

Meeting of:	Cabinet
Date of Meeting:	Thursday, 25 May 2023
Relevant Scrutiny Committee:	Homes and Safe Communities
Report Title:	Formation of a Housing Partnership Programme with Cardiff Council
Purpose of Report:	To inform Cabinet of a proposal to establish a Housing Partnership Programme with Cardiff Council and to jointly procure a Development Partner to deliver the Council's Housing Development Programme
Report Owner:	Executive Leader and Cabinet Member for Performance and Resources (as a Public Sector Housing and Tenant Engagement Portfolio matter)
Responsible Officer:	Miles Punter, Director of Environment and Housing Services
Elected Member and Officer Consultation:	Debbie Marles, Monitoring Officer/ Head of Legal and Democratic Services Matt Bowmer, Head of Finance/S151 Officer Marcus Goldsworthy, Director of Place Mike Ingram, Head of Housing and Building Services Ian Robinson, Head of Sustainable Development Lorna Cross, Operational Manager – Property Nick Jones, Operational Manager – Public Housing Services
Policy Framework:	This report is within the policy framework and budget and is a matter for Executive decision by Cabinet.
<p>Executive Summary:</p> <ul style="list-style-type: none"> • Generally, Part I of this Report discusses the background and reasoning for the formation of a proposed Housing Partnership Programme with Cardiff Council. It also expands on the key considerations surrounding local authority housing development and identifies the vulnerability of the current traditional methods by which social housing schemes are procured and delivered. • It also introduces the Savills' Business Case for a Housing Partnership Programme and expands on its findings, conclusions and recommendations, particularly in relation to partnership structure and procurement options. • The report also considers how the proposal aligns with the Five Ways of Working, can have a positive impact on Climate Change and discusses resource and legal considerations. 	

Recommendations

1. That Cabinet notes the proposal to establish a Housing Partnership Programme with Cardiff Council and to jointly appoint a Development Partner to deliver the Council's ambitious housing development programme.
2. That Cabinet notes the requirement to take formal decisions on the progression of the above proposal, as part of the wider considerations detailed in the Part II report later in the agenda.

Reasons for Recommendations

1. To advise Cabinet of the intention to establish a Housing Partnership Programme with Cardiff Council.
2. To ensure decisions are made to progress the proposed establishment of a Housing Partnership Programme with Cardiff Council.

1. Background

- 1.1 Local Housing Partnerships in their report dated 25th November, 2020 concluded that the Council's forward development programme, including homes for market sale, would likely lack the scale to attract a reputable private sector development partner.
- 1.2 Instead, they recommended that it may be more appropriate to deliver the Council's development programme, including homes for market sale, in partnership with one of our Housing Association partners.
- 1.3 However, discussions have since taken place with Cardiff Council regarding a potential collaboration opportunity that would see both the Council and Cardiff Council establish a Housing Partnership Programme, based along the principles of their successful Cardiff Living Partnership. The Cardiff Living Partnership has been in operation since 2016, when the Wates Group were appointed – after an OJEU compliant procurement process – to deliver the majority of Cardiff's new council housing developments, some 1,500 new homes of varying tenures over the next 10 years.
- 1.4 The Council's forward development programme identifies - both confirmed and potential - sites that could deliver around 486 new homes (excluding Cosmeston). Whilst Cardiff Council's development programme over the same period identifies a further 1,425 new homes. The combined forward development pipeline of an initial 1,900+ new homes would be extremely attractive to a private sector development partner.
- 1.5 On 2nd February, 2023, Cabinet approved the Council's Housing Revenue Account Business Plan, which committed £510 million to the development of new Council homes over the next 30 years.

- 1.6** Should the collaboration proceed, a single Design Guide and Development Specification would be agreed to ensure homes are built to the same standards across the entire programme.
- 1.7** This could bring additional benefits including;
- Increased volume making the programme more attractive to the market;
 - Increased social value and more opportunities to develop long-term training and employment opportunities;
 - Knowledge sharing across the Partnership;
 - Potential to share resources ;
 - Increasing the supply of affordable housing across the region;
 - Economies of scale & potential for cross-subsidy through market sales.
- 1.8** Should the decision be made for collaboration between the Council and Cardiff Council, a procurement process could be structured to enable contractors to bid for (a) the Council’s Programme, (b) Cardiff Council’s Programme or (c) both programmes combined.
- 1.9** Any procurement process will be further benefitted and supported by the enhanced procurement arrangements that were introduced from 1st April 2023 and implemented in partnership with Cardiff Council.
- 1.10** A second opportunity for collaboration could be with Welsh Government and include the release of Welsh Government land in the Vale of Glamorgan for housing development. Welsh Government have recently undertaken a pilot land release for housing exercise in the Vale increase the supply of new housing, releasing land with minimum requirements in place regarding the quality and sustainability of the new homes across all tenures – a vision which very much aligns with our own. It could be possible for land that has been earmarked for release by Welsh Government for affordable housing could be included and delivered within Housing Partnership Programme.
- 1.11** Savills have been engaged to produce an outline **Business Case for a Housing Partnership Programme** for both the Council and Cardiff Council, (included at **APPENDIX A**) which includes:
- Providing advice on the different procurement routes available.
 - Undertaking a viability and costing exercise for existing and potential sites identified for a Housing Partnership with Cardiff.
 - To explore partnership structure options and consider the risk and reward parameters of those options. This will assist in identifying how more value could be delivered through a partnership programme.
 - To advise on potential collaboration options.
 - To provide a procurement timetable to inform the management of the procurement process.

- 1.12** The Strategic Housing Board at its meeting on 23rd November, 2022, approved the formation of a Housing Partnership programme with Cardiff Council in principle and referred the final decision to Cabinet for approval.

2. Key Issues for Consideration

- 2.1** Demand for affordable housing in the Vale, in common with other Local authorities in Wales and across the UK, is currently acute. There are over 5,700 applicants on the Council's Homes4U waiting list and 269 homeless families and individuals in temporary accommodation.
- 2.2** These pressures are driven by a range of factors including an increasing lack of supply of affordable privately rented accommodation, increasing house prices and higher mortgage interest rates.
- 2.3** The present situation is compounded by emerging and significant short-term pressures linked to recent global events, where a significant number of those seeking sanctuary in the Vale of Glamorgan require short term support to meet immediate needs.
- 2.4** Current housing pressures mean that we are being challenged to deliver new homes more quickly, be more innovative in our approach to development and be more flexible within our housing development programme to enable us to adapt effectively to changing housing needs and pressures.
- 2.5** Currently market conditions are challenging including soaring inflation, significant material price increases, rising energy costs, shortages around the supply of labour and materials and uncertainty around borrowing and financing. It is likely that market conditions have impacted to limit the number of contractors who have bid for our projects.
- 2.6** The current market conditions have also impacted the on-site delivery of our development schemes, with Jehu PSL recently entering administration and ceasing to trade, which has directly affected our project at Hayeswood Road, Barry. There is also a diminishing number of willing contractors prepared to bid for construction contracts in the current economic environment.
- 2.7** Experience so far of procuring schemes on an individual basis is that it is a slow and resource intensive process. Some schemes have elicited very little interest, with Hayeswood Road (a £9 million Scheme) attracting only two bidders.
- 2.8** In addition, the management of many individual procurements is resource intensive with a significant reliance on consultants to help take a scheme through the design stages to planning, out to tender and then on to site.
- 2.9** Cardiff Council have cited that their experience of its Cardiff Living Housing Partnership has shown that once a development partner has been procured, the

pipeline of projects moves forward more swiftly supported by a key project team employed by the development partner.

2.10 Additional benefits include:

- A better use of internal resources.
- Ability to innovate and respond swiftly to changing housing need and market conditions.
- Better certainty of delivery.
- Better value from our land and resources.
- Shared risk and reward.
- Consistency of quality from site to site.
- A much larger programme of social value within our local communities.
- Speed of delivery.

What would the Housing Partnership Programme look like?

2.11 Savills have suggested that this could take the form of a Strategic Partnership Arrangement (SPA). This would set out the principles for working together, development programme with parameters for progressing sites and order of priority, governance and decision-making parameters for selecting a preferred contract arrangement depending on the type of site and/or package of sites.

2.12 It would also include decision making process for the selection and the grouping or packaging of sites together based on certain factors, for example geographical proximity or coinciding timescales for pre-planning/planning work.

2.13 Below this SPA with each Council, would sit individual, site-specific contract arrangements depending on the site characteristics. For example, on sites where there is an element of market sales housing, a joint venture structure may be the optimum arrangement, depending on the appetite and ability of the Council whose site it is to participate in a proportion of development and sales risk in return for a proportion of developer margin. If the Council decides it is not able to participate on a joint venture basis, it can use a more traditional development agreement structure on these sites, which would limit the call on funding and risk to the Council. On sites delivering wholly affordable housing, it may be more appropriate to contract based on a build contract only.

2.14 For both Councils to benefit from the procurement efficiencies the commercial arrangements (both at SPA and project level) will need to be on the same basis. However, each of the Councils would be able to make their own decisions as to which of the procured commercial arrangements they utilise for which sites in their Programme.

Procurement Strategy

2.15 The advice the Council and Cardiff Council has received from Savills, sets out the partnering options open to us along with suitable procurement routes. In summary the procurement options are:

- Open - fastest route, but no opportunity for negotiation.
- Restricted – useful when you have a very large number of tenderers but again, no negotiation.
- Competitive procedure with negotiation - all negotiation to be completed prior to final tenders.
- Competitive Dialogue - allows the proposals to be refined during dialogue and negotiation following final tenders.

2.16 Either a competitive procedure with negotiation or competitive dialogue is likely to become the preferred procurement option. Both will enable the bidders to help shape the final partnership arrangements enabling the Council to access the expertise from developers and to agree an arrangement that provides the best solution for both parties. Evidence suggests that this process generally worked well when Cardiff Council procured their Cardiff Living Partner, although the process was very lengthy. Timings can be accelerated by ensuring clarity of objectives and specified minimum requirements from the outset and with these in place, along with a robust project team, it is considered that a process of competitive dialogue or competitive negotiation could be completed within **12 months**.

A Robust Market Proposal

2.17 Cardiff Council have cited that having learned the lessons learnt from their initial housing partnership - the Cardiff Living Programme - the structure of this new Housing Partnership Programme and the proposals released to the market should ensure:

- that a robust set of baseline development costs are obtained along with a clear method of benchmarking all projects in the programme back to the tendered costs;
- a clear method and procedure for including additional sites within the programme is adopted – setting in place suitable parameters for this within the scope of the procurement;
- Innovation can be encouraged, promoting the use of modern methods of construction (MMC) where appropriate and enabling different construction methods to be considered on a site-by-site basis;
- Driving more value out of the programme and a better return to the Council for its land and resources by adopting a risk/profit sharing approach;
- That the programme is delivered at scale and pace;

- The Development Agreement is flexible enough to reflect ongoing and unforeseen changes to policies and requirements associated with the development of new homes.

3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

- 3.1** Looking to the long term - The Housing Business Plan allocates significant resource, some £510 million, towards the development of new Council homes over the next thirty years. The Housing partnership Programme would seek to complete a minimum of 486 homes over the next five years. Homes will be considered for development where development could be made viable by including other tenure models to cross-subsidise the development of homes at social rent. In this way the Council could further add to the overall numbers of affordable homes in the borough without adversely impacting on the Housing Business Plan.
- 3.2** Taking an integrated approach - In April 2018, Welsh Government announced an independent review of affordable housing supply in Wales. The purpose of which was to examine whether more can be done to increase the supply of affordable housing in Wales, maximising the resources available to meet the clear commitment to deliver 20,000 affordable homes during this term of Government. The Council is committed to working with Welsh Government, its housing partners, communities and the private sector in maximising the delivery of affordable housing in the Vale.
- 3.3** Involving the population in decisions - In arriving at a decision to provide new affordable housing, the Council will fully consult with its tenants and residents on development proposals and consider their responses, from the feasibility stage through to the determination of the planning application and when the Scheme is being delivered.
- 3.4** Working in a collaborative way- The Council has strong established links with several Housing Associations which make a significant contribution to housing supply in the Vale. The Housing Partnership Programme with Cardiff Council would further strengthen a regional collaborative approach. Therefore, the Council intends to work alongside our partners and envisages a complimentary approach to the delivery of affordable homes.
- 3.5** Understanding the root causes of issues and preventing them - The 2019 Local Housing Market Assessment (LHMA) highlighted the chronic shortage of affordable housing in the Vale of Glamorgan. In assessing the housing market, the LHMA calculates the net need for affordable housing, including social rented housing, intermediate rented housing and low-cost home ownership housing products, over the coming years. This assessment projects the headline annual need for affordable housing in the Vale of Glamorgan to be 890 units per annum between the years 2019 and 2024. The LMHA identified an overwhelming need for all types and tenures of affordable housing in the Vale. The Council has

recognised this and is acting to invest significantly in new council homes and enable housing association development.

- 3.6** This proposal:
Meets the relevant Strategic Objective 3 of the Corporate Plan 2020-25
Meets the Objectives 1-5 of the Well Being Plan 2018-23
Meets all the Strategic Aims 1-4 of the Local Housing Strategy 2021-26
Meets Strategic Objectives 1-4 of the Housing Development Strategy 2019-24

4. Climate Change and Nature Implications

- 4.1** In 2019 the Council declared a 'Climate Emergency' and the Climate Change Challenge Plan was approved by Cabinet in 2021, with Project Zero being established as the Council's blueprint to become carbon neutral by 2030.
- 4.2** All new homes built after 2030, will need to be whole life zero carbon and Welsh Government will introduce regulations and grant conditions which require social landlords to account for and reduce the levels of carbon associated with the construction of new homes, prior to the 2030 target date.
- 4.3** The proposed Housing Partnership Programme will utilise building systems which deliver high quality, net zero carbon homes at scale and at an affordable price in advance of this target date. It will also provide clear evidence that the Council is responding to the climate and bio-diversity emergency in a progressive and appropriate manner, in advance of regulatory requirements.
- 4.4** The Housing Partnership Programme will utilise Modern Methods of Construction (MMC) and timber structural solutions will predominantly be used for three key reasons:
- timber is a low carbon construction material;
 - the use of timber in construction acts as a carbon store, locking up the CO₂ sequestered by the tree whilst growing, for the lifespan of the building;
 - timber lends itself to re-use at the end of the buildings life which means the CO₂ stored as bio-genic carbon in the structure of the home is not necessarily released at the end of the homes' lifespan.
- 4.5** Wales has a thriving timber frame manufacturing sector (which makes up the majority of the MMC sector in Wales) and the Housing Partnership Programme will seek to engage with Wales based timber framed producers to provide a boost to the foundational economies of the regions of Wales.

5. Resources and Legal Considerations

Financial

- 5.1 Full financial details will be addressed in the Part II Report included later on the agenda.

Employment

- 5.2 To deliver the Housing Partnership Programme, it is imperative that adequate resources are in place to support the Housing Development Team. Within the Development Team a dedicated Project Manager and Project support will be required to manage the development of this partnership as well as the procurement exercise, however the following will also be needed:
- Legal – drafting of Development Agreement, contract structure, procurement advice.
 - Procurement – managing the procurement process, drafting procurement documents, dealing with clarifications.
 - Cost consultants – Helping to structure tender packs, evaluation of costs, viability advice.
 - Finance – assessing bids, profiling Capital, helping with viability assessments.
- 5.3 If there are insufficient internal resources in these areas these gaps will need to be filled by external consultants.

Legal (Including Equalities)

- 5.4 The Council is required to comply with Council's Financial Procedure Rules; the Council's Contract Procedure Rules; the Public Contract Regulations 2015 and Procurement law generally to ensure the Council is obtaining value for money for the provisions of works and /or services anticipated to be procured via the partnership/development agreement.
- 5.5 Section 120 of the Local Government Act 1972 enables the Council to acquire land for either (a) the benefit, improvement or development of its area or (b) for any of its functions under any enactment and section 17 Housing Act 1985 enables the Council as local housing authority to acquire properties or land for housing accommodation. This is an important consideration, as land will need to be acquired to invest in the Housing Partnership Programme.
- 5.6 Section 123 of the Local Government Act 1972 provides the power to dispose of land for not less than best consideration reasonably obtainable. This again will be an important consideration when determining the value attributable to the land contained within the Housing Partnership Programme and subsequent related Development Agreements that contain the sale of market housing.
- 5.7 The Housing Development Team will continue to liaise with Legal Services and Procurement on all legal and procurement aspects and matters concerning the formation of the Housing Partnership Programme.

6. Background Papers

None.