordable housing development in Sefton	Achieving an effective governance and organisational model can be difficult

OPTION:	B	TITLE:	ESTABLISH A SPECIAL PURPOSE VEHICLE (OR EXPAND THE ROLE OF SANDWAY HOMES)

SUMMARY DESCRIPTION

This option would entail the Council establishing a wholly owned company, probably one limited by shares, charged with developing new homes. These companies are sometimes described as a ‘Local Housing Company’. Typically these companies can develop homes in both market and affordable tenures with the former cross-subsidising the latter.

A sub-option is for the Council to expand the role of its existing company, Sandway Homes, to include affordable homes.

GOVERNANCE AND ORGANISATION

The company could be limited by shares or by guarantee (the latter a type of Community Interest Company). The company will be governed by a Board which would include Council nominees. All shares would normally be owned by the Council.

The company will need some staff in order to cement its operations and this can mean a fairly expensive start-up phase. Sandway has existing staffing. Some development resourcing may still be required from an outsourced provider. A group structure might be appropriate to ring-fence market housing risk.

RESOURCING

DEVELOPMENT	MANAGEMENT
If a new company is established, early development projects will require an outsourced resource. Sandway has some existing development skills and personnel.	Housing management and maintenance will require an outsourced service until the owned portfolio is at an economic scale for company staffing. This is likely to be around 300 homes in management. The company will need adequate staffing for its overall management and financial administration.

CONTROL

The wholly owned character of the company’s ownership by the Council enables fairly effective control by the latter. However, the Council nominee(s) on the Board will normally be in the minority and the company will have an independent mindset. In order to access HE grant, the company will need to register as an RP and this external regulation is desirable in any event.

FINANCIALS

COST PROFILE:	A fairly high-cost approach, especially if a new company were to be established. The cost burden can be eased by working with Sandway although it is still a costlier approach, on the face of it, than Option A.
CAPITAL COST & FUNDING:	For modelling purposes, average unit costs can be assumed to be as for Option A. There is a higher level of capital cost because finance costs will be higher than Option A and so will internal on-costs. The Council would be the primary source of

	capital finance, raising loans from PWLB in the General Fund and on-lending to the company.
REVENUE/ OPERATIONAL:	Agency management costs are scalable to match the growing portfolio size. Development costs are less so, especially if an in-house team is established initially. Sandway has existing senior and development staff so can spread this overhead. Project development will be around 5% - 6% of programme value.
ESTABLISHMENT COST:	The set-up costs will vary significantly dependent on whether the Council establishes a new company or expands the role of Sandway. Budget £200k for the former and £80k for the latter. Also, budget £40k for Year 1 business development.
VIABILITY:	As with Option A, there is an initial viability challenge for affordable housing from a standing start, with no historic stock. A company will have less flexibility than the Council to manage this and will have higher development and funding costs. Cross subsidy from sales will be essential to achieve viability.
ACCOUNTING:	The company will be required to produce its own accounts in standard company form, including a P&L and a Balance Sheet. These will need to be submitted to Companies House within set timescales.

LEGAL IMPLICATIONS

If a new company is established, there are fairly significant legal steps for the Council to take including constituting and registering the new company. Land disposals from the Council will require contracts and transfers and loans will be subject to formal loan agreements.

Working with Sandway will avoid the set-up legal costs and potentially mean that additional loans could be subject to the framework of an existing loan agreement.

TAX IMPLICATIONS

VAT liabilities are more significant for a company than for the Council. Sandway may adopt some techniques in its relationship with the Council to help shelter exposure to VAT on some costs but the positive impact is likely to be limited.

A company limited by shares will be liable to Corporation Tax on profits before there is dividend distribution to the Council.

ACHIEVABILITY

This option is relatively achievable if the Council chooses to expand and adapt Sandway's role. The ownership and management of stock will change Sandway's character though and mean RP registration is advisable, which is time consuming.

If the Council sets up a new company, there is likely to be lengthy elapse time in appraising that approach and establishing the company's operations.

RISK PROFILE				
KEY RISK	PROB.	IMPACT	GROSS	MITIGATION
1. The establishment and operating costs will stretch viability to an unworkable extent.	Med.	High	Med.	Adapting the role of Sandway would be the most pragmatic approach.
Setting up a new company is too complex and challenging.	High	High	High	Again, working with Sandway would ease this risk considerably.
Sandway does not have affordable housing expertise.	High	High	High	Sandway may need to strengthen its governance and rely on outsourced expertise as well.

SWOT	
STRENGTHS	WEAKNESSES
• The company can have a clear and ring-fenced focus • The model is well established • Sandway offers a ready-made solution which can spread cost • Independent Board experts can oversee the governance of the company • The wholly owned nature of the company offers strong influence for the Council • Tenants do not have Right to Buy	• Complex unless it is possible to expand Sandway's role • Adds a layer of cost and complexity compared to Option A • Viability will be challenging and rely on cross subsidy from sales • There are negative VAT and Corporation Tax implications • There have been prominent failures of LHCs

OPTION:	C	TITLE:	JOINT VENTURE (JV) WITH A PRIVATE DEVELOPER/ CONTRACTOR

SUMMARY DESCRIPTION

This option is a fairly common approach for local authorities seeking to regenerate specific areas or existing council stock. It has also been deployed to support new council house-building programmes in various localities (like Sheffield and Newcastle for example). The Council would usually create a separate legal entity to frame the JV.

Typically the Council would contribute land and/or funding and the JV partner would contribute construction and possibly sales. It is possible for JVs to be created by contract as well as by setting up a new legal entity.

GOVERNANCE AND ORGANISATION

Typically, especially for a programme of activity over a number of sites, a new JV entity is created, either a limited lability partnership (LLP) or a company. The entity would usually be owned 50/50 by the parties and have a Board which includes representatives of each and possibly one or two independent members.

Day-to-day operations are normally managed by existing staff but Sefton would need a dedicated resource to manage its role in the JV.

RESOURCING

DEVELOPMENT	MANAGEMENT
The Council would need a resource to deal with land assembly and identification and also with contract management of the JV. Most of the remaining development activities would be undertaken by the JV partner.	The product of the JV, new affordable homes, would need to be owned and managed by the Council or by another vehicle (for example Sandway). Either way, there is a need to contract a day-to-day management and maintenance service until the extent of stock can justify in-house staffing.

CONTROL

The scope of the JV and the selection of a partner are firmly in the Council's control. Once created, the Council's influence will be contained by the JV Agreement and the governing instrument and strategy of the JV entity.

The quality and effectiveness of the Council's influence will rely heavily on the Council's management of its role, including the nominees on the JV entity Board. There needs to be clear performance expectations set for the JV.

FINANCIALS

COST PROFILE:	
	• Potentially this is a moderate cost approach to the development phase of schemes and also a good way of managing and transferring risk. • Good affordable housing outcomes may still rely on some loan finance from the Council to the body (possibly itself)

	which owns the resultant affordable housing.
CAPITAL COST & FUNDING:	In all probability, the JV will focus on schemes developed on council sites. So, for modelling purposes, only the unit cost for schemes without land is relevant (£152k). Funding solutions for affordable homes will definitely rely on cross-subsidy and may also require some Council PWLB borrowing.
REVENUE/ OPERATIONAL:	This option will minimise development administration costs. Also, cost should be a key criteria for selecting a JV partner and this should achieve competitive pricing for other development on-costs. Development admin could end up at 3% to 4% of scheme cost. Agency housing management costs will be as for Option A.
ESTABLISHMENT COST:	The set-up costs will include a procurement process for a partner and the Council's share of the establishment outlay. Budget £70k.
VIABILITY:	Many JV arrangements end up with a tenure balance that creates affordable housing of a value equivalent to the deferred land value. This will aid viability but means affordable housing levels are lower than they might be.
ACCOUNTING:	The Council would account for its role in setting up and helping to manage the JV via the General Fund. The JV vehicle will need to account independently for its work and fairly detailed management accounts will be part of the monitoring framework.

LEGAL IMPLICATIONS

Where schemes are developed by a JV on Council land, the construction phase is supported by a lease or licence and the actual land transfers occur on sale or letting to the buyers of properties or the landlord owners.

The JV will require an important suite of legal agreements including a JV Agreement, constitution for the JV entity, Development Agreement, Building Agreement, Licence and so on.

TAX IMPLICATIONS

Working with an experienced developer/constructor should enable some techniques for avoiding VAT on fees etc. to be deployed. Any fee costs incurred by the Council can have VAT reclaimed.

The JV entity, if structured as a company, will have Corporation Tax liability if it makes a profit. An LLP treats tax differently and liabilities fall to individual partners (which will mean no tax liability for the Council on its share of the profit).

ACHIEVABILITY

JV approaches are a well tried and tested technique for partnership developments on Council owned land. There is likely to be a reasonable appetite for this

opportunity in the market, especially among the bigger partnership contractors like Wates and Kier. Procurement and negotiating the final shape of a deal do present challenges. Also, the outturn benefits of JVs often fail to meet expectations so once the potential benefits become clearer, this could prove to be a barrier to progression.

RISK PROFILE				
KEY RISK	**PROB.**	**IMPACT**	**GROSS**	**MITIGATION**
1. The level of affordable housing offered for schemes is lower than expected.	High	High	High	A good level of business case modelling is needed before agreeing to the approach.
The JV partner fails to meet contract expectations.	High	High	High	Selecting the right partner is crucial as is a thorough assessment of opportunities and robust legals.
Commitment to a JV approach constrains flexibility.	High	Med.	Med.	Programmes commitments often outlive their true benefits. Contractual JVs for a limited number of projects are better.

SWOT	
STRENGTHS	**WEAKNESSES**
• Spreads risk • Leaves construction and related risks with an experienced partner • Development project management for the Council is modest • Can create a strong programme impetus • Council can take ownership of completed affordable homes • Cashflow profile is positive	• Success is dependent on maintaining a good working relationship • There is a fair amount of legal complexity • The JV partner will expect a higher profit than for a normal building contract • Typical JV partners are a little inflexible on product standards and construction methods • The model can be cumbersome for a small programme

OPTION:	D	TITLE:	JV WITH A REGISTERED PROVIDER (HOUSING ASSOCIATION)

SUMMARY DESCRIPTION
This is a variant of Option C but in this instance envisages a JV arrangement with a RP (likely to be a housing association). Such a JV is more likely to be project related and to be a contractual JV for that specific scheme. However, a programme-based JV or an area-based regeneration initiative might warrant the JV company approach.

GOVERNANCE AND ORGANISATION
For a specific project and contract-based JV, the Council and RP would create a Project Group or even a Project Board. The Council's role at that level is likely to be delivered via existing staff and even with some member input. If a company solution is adopted then, as with Option C, this could be an LLP or a company limited by shares. Ownership would normally be 50/50.

RESOURCING	
DEVELOPMENT	MANAGEMENT
The Council would need a resource to deal with land assembly and identification and contract management of the JV. Most of the remaining development activities would be undertaken by the JV partner.	The product of the JV, mainly affordable housing, could be owned either by the Council or by the RP. The benefit of the latter would be in terms of both viability and in housing services delivery. If the Council owned the resultant housing, it would need agency housing services, probably from the JV partner.

CONTROL
The scope of the JV and the selection of a suitable RP are firmly in the Council's control. Once created, the Council's influence will be contained by the JV Agreement and governance arrangements. The quality and effectiveness of the Council's influence will rely heavily on the Council's management of its role and the personnel involved. The JV Agreement should set clear performance expectations.

FINANCIALS	
COST PROFILE:	Potentially this is a moderate cost approach, dependent on the structure of the deal. It can also be a good way of transferring risk. RPs are typically more expensive developers than private companies. There is potentially access to RP loan finance and also internal revenue subsidy if the housing ends up in RP ownership.
CAPITAL COST &	In all probability the JV will focus on a scheme or schemes developed on Council land. For modelling, assume a unit

FUNDING:	cost without land but with higher RP on costs (£158k). Funding solutions can flex dependent on the ultimate ownership of the new homes.
REVENUE/ OPERATIONAL:	Development administration costs will be higher than for Option C and be between 4% and 6% of scheme cost. If the RP owns resultant homes then there will be no agency management fee and stock can benefit from early years revenue subsidy.
ESTABLISHMENT COST:	The set-up costs will include a procurement process for a partner and the Council's share of the establishment cost. If based on a contractual JV, assume a budget of £60k.
VIABILITY:	As with Option C, some capital cross-subsidy from sales may be required. The RP can access HE funding more readily than the Council directly. RP ownership of output homes will enable them to benefit from early years support. This will increase the number of affordable homes produced compared to other options.
ACCOUNTING:	The Council would account for its role in setting up and helping to manage the JV via the General Fund. The JV vehicle will need to account independently for its work and fairly detailed management accounts will be part of the monitoring framework.

LEGAL IMPLICATIONS

Very dependent on the scope and model of JV created. If Council land is developed and the Council ultimately takes ownership of affordable homes, the legal structure for schemes will be like Option C.

There is a stronger likelihood of a contractual JV than with Option C and this will simply lead to a JV and Development Agreement combined and then possibly a Building Licence. The RP will probably let the Building Agreement.

TAX IMPLICATIONS

If the RP leads the scheme development process, it will incur VAT on fees etc. in the normal way. Because a JV entity is unlikely, Corporation Tax would not be a consideration. Any scheme profits not used to subsidise affordable homes would be shared by the partners, with the Council's share not subject to a tax liability.

ACHIEVABILITY

JVs between local authorities and RPs are rarer than those between LAs and private developers. There is likely to be less appetite among RPs for a JV approach but nonetheless sufficient to achieve a deal.

Procurement and negotiating a deal will be challenging. RPs tend to be slow in progressing projects, especially those of an unusual character.

RISK PROFILE				
KEY RISK	PROB.	IMPACT	GROSS	MITIGATION
1. The level of affordable housing offered from schemes is lower than expected.	Low	High	Med.	Flexibility on long-term ownership will improve viability.
Lack of interest among RPs in JV approaches.	Med.	High	Med.	Interest will probably depend on Council plans for ownership of the stock.
Performance by RP fails to meet expectations.	Med.	High	Med.	Performance by RPs on development is generally poor to moderate. JV agreement needs to set clear targets.

SWOT	
STRENGTHS	WEAKNESSES
• Spreads risk • Leaves RP to deal with construction procurement and risk and with housing services • Development project management for the Council is modest • Council can take ownership of completed affordable homes • If RP owns output homes, RTB risk is reduced and viability improves • Relationship can begin on one project and then potentially be scaled up if successful	• There may be limited market appetite • RPs are inherently expensive and cumbersome developers • There is less track record of JVs involving RPs • The start-up phase is complex and time-consuming if for one or only a handful of projects

FACTORS IMPACTING ON A PREFERRED APPROACH/ CRITERIA FOR ASSESSING OPTIONS

The pro-forma style assessments making up the bulk of the previous section include information on aspects of each of the realistic options which help to contrast them and compare their relative strengths and weaknesses.

An evolution of those aspects of the options which suit the different approaches to Sefton's priorities and its market and operating context can form the basis for defining a series of evaluation criteria. These criteria can then be applied to each option and become the subject of a scoring process which will help the Council to decide on its preferred approach.

The following criteria are those suggested by ARK as the key factors or considerations to be adopted as the basis for a more structured and objective appraisal of the options. They are:

(i)	STRATEGIC FIT	The extent to which a particular option addresses the Council's strategic priorities and the objectives defined in the assignment brief.
(ii)	COUNCIL CONTROL	The degree to which the Council is 'in the driving seat' in terms of the model, its establishment and its on-going operation.
(iii)	CAPITAL COST/ VIABILITY	The relative level of capital cost to be incurred in applying the approach, the fundability of those costs and the inherent viability of the approach at the scheme and programme level.
(iv)	START-UP COSTS	The level of cost overall for setting up the option's approach and for reaching the point of the option becoming a productive resource. The costs focus mainly on those to be met by the Council but also on the overall cost economy of the approach when getting started.
(v)	OPERATIONAL/ REVENUE COST	The relative value for money offered by the approach in day-to-day revenue cost terms.
(vi)	RETAINED EQUITY	The degree to which the Council can retain or crystallise an asset investment value in the product of the approach.
(vii)	LEGAL IMPLICATIONS	The relative complexity and effectiveness of the legal framework needed to establish and operate the approach.
(viii)	TAX IMPLICATIONS	The potential negative impacts on the viability of the approach as a result of likely tax liabilities.
(ix)	RTB	The risk of losing valuable affordable housing as

	IMPLICATIONS	a result of tenants securing a Right to Buy.
(x)	SKILLS/EXPERTISE	The inherent availability of the necessary skills and expertise required to deliver the approach.
(xi)	FLEXIBILITY	The degree to which the approach can flex to deliver schemes of differing types or to grow or reduce the programme as demand or funding changes.
(xii)	RESILIENCE	The robustness of the solution or approach so that it can continue to deliver good results for the Council and local people.
(xiii)	SOCIAL VALUE	The extent to which the option offers the potential to add social value like local jobs, training, local supply chain benefits or local community engagement.
(xiv)	BALANCE OF RISK	An overview of the risks presented by the approach and the quality and cost-effectiveness of mitigations which are on offer; this includes risk transfer. Reputational risk for the Council is an important facet.

Each option is scored in relation to the defined evaluation criteria. A score between 0 and 5 is awarded dependent on how well an option/approach fulfils an evaluation criteria positively. Higher scores mean more positive outcomes.

Not all criteria are of equal significance when selecting a preferred option. Therefore, ARK has weighted the scores achieved by options in relation to each of the criteria. Weights are multiples of the base scores and range between 0.5, 1, 1.5 and 2.

The following section of this document is a matrix showing, in ARK's view, how each of the four realistic options performs when scores and weights are applied in relation to each of the criteria.

OPTION APPRAISAL

OPTION	STRATEGIC FIT			COUNCIL CONTROL			CAPITAL COST/ VIABILITY			START-UP COST			OPERATIONAL/ REVENUE COST			RETAINED EQUITY			LEGAL IMPLICATIONS		
	S	W	T	S	W	T	S	W	T	S	W	T	S	W	T	S	W	T	S	W	T
A) Direct General Fund/HRA	4	2	8	5	1.5	7.5	3	1.5	4.5	2	0.5	1	3	2	6	5	1.5	7.5	4	1	4
B) SPV/ Sandway	3	2	6	3	1.5	4.5	2	1.5	3	2	0.5	1	3	2	6	4	1.5	6	2	1	2
C) JV with Developer	2	2	4	2	1.5	3	4	1.5	6	3	0.5	1.5	4	2	8	2	1.5	3	3	1	3
D) JV with RP	2	2	4	2	1.5	3	4	1.5	6	3	0.5	4.5	3	2	6	2	1.5	3	3	1	3

OPTION	TAX IMPLICATIONS			RTB IMPLICATIONS			SKILLS/ EXPERIENCE			FLEXIBILITY			RESILIENCE			SOCIAL VALUE			BALANCE OF RISK			TOTAL SCORE
	S	W	T	S	W	T	S	W	T	S	W	T	S	W	T	S	W	T	S	W	T	
A) Direct General Fund/HRA	5	0.5	2.5	1	1	1	2	1	2	3	1.5	4.5	3	1.5	4.5	4	1	4	3	1.5	4.5	61.5
B) SPV/ Sandway	2	0.5	1	4	1	4	3	1	3	4	1.5	6	2	1.5	3	3	1	3	2	1.5	3	51.5
C) JV with Developer	3	0.5	1.5	2	1	2	3	1	3	2	1.5	3	3	1.5	4.5	3	1	3	3	1.5	4.5	50
D) JV with RP	2	0.5	1	3	1	3	4	1	4	3	1.5	4.5	2	1.5	3	3	1	3	4	1.5	6	54

A Preferred Approach And Next Steps

Based on the relatively straightforward option appraisal approach set out in the matrix in Section 9, Option A, Direct Development Via The General Fund/HRA, emerges as the most attractive proposition. The spread of scores between the various options is not especially wide and all offer their attractions and strengths. However, ARK does feel that Option A is distinctly the best match in relation to the established criteria.

ARK is aware that the Council has undertaken its own internal assessments of options for more direct development of new affordable homes in the fairly recent past. This process involved quite extensive engagement with members and relevant officers. We know that the preference emerging from that assessment is consistent with the findings and conclusions of the process now facilitated by ARK.

Because the Council's aspirations for the scale and pace of new affordable homes development are prudent and are linked to specific site development opportunities being pursued by Sandway, the number of new homes likely to be developed in the coming 5 years and more will remain comfortably within the threshold for holding them within the General Fund. This eases the accounting and administrative demands of the Option A, 'on balance sheet' approach for the time being.

Over the latter stages of the ARK Phase A assignment, we have explored with the Council some of the viability challenges associated with developing new affordable homes for rent from a standing start. Typical subsidy expectations for new affordable homes for rent are founded on a cumulative break-even for net revenues over an agreed appraisal period, usually linked to the loan repayment period. That presumes that any early years' revenue deficits are 'paid back' from discounted future revenue surpluses from other existing stock to keep operations viable in the early years of a new scheme. Sefton will not have that revenue benefit initially so an alternative means of subsiding the early years' deficits will be needed.

The Phase B assignment, if Sefton chooses to proceed to that next stage, will address the viability issue in more detail and identify a workable solution. This is likely to rely on accessing accumulated and eligible capital from other Council funding pots rather than placing a temporary revenue strain on the General Fund.

As well as this important financial modelling requirement, the Phase B work also needs to develop in more detail the resourcing solution for both development services (business development and project management) and housing management services.

In terms of the key output from this Phase A assignment, ARK recommends that the Council's preferred approach to developing new affordable homes more directly is to adopt the Option A model where homes will be owned directly within the envelope of the Council's General Fund.

If the Council is minded to accept this approach and approve progressing that as a strategy, the more detailed business plan modelling proposed for Phase B does then need to be instituted so that the Council can properly appraise and control the implications of moving forward with implementation of the strategy.

Appendix III – Sefton Council Housing Business Plan Equality Impact Assessment

1. Introduction

1.1 The Equality Act 2010 outlines how public bodies must have due regard to:

2. Eliminate discrimination, harassment, victimisation, and any other conduct that is prohibited by or under this act
3. Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
4. Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

2.0 Protected Characteristics

2.1 Equality Act 2010 is clear that there are particular characteristics that are intrinsic to an individual against which it would be easy to discriminate. Section 149 (the Public Sector Equality Duty) lists the characteristics known as 'protected characteristics' against which we have to test for discrimination. These characteristics are gender, race/ethnicity, religion and belief, sexual orientation, age, gender reassignment, pregnancy and maternity and disability.

3.0 Identifying Impacts across protected characteristics

Through reviewing your proposal, identify if and how the protected groups below may be impacted and identify any mitigating actions regarding the proposed changes but also as part of the consultation and engagement activity.

Protected characteristic	**Recommendations/mitigating actions**
Gender	There are positive impact relating to Females due to gender differences between the composition of households and household tenures. The majority of single parent households are female. These households therefore rely on a single income, and current evidence identifies that; the renumeration levels for females is lower than males. Females are more likely to face challenges in accessing and affording housing, particularly private rented homes if in need of housing benefit assistance, and more likely to live in social rented housing. Mitigating Actions: This strategy aims to mitigate these factors by improving the access to housing and housing services and providing a greater range of homes in the borough.
Age	The Council Housing Business Plan aims to positively impact those age groups (both young and old) that may be disproportionately affected by access to the right types of housing and appropriate housing services. There are housing priorities that can have positive impacts on children and younger adults who would wish to access the housing market across a range of tenures.
Disability	The Council Housing Business Plan aims to positively impact upon these groups, including those with physical or mental disabilities by helping to ensure that the right type of good quality affordable housing is available in the borough. This will include specific adaptations for those with disabilities. These all prioritise improving the provision of housing and housing services that are accessible and adaptable will increase choice in all tenures to help mitigate existing identified shortfalls or barriers.
Race/Ethnicity	The Council Housing Business Plan seeks to positively address issues relating to race or ethnicity through meeting the housing needs of more diverse and vulnerable communities.

Appendix III – Sefton Council Housing Business Plan Equality Impact Assessment

Religion or belief	None identified. The Council Housing Business Plan is secular in its approach and implementation.
Sexual Orientation	None identified.
Gender Reassignment	None identified.
Pregnancy and maternity	None identified.
Other Protected Groups	The Council Housing Business Plan will have a positive impact on 'looked after children' by helping to provide sufficient affordable, safe and high-quality housing in the borough. Social housing is often the tenure that care leavers move to as they live independently for the first time. Direct provision and management of Council Housing is anticipated to provide greater flexibility around how care leavers are housed in the future.