

Brighton & Hove City Council

Housing Committee

Agenda Item 13

Subject: Homes for Brighton & Hove – Revised Business Plan

Date of meeting: Housing Committee 22 June 2022

Report of: Executive Director Housing, Neighbourhoods and Communities & Executive Director of Environment, Economy & Culture

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Ward(s) affected: All

1. Purpose of the report and policy context

- 1.1 Homes for Brighton & Hove ('HBH') was established in December 2017 as a Limited Liability Partnership (LLP) between Brighton & Hove City Council (BHCC) and Hyde Housing Association in order to help tackle the City's 'housing crisis' and increase the number of affordable homes built.
- 1.2 The first two projects are underway and currently on site in Coldean and Portslade. These projects will deliver 346 homes, over half of which will be owned and managed by the Council and let at formula Social Rents.
- 1.3 Following agreement by a joint meeting of the Council's Policy & Resources (P&R) and Housing committees on 21 October 2020, the HBH Limited Liability Partnership Board (the 'Board') approved for HBH to operate as a development company for the Coldean and Portslade developments.
- 1.4 The Business Plan for HBH has since been updated following a review to enable the new development company delivery model for future developments. The Business Plan is attached in appendices 1 & 2, and appendix 3 in Part 2 of the report. The revised plan has been reviewed and agreed by the Board which includes cross-party councillors.
- 1.5 Significant changes to the Business Plan are a reserved matter under the Members Agreement and therefore requires approval by the Council and Hyde.

2. Recommendations

That Housing Committee:

- 2.1 Recommends to Policy & Resources Committee that it agrees the revised business plan in the Part 2 report and that it delegates authority to the Executive Director Housing, Neighbourhoods and Communities to take all

steps necessary to enable and facilitate the implementation of the revised Business Plan including providing reserved matters approval pursuant to the Agreement.

That Policy & Resources Committee:

- 2.2 Agrees to the revised business plan in the Part 2 report and delegates authority to the Executive Director Housing, Neighbourhoods and Communities to take all steps necessary to enable and facilitate the implementation of the revised Business Plan including providing reserved matters approval pursuant to the Members Agreement.

3. Context and background information

- 3.1 HBH was established as a limited liability partnership in 2017 with the aim of developing and managing 1,000 homes. The original Business Plan targeted an equal mix of shared ownership and rented homes, with rents set at 37.5% of the national Living Wage (this is a higher rent than those being delivered on the Coldean and Portslade projects and proposed in the revised business plan).
- 3.2 The main reason for setting up HBH was to overcome significant local and national issues limiting the delivery of affordable rented homes. These included a borrowing cap on the Housing Revenue Account (HRA), a national funding regime focused on Starter Homes/shared ownership, and a lack of truly affordable rented homes being developed in the City. Since then, however, the HRA borrowing cap has been lifted, and social rents have been included in Homes England's Affordable Housing Programme. These national policy changes have significantly enhanced opportunities for delivering affordable social housing using different models, including supporting the BHCC programme of providing an additional 800 council homes
- 3.3 In light of these changes and viability challenges on the Coldean and Portslade projects a joint meeting of the Council's Housing and Policy & Resources committees agreed on 21 October 2020 to change to a development company model enabling homes to be developed by HBH and then sold back to the Council and Hyde. The sales are being subsidised with grant funding accessed through Hyde's Strategic Partnership with Homes England. Since this committee decision in October 2020, legal documents and funding agreements have been agreed and completed to enable the delivery of the first 346 homes under the development company model. This enabled lower rents than envisaged in the original business plan.
- 3.4 Following the transition to the development company model, the Board agreed that the original business plan, first approved by Housing Committee on 25 September 2017 and Policy, Resources & Growth committee on 12 October 2017 should be updated in line with the new development company

operating model and to reflect a number of other changes in the intervening period.

3.5 The plan provides a base model for future projects, but each individual future project will need to be agreed by the Board. The revised business plan has a base model of 50% shared ownership and 50% formula Social Rents (these are Social Rents set to the governments formula which are higher than existing council rents, but significantly lower than Affordable Rents capped at Local Housing Allowance). In response to feedback from councillors and officers, flexibility and an ambition to increase the percentage of social rents above 50% have been built into the revised business plan in line with housing need and Council priorities.

3.6 A summary of the main changes to the original business plan are detailed below and the revised Business Plan is attached in the appendices of this report (see list of appendices below). The Part 2 appendices are confidential due to commercial sensitivity of the financial information, for example anticipated build costs.

- Appendix 1 - main body of the revised Business Plan
- Appendix 2 - revised Business Plan's appendices
- Appendix 3 - revised Business Plan's confidential appendices

Main changes to the Business Plan (see appended documents for details):

3.7 **Context & objectives** - The context and objectives of HBH have been updated to reflect new grant funding availability and current housing needs and market in the City.

3.8 **Development company model** – The revised business plan adopts the development company model for future projects with HBH developing homes and selling back to the Council and Hyde.

3.9 **Focus on particular site types** – The revised business plan focuses on sites in both the Council and Hyde's ownership, purchasing sites off the private market and helping unlock 'blocked sites'.

3.10 **Revised target mix of homes** – The mix of homes has been revised to focus on 1, 2 and 3 bed homes and no longer includes studio apartments.

3.11 **Revised target home sizes** – The plan commits HBH to the Nationally Described Space Standards for future projects [Technical housing standards – nationally described space standard - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/technical-housing-standards-nationally-described-space-standard).

3.12 **Updated design document and floor layouts** – The plan will include updated design principles and floor plans (these are currently being updated).

3.13 **Higher sustainability standards** – In line with the City's 2030 zero carbon target the revised business plan commits to meeting the Future Homes

Standard and partner sustainability standards including the Council's Sustainable New Build Policy.

- 3.14 **Strategic financial model** – The financial model that sits behind the original business plan and informs project viability, parameters, assumptions and costs has also been updated.
- 3.15 **Minimum investment returns** – The minimum level of investment returns for different tenures has been updated to reflect risk associated with different tenures and ensure that this is managed.
- 3.16 HBH is established as an equal partnership and risk, investment and any surpluses are shared equally between the Council and Hyde. Investment is made by each party on a project by project basis and based on the viability of the business plan for each project. HBH is therefore fundamentally different from many other local authority development company models such as London Borough of Croydon's Brick by Brick Housing Company where investment was made up front and all of the financial risk sits with the local authority.
- 3.17 The revised Business Plan will be reviewed by the Board at a minimum annually to ensure it is up to date and fit for purpose.

4. Analysis and consideration of alternative options

- 4.1 HBH is an important initiative and one of a range of programmes supporting the delivery of affordable homes in the City. By taking a range of approaches it is anticipated that capacity, investment and delivery can be accelerated and maximised.
- 4.2 In addition to HBH, the Council has a number of housing supply programmes to deliver additional council homes in the City including New Homes for Neighbourhoods, Hidden Homes and the Home Purchase programmes. The Council also increases its supply of affordable homes by joint work with Registered Providers and planning in support of delivering planning policy affordable housing requirements.
- 4.3 Alternative options were considered as part of the original Business Plan for HBH and included:
- A wholly owned Council vehicle e.g. a housing company;
 - A joint venture procured under the procurement regulations;
 - Disposal of sites to a registered provider or private developers; and
 - Doing nothing.
- 4.4 As outlined above HBH is a lower risk approach than many alternative housing company models.

5. Community engagement and consultation

- 5.1 The revised business plan has been developed in consultation with the Board which includes cross party councillors. The revised Business Plan has also been amended to reflect feedback received and agreed by the cross-party Housing Supply Member Board.
- 5.2 Consultation with residents and ward councillors on specific schemes and sites will be undertaken as part of the development process. Learning from the consultation and engagement from the Coldean and Portslade projects will be incorporated into future strategies.

6. Conclusion

- 6.1 HBH is proving to be a successful initiative which will deliver a significant number of affordable homes for the City (over half of which will be let at formula social rents). HBH enables the Council to share investment and risk whilst accessing Hyde's expertise and supply chain. It is an important arm in the range of housing supply initiatives that the Council has adopted to tackle the City's housing crisis.
- 6.2 The revised business plan enables the learning from the Coldean and Portslade projects to be embedded in HBH and will ensure HBH is ready to develop affordable homes that will be affordable, sustainable and built to the highest standards.

7. Financial implications

- 7.1 The Strategic Financial Model appended to the report supports the overarching Business Plan for the LLP. It is important to note that these are high level assumptions on the investment required to deliver the remaining 654 homes and is subject to change, however it does provide a basis upon which to estimate the investment required to deliver them.
- 7.2 Under the Members Agreement the council are required to finance LLP cashflows via the loan facility agreements signed in November 2017 where a shortfall is identified. The council will still be required under the new business plan to provide equity loans to the LLP; however, these will be short term loans as opposed to the longer term loans previously modelled under the old business plan. This is a direct result of the LLP developing and selling the homes instead of holding them as a long term asset itself.
- 7.3 To fund the cashflows for the two projects currently on site at Portslade and Coldean the council has provided equity loans of £12.839m, the developments are now entering a phase where there will be sufficient cash surpluses held by the LLP in 2022/23 to repay these loans in full during the year.
- 7.4 Appendix 4 to this report outlines the estimated cashflows to deliver all 1,000 homes under the development company model. In order to deliver the

remaining 654 homes it is forecast that a further £7.031m will be required in short term equity loans from 2023/24 to 2026/27. To fund these the council is expecting to receive £6.072m from 2022/23 to 2026/27 leaving just £0.959m to fund from borrowing. The ringfencing of profits from the LLP for reinvestment in affordable housing was approved as part of the original business plan. All member loans are due to be paid upon the completion of the business plan.

- 7.5 The report is not seeking budget approval to deliver the remaining homes, therefore individual business cases will be bought back to Housing Committee and Policy & resources Committee for budget approval in order for the HRA to purchase the homes. These business cases will follow the same principles on which the Portslade and Coldean developments were approved. Using the standard financial modelling where all investment costs including professional fees and SDLT are considered. Portslade and Colden schemes were viable after considering the Homes England grant income and modelling future cashflows on social rents.

Name of finance officer consulted: Craig Garoghan Date consulted:
26/05/22

8. Legal implications

- 8.1 The Members' Agreement dated December 2017 made between Brighton & Hove City Council (the Council) (1), Hyde Housing Association Limited (2) Hyde New Build Limited (3) and Homes for the City of Brighton and Hove LLP ('the LLP') establishes the way in which the members of the LLP have agreed to regulate their respective responsibilities and the dealings between them in relation to the business, management and affairs of the LLP. The Members Agreement requires reserved matters approval for material changes to the original business plan.
- 8.2 The proposed changes to the business case do not impact on the analysis of the procurement issues outlined when the LLP was established. If the Council disposes of land to the LLP it will need to ensure compliance with the Subsidy Control Act 2022 and S123 of the Local Government Act 1972 (the duty to obtain the best consideration).
- 8.3 The Council continues to take advice from Bevan Britten to ensure compliance with the legal agreements. The proposals outlined in this report are in line with the legal advice received.

Name of lawyer consulted: Manjinder Nagra Date consulted (13/06/2022)

9. Equalities implications

- 9.1 An increase in housing supply will extend opportunities to provide new, well designed homes to accommodate local households on the Housing Register who are in housing need.

- 9.2 All homes will be designed to ensure they are adaptable as residents needs and circumstances change through their life-time in line with Part M4(2) of Building Regulations.
- 9.3 The team will aim to deliver wheelchair accessible homes for developments line with planning policy (at least 10% of those secured by S106 as affordable housing). A standard wheelchair accessible design is included in the draft design guide. These may need to be adjusted to meet the constraints of individual projects.
- 9.4 Rented council homes will be allocated through the council's existing Housing Register reducing the potential for negative equalities impacts.
- 9.5 Shared ownership homes will include marketing for local communities and essential workers in the city.

10. Sustainability implications

- 10.1 The revised Business Plan commits HBH to developing homes that are both cost effective to live in and meet high standards of environmental sustainability in line with the city's 2030 Net Zero Carbon targets and helping tackle the Climate Change and Bio-diversity Emergencies.
- 10.2 The Plan significantly increase sustainability standards for new homes built by HBH. A Whole Life Carbon Assessment will be undertaken on new projects and they will be designed and built to the partner's sustainability standards which include the council's Sustainable New Build Policy.
- 10.3 Active travel will be promoted to new resident and considered within the design and the first two projects have included car club spaces, electrical charging points and ample cycle storage.
- 10.4 Projects will aim to have a Biodiversity net gain in line with the council's policies.

11. Other Implications

Social Value and procurement implications

- 11.1 The revised Business Plan commits HBH to fulfilling its duty under the Social Value Act 2012 as well as maximising the social value and impact of all its actions and resources. In addition to maximising value for money and outcomes for residents the plan states that HBH procurement processes will seek to:

- Encourage innovative approaches to social, environmental, health and economic issues;
- Encourage solutions which benefit and engage underrepresented communities and vulnerable residents;

- Deliver sustainable solutions, benefiting local communities beyond the length of a contract;
- Provide apprenticeships, job opportunities and skills for local people;
- Provide contractors with potential opportunities to further demonstrate their commitment to the Considerate Contractors Scheme's Code of Considerate Practice.

Crime & disorder implications:

- 11.2 The revised Business Plan provides an opportunity to provide new, well-designed homes which link to the council's wider housing and regeneration aspirations for the city, including the council's economic development and sustainability objectives. Well-designed housing has been shown to positively influence the rate of crime and disorder as well as the quality of life for future occupants.
- 11.3 Vacant sites can sometimes attract anti-social behaviour. With careful planning, the future development of these sites is likely to improve the safety of existing neighbourhoods by reducing crime and the fear of crime.

Public health implications:

- 11.4 There are strong links between improving housing, providing new affordable homes and reducing health inequalities. Energy efficient homes which are easier and cheaper to heat are likely to have a positive influence on the health of occupants of the new homes.

Supporting Documentation

1. Appendices to this report

Appendix 1 - Homes for Brighton & Hove revised Business Plan

Appendix 2 - The Business Plan appendices

Appendix 3 - Part 2 Appendix – Commercially sensitive Business Plan appendices (Restricted)

Appendix 4 - Part 2 Appendix – Commercially sensitive projected cash-flow (Restricted)

2. Background documents

1. October 2017 HBH Business Plan Policy, Resources & Growth report ([Public Pack](#))[Agenda Document for Policy, Resources & Growth Committee, 12/10/2017 16:00 \(brighton-hove.gov.uk\)](#)
2. October 2020 Joint P&R and Housing Committee - HBH Development Company report ([Public Pack](#))[Agenda Document for Policy & Resources Committee, 21/10/2020 15:00 \(brighton-hove.gov.uk\)](#)

