

Cabinet

12 July 2023

**Council House Delivery
Programme Update**

Ordinary Decision



Report of Corporate Management Team

Amy Harhoff, Corporate Director of Regeneration, Economy and Growth

Councillor James Rowlandson, Cabinet Portfolio Holder for Investments, Resources and Assets

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To update Cabinet on work undertaken to develop a viable council house delivery programme since initial approval was given by Cabinet in October 2020 to deliver 500 council homes by 2026. The report provides information on how the Council has responded to a number of challenges, including:
 - (a) inflationary pressures in the construction sector,
 - (b) rising interest rates, and
 - (c) the quality and size of some of the allocated sites in Phases 1 and 2, which have presented additional challenges for the delivery of the programme.
- 2 This report provides an updated business case for the delivery of both general needs and bungalow accommodation, provides an updated business plan model and outlines new governance and delivery arrangements. The report seeks Cabinet approval for the development of three sites to commence the programme.

Executive summary

- 3 In October 2020, the Council agreed to a council house building programme of 500 homes by March 2026. This report updates Cabinet on the work that has been progressing in a challenging economic climate and revises the business case and supporting business plan for the programme for three substantive reasons:
 - (a) the macro-economic environment, including the global energy crisis, since the development of the original business plan, which has resulted in high inflation and interest rates that have affected both the construction industry and the Council's own budgetary position;
 - (b) the original delivery approach did not support the most viable and cost-effective outcomes, especially given the complex nature of the sites included within the programme;
 - (c) rising costs to the Council for the provision of Temporary Accommodation, as a result of more households with complex needs becoming homeless and the failure of the market to provide affordable accommodation for them.
- 4 The October 2020 business case noted that the programme would seek to deliver affordable homes to meet identified needs and to deliver homes for older people, noting that there had been a lack of bungalow provision. The market is unable to deliver the number of affordable housing numbers required to meet the identified need of 836¹ affordable houses per year. In the five years between 2017/18 and 2021/22, the number of new affordable homes delivered (2,647) fell 36.7% short of the number needed (4,180). Without intervention the situation is unlikely to change. In demographic terms, the population of County Durham is ageing and over the next few decades, there will be a 'demographic shift' with the number (and proportion) of older people increasing.
- 5 However, the updated business case notes that the development of bungalows can present additional challenges in ensuring the cost of development remains viable. There are also some sites where the development of bungalows would not be appropriate because of the topography of the local area or lack of access to key local services. Therefore, in the early years of a fledgling HRA, whilst the programme will still deliver a proportion of bungalows, these will be delivered alongside a range of house types. As the HRA matures, the balance between bungalow and general needs accommodation can shift so that more bungalows can be provided. It remains an aspiration that, over the lifetime of the delivery programme, bungalow accommodation

¹ Based on an annual average need of 836 affordable dwellings over the period 2019 to 2035

represents the single largest dwelling type provided. Furthermore, the updated business case notes that the provision of general needs would also provide more flexibility to provide permanent accommodation for families facing the threat of homelessness and relieve the cost of temporary accommodation on the General Fund.

- 6 Developing a portfolio of council houses as an asset within the ownership of the Council is a significant benefit that will help reduce the reliance on temporary accommodation whilst giving the Council direct control over its stock. The Council will provide services to the HRA via service level agreements providing some coverage of council overhead costs although it is recognised that whilst the number of houses is relatively low the sums involved will not be significant. As with other registered providers operating in County Durham, the HRA will contribute towards the cost of running the Council's Allocations Scheme, whilst having its own stock can also contribute towards other corporate priorities.
- 7 The financial model has been updated based upon advice from Savills Affordable Housing Team taking account of market intelligence and current best practice. The financial modelling and revised business plan are detailed within this report.
- 8 The financial model provides assurance that the programme is both affordable and viable at an overall programme level. As the programme progresses, detailed work will be undertaken at an individual scheme level. The viability of each scheme will vary due to a range of factors, including the size and mix of the proposed development, ground conditions, rent levels and the level of grant available from Homes England.
- 9 In the context of a challenging delivery environment, with inflationary pressures and rising interest rates, it is considered appropriate to have a range of delivery approaches which can be utilised as appropriate to maximise viability and pace of delivery in different development contexts.
- 10 The Council will seek a construction partner(s) to deliver its new build programme. The delivery approach will have at its core an output specification led, 'design and build' approach to development. The use of this approach seeks to capitalise on market efficiencies including the use of established supply chains and value engineered housing products. The Council will determine the output specification to ensure that properties meet the required standards including the latest Building Regulations, the Nationally Described Space Standard (NDSS), and the M4(2) accessible and adaptable homes.

- 11 The programme will be delivered with oversight from the Council House Delivery Oversight and Approvals Board. The Council's legal and procurement services will continue to provide advice as the programme develops. Appendix 5 sets out the governance approach for the programme. It is noted that Cabinet will approve sites for inclusion within the programme.
- 12 On 10 February 2021, Cabinet agreed the process for approving the viability of each individual scheme. This authority was delegated to the Council Housing Delivery Approvals Board comprising the Corporate Director of Regeneration and Economic Growth and the Corporate Director of Resources, in consultation with the Portfolio holders of Resources Investments and Assets and Finance to consider detailed reports on scheme viability and to approve schemes for full development.
- 13 There will inevitably be occasions where an individual scheme is judged to be unviable but when considered along with other schemes does not undermine the overall viability of the programme and is approved where there are sound reasons for doing so, these schemes will require additional council subsidy from the approved budget.
- 14 This report notes the role of the council house delivery programme in reducing costs associated with the provision of temporary accommodation. The Council's cost of providing temporary accommodation has increased from £10,343 in 2016/17 to £806,179 in 2022/23, which has resulted in a short term uplift for the budget for 2023/24 of £750,000. Several key factors have contributed towards this increase in cost including:
 - (a) the Council no longer has a property portfolio to directly deal with needs of families requiring temporary or permanent accommodation but retains a statutory duty towards people who are threatened with homelessness;
 - (b) the statutory duties the Council has towards families threatened with homelessness were extended in the Homelessness Reduction Act 2017;
 - (c) the specific policies introduced by the Government to support households and businesses during the Covid pandemic including employment support and an eviction ban have now been rescinded and since this time, there has been a significant rise in the number of evictions;
 - (d) people are presenting as homeless with increasingly complex needs, resulting in registered providers being unable to assist in some cases.

- 15 If unchecked, it would be reasonable to expect that homelessness will continue to rise in the light of the current cost of living crisis which is putting further pressure on family finances.
- 16 To address this and bring the Council's costs back under control, action is required in several key areas and the council house delivery programme is seen as a part of this. The programme would deliver move on accommodation for those households in costly temporary accommodation and meet housing needs.

Recommendation

- 17 Cabinet is recommended to approve:
 - (a) the Council House Delivery Programme Business Case, encompassing strategic, economic, financial and management considerations as set out at paragraphs 21 to 72;
 - (b) the Council House Delivery Programme as set out at paragraphs 73 to 74, which reconfirms the progression of sites contained in Phase 1 and 2 of the Programme, subject to viability considerations;
 - (c) the Council House Delivery Programme Governance Approach as set out at paragraph 72 and Appendix 5 and to agree delegated powers to:
 - i. the Head of Corporate Finance & Commercial Services and the Head of Planning and Housing in consultation with the Cabinet Member for Resources, Investment and Assets (acting as the Council House Delivery Operational Programme Board) to approve sites for delivery that are viable; and
 - ii. the Corporate Director for Regeneration and Economic Growth and the Corporate Director for Resources in consultation with the Cabinet Member for Resources, Investment and Assets (acting as the Council House Delivery Oversight and Approvals Board) to approve sites for delivery that are not viable;
 - (d) the Council House Delivery Programme procurement strategy, as set out at paragraphs 82 to 85, to award a framework agreement following an initial restricted procurement process. The framework will have a minimum of three suppliers appointed and will have both direct award and further competition call off mechanisms permitted;

- (e) the Rural Delivery Framework as set out paragraphs 75 to 77 and at Appendix 6, which sets out a specific range of delivery approaches on the basis that the Council does not have suitable land holdings in the rural west of the County; and
- (f) the consideration of non-viable sites as long as the overall HRA remains viable in line with the governance approach set out at paragraph 81 and Appendix 5.

Background

- 18 In October 2020, the Council agreed to begin a Council House Building Programme of up to 500 homes by 2026. It was noted that the programme would be funded through a combination of Homes England Grant, capital subsidy provided by the Council and borrowing supported on the strength of the rental income. Subsequent reports in February 2021 and December 2021 agreed Phase 1 and Phase 2 sites for the programme. Appendix 2 provides an overview of the work the Council has undertaken to date on progressing the new build programme.
- 19 This report revisits and updates the original business case for the Council house delivery programme outlined in the October 2020 for three main reasons:
 - (a) macro-economic changes that have seen both inflation and interest rates rise significantly since the first business case was prepared. The report will set out the revised Strategic, Economic, Financial and Management case for the programme;
 - (b) the opportunity to revisit both the delivery approach and assumptions, to support viability considerations within the programme;
 - (c) to understand how the programme could support a reduction in the cost of using temporary accommodation.
- 20 Macro-economic factors, legislative changes and government policy have seen a substantial increase in the number of homelessness applications and consequently the requirement for the provision of TA. In response, the Council is implementing a series of actions to tackle this that includes:
 - (a) the development of a new Homelessness Strategy – this will be adopted in early 2024;
 - (b) a review of the Council’s housing allocations scheme (Durham Key Options Choice Based Letting scheme) – this will be a partnership with all partners of DKO and will likely conclude with a revised policy adopted in early 2025;
 - (c) the Temporary Accommodation Acquisition Programme (County Durham Lettings Agency);
 - (d) development of a new Temporary Accommodation strategy; and
 - (e) the Council House Delivery Programme.

Council House Delivery Programme – Business Case

The Strategic Case

- 21 Affordable housing is delivered by two main routes:
- (a) directly by Registered Providers supported by Homes England Grant; and
 - (b) through planning applications as a proportion of market housing and through a Section 106 legal agreement.

Table 1: Affordable Homes delivery in County Durham per year

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Affordable Homes Delivered	473	532	628	478	536	2,647
Affordable Homes Needed (annual average)	836	836	836	836	836	4,180
Gap	-363	-304	-208	-358	-300	-1,533 (-36.7%)

- 22 As shown in Table 1, the market has been unable to deliver the number of affordable housing numbers required to meet the identified need of 836 affordable houses per year. In the five years between 2017/18 and 2021/22, the number of new affordable homes delivered (2,647) fell 36.7% short of the number needed (4,180). The failure to deliver the number of affordable homes required is adding pressure to the Council's Temporary Accommodation budget. In response to the ageing population, there is a need to deliver more affordable homes for older people, including bungalows. The Council will continue to work with partners, including registered providers to deliver homes to meet needs, however, without intervention the situation is unlikely to change.
- 23 The delivery of affordable housing to meet needs is a corporate priority and is identified in the Council Plan (2022-26) as part of the 'Our Communities' priority where it is stated: *'We want to provide a range of new housing to meet the needs and aspirations of our residents ... We aim to deliver more affordable housing'*. A key performance indicator of the Council Plan is to increase the net delivery of affordable homes in line with the identified need. Furthermore, the County Durham Housing Strategy (2019) seeks to maximise the delivery of affordable housing.
- 24 The Government White Paper "Fixing our Broken Housing Market" published in 2017 set out the need for local authorities to build more homes and ensure the public sector plays its part, by encouraging and making possible more building by councils. This has in part been made possible by the removal of the borrowing cap in 2018 with the aim of local authorities building up to 100,000 affordable homes each year.

Together with the introduction of Self Financing in 2012, this puts local councils on the same footing as registered providers when it comes to building new affordable housing.

- 25 The Council House Delivery Programme would therefore serve to introduce an additional supply route for the provision of affordable homes in the County reflecting the growth in need for older persons housing as well as addressing the need for family homes and the increased requirement for TA.
- 26 The October 2020 business case noted that the programme would look to meet the needs of older people and that in particular, there had been a specific lack of provision of bungalow accommodation by builders in recent years. There is a simple explanation for this; bungalows take up more land and the yield via a capital receipt or rental income is lower than what could be achieved by the development of alternative forms of housing taking up the same space.
- 27 In demographic terms, the population of County Durham is ageing and over the next few decades, there will be a 'demographic shift' with the number (and proportion) of older people increasing. Population projections for County Durham indicate that from 2016 to 2035 the number of people aged over 65 will increase from 105,200 to 146,300 (a 39% increase) and those aged 75 and over will increase from 45,700 to 75,700 (a 65.6% increase). As most older people usually live in small households, usually as couples and single people, a minimum of 90% of household growth over the County Durham Plan period (2016-35) will be in households aged over 65.
- 28 The Council Plan (2022-26) Our People priority area sets out that *'People will be supported to live independently for as long as possible by delivering more homes to meet the needs of older and disabled people'*. This reflects the same priority within the County Durham Housing Strategy (2019).
- 29 The original business case set a focus on delivering a high percentage of bungalow accommodation alongside general needs housing. However, the development of bungalows can present additional challenges in ensuring the cost of the development remains viable as they are both land hungry and costly to build relative to houses and flats. Bungalow developments also require comparatively level topography and need to be ideally situated close to transport and local facilities. Several sites contained within the programme and approved by Cabinet in February 2021 and December 2021 would not be suitable for bungalow development. It is also considered that not all older people want bungalow accommodation and the Council needs to

cater for all housing needs and provide a range and choice of homes as a strategic housing authority.

- 30 Whilst the programme will still deliver a proportion of bungalows these will be delivered alongside a wider range of house types to meet general needs both to support viability considerations and take account of the sites available for development. This may be particularly true in the early years of a fledgling Housing Revenue Account (HRA) which needs additional support to ensure long term sustainability. As the HRA matures and the financial challenges are predicted to not be so acute, the balance between bungalow and general needs accommodation can shift so that more bungalows can be provided. It remains an aspiration that, over the lifetime of the council house delivery programme, bungalow accommodation represents the single largest dwelling type provided.
- 31 To ensure that any houses developed will serve to meet the requirements of occupants with differing needs including older or disabled people, all homes will be built to M4(2) adaptable and accessible standard. These properties allow adaptations to meet the changing needs of tenants over time.
- 32 The provision of family accommodation would also provide more flexibility to provide permanent accommodation for families facing the threat of homelessness helping to potentially relieve the cost of temporary accommodation on the General Fund as part of the Council's five-point plan.
- 33 In this regard the Council is increasingly faced with difficulties securing permanent move on accommodation from Registered Providers and in the private rented sector. The social and private rented sectors are becoming more risk averse, especially to those households who have more challenging and complex issues leaving these households in TA for longer than should be the case. There has been a steady increase in the number of households requiring TA in County Durham since 2018, with a peak in early 2021. The cost to the Council for the provision of TA has substantially increased over the same period, from £10,343 in 2016/17 to £806,179 in 2022/23. An overview of the context to the increase in TA and related statistics is set out at Appendix 7. To provide additional context, several anonymised case studies are included at Appendix 8, relating to households in the County that have found themselves in need of TA.
- 34 The ability to utilise the Council's supported housing provision funded through government initiatives such as the Rough Sleepers Accommodation Programme (RSAP) and Single Homeless Accommodation Programme (SHAP) to help households sustain their

tenancies and along with the new supply of housing within an HRA will also help ease this burden and reduce the cost to the General Fund of temporary accommodation.

The Economic Case

35 The October 2020 Cabinet Report presented an economic case around three options which are still considered relevant as follows:

- (a) Do nothing;
- (b) Provide direct capital grant of £4.5 million to Registered Providers to increase affordable housing supply; and
- (c) Provide capital grant of £4.5 million to support a Durham County Council new build programme.

Do Nothing

36 The “Do Nothing” option would not address the issues identified and was therefore discounted. In the context of the ongoing delivery shortfall against meeting affordable housing needs, the ageing population and the increased costs of temporary accommodation, this position remains unchanged.

37 The Council House Building Programme will bring a much-needed capital injection into the County at current estimates of around £77.5 million including an estimated £24.5 million in Homes England Grant supporting much need jobs in construction and the supply chain. Without the Council’s direct intervention in the housing market this additional level of investment could not be achieved.

Provide grant support to existing Registered Providers

38 The Registered Providers already have their own development programmes and even with council financial support and the provision of land they could not simply accelerate their programmes given likely land and capacity constraints and that they are operating within approved business plans. Registered Providers would also need to access loan finance which would be at a higher rate than the PWLB rate pushing up the comparative cost of their development activity above that which the Council could achieve.

39 Registered Providers will face similar challenges to the Council, in terms of rising interest rates and inflation, but will also face additional pressures resulting from:

- (a) the Government cap on 7% on existing social and affordable rents;
- (b) increasing investment needs in existing stock to respond to the Building Safety Regulations post Grenfell and the Decarbonisation agenda; and
- (c) increasing levels of support for existing tenants in the face of the energy and cost of living crisis.

40 Against this backdrop Registered Providers will have to make some difficult decisions and it is almost inevitable that new development will slow down.

Provide grant support for Council New Build Programme

41 The Council is in a unique position amongst local registered providers given it can focus on new delivery rather than investing in existing stock.

42 In October 2020, Cabinet approved a maximum £12.5 million capital investment to support a Council new build programme. However, the original modelling based on this level of subsidy failed to produce a viable programme.

43 As a result of the review of all assumptions included in the HRA financial model it is forecast that the HRA is financially viable. The model shows that at a programme level, 500 properties can be delivered without any capital investment from the Council.

44 At this stage a capital budget of £4.5 million has been approved as part of previous budgets for council house delivery. Although the revised HRA model shows the programme is viable without this subsidy, it is proposed that the capital budget is retained at this stage within the programme to aid viability issues at an individual scheme level and to allow the HRA to acquire sites where council owned sites are not available.

45 The HRA can also support the General Fund by making contributions to the Council's central overheads and 'purchasing' services from other service areas of the Council where they are exclusively for the benefit of council tenants. This is to ensure that Council Taxpayers are not subsidising services exclusively accessed by the HRA on behalf of its tenants. For example, the HRA will access the Council's Allocations Scheme and Choice Based Lettings system (Durham Key Options) – a General Fund provided service – and will, therefore, contribute towards the cost of running it in the same way that other registered providers currently do. All such contributions are governed by strict rules applied by CIPFA. It is important to note however, that whilst the HRA consists

of a few hundred properties, the impact of contributions from the HRA to the General Fund would be minimal.

- 46 Under proposals set out in this report reducing homelessness and the use of Temporary Accommodation is one of the main business drivers of setting up the HRA, alongside providing more bungalow accommodation for older people. As well as supplying more permanent housing for people in housing need, section 9 of the Housing Act 1985 allows the HRA to supply hostel and other forms of temporary accommodation. Consequently, it is expected that the HRA will help reduce the cost to the General Fund significantly in these areas.
- 47 In addition to the direct financial benefits of setting up an HRA and contributing towards meeting the housing needs of local people, being a provider of housing can help the Council fulfil other corporate responsibilities. For example, having our own stock can help in our corporate parenting role, providing extra flexibility to house families who look to foster and adopt, and ease the transition for children leaving care and moving into long term sustainable tenancies. It also provides more options to help people stay independent in their homes through an integrated approach with Adult Social Care.
- 48 It was concluded that both options (b), provision of capital to partner Registered Providers and (c) provide capital to support the council house delivery programme, could both meet the strategic objective of increasing the supply of affordable homes in the county. But only the introduction of the Council as a direct provider of accommodation would be likely to increase the number of affordable units developed each year and achieve the Council's wider objectives of retaining and controlling the use of the asset to support a reduction in the cost of temporary accommodation.

The Financial Case

- 49 The original business case set out a financial model for the delivery of the council house delivery programme. This model considered income, expenditure, and capital contributions / subsidy. As set out at paragraph 42 above, Cabinet previously agreed to a 500-home programme, which modelled that a council capital funding contribution of £12.5 million would be required to achieve financial viability. To aid programme progress £1 million was also allocated in the 2020/21 and 2021/22 to support the development of the programme, including appropriating Council land for housing purposes at nil cost to facilitate the programme.
- 50 There have been substantial changes to the financial environment since the original business plan was produced. Both inflationary pressures in

the construction market and increased interest rates which impact upon council borrowing, have had an impact upon the financial viability of the programme.

- 51 The Council engaged Savills, an international property consultancy with particular expertise in Housing Revenue Accounts in the UK, to provide external challenge to the assumptions built into the Council's original business plan in light of these economic factors and to bring their knowledge and expertise in the market. The Council obtained funding via the Local Government Association LGA Housing Advisers Programme to support this work as the Council is one of a growing number of councils who have previously transferred their housing stock and who now wish to take advantage of the new freedoms and flexibilities to directly develop new homes for the benefit of their communities.
- 52 The key areas identified by Savills in their review are:
- (a) Duration of any Loan – The Council had modelled the borrowing for the Council Housing Programme over a period of 30 years. With changes in market conditions, it is now commonplace for Registered Housing Provides including Councils to extend the length of time to over 30 years with some organisations taking out loans for up to 55 and 60 years. Within the modelling a 40 year loan period was included in line with the Council's treasury management policy;
 - (b) Type of Borrowing – The Council's modelling assumed the use of annuity loans and Savills have suggested the use of maturity loans. Annuity loans are where both capital and interest are paid back over the term of the loan so at the end of the loan period you have no debt left. Maturity loans are where you pay interest only and either pay back the debt at the end of the loan period or refinance it. The difference between the two is significant in improving the cash flow within the HRA. As provision is made within the HRA to maintain the housing asset through the Major Repairs Reserve MRR it should be maintained to a good standard throughout the loan period. Housing Assets generally increase in value over time so the value of the asset compared to the value of the loan, if no capital is repaid, after 30, 40, or 50 years will be significant. There would also be nothing to stop the HRA paying down any loans early if it accumulated reserves. Therefore, within the modelling, both types of borrowing are considered;
 - (c) Debt Pooling – The Council can decide to operate one or two debt pools. One debt pool for the councils borrowing and then

allocate a charge to the HRA. Or two separate pools one for the HRA and the other for the General Fund. If the HRA debt was pooled with the council's debt the general fund would be required to further subsidise the HRA. In this circumstance there will be two pools with the HRA having its own specific debt;

- (d) Void Loss and Rent Arrears – The council model suggested that this would amount to 5% whereas Savills suggest this would be nearer to 2% in line with national trends and experience of new housing compared to older housing stock. Therefore, the level reflected in the modelling has now been reduced to 2 - 3% across the various scenarios;
- (e) Major Repairs – Savills suggested that the £700 per annum set aside in the Council model should be increased to £917 (applied to all scenarios within the modelling).

53 Additionally, the modelling has also factored in:

- (a) the Government has recently announced a preferential discounted PWLB rate for housing related borrowing in the Spring budget. This will enable the HRA to take out PWLB loans at 0.4% below the normal rates of borrowing for one year which will come into effect in June this year to mitigate against some of the recent increase in interest rates;
- (b) at this stage that the current capital budget of at £4.5 million is retained in view of pressures elsewhere in the budget;
- (c) Homes England grant per property of £49,000 for all scenarios within the modelling.

54 The financial model at Appendix 3 demonstrates the sensitivity analysis that has been undertaken in relation to the likely impact of changes in the following key assumptions that have been identified:

- (a) Construction costs;
- (b) Management costs;
- (c) Maintenance costs;
- (d) Major repair costs;
- (e) Forecast levels of voids & bad debt;
- (f) Inflation (both costs & income);
- (g) Rental income;

(h) Loan type, length & interest rate;

(i) Homes England grant.

- 55 All modelling has been undertaken on the basis of 500 properties for consistency and comparability. The impact of Right to Buy Sales is largely neutral on the model.
- 56 Analysis suggests that changes in certain key assumptions can have a significant impact upon the overall forecast surplus/deficit. It is felt, however, that the range of assumptions included in the council's current model are prudent (having received external input, guidance and assurance from Savills).
- 57 Consideration has been given to what a best case, worst case and most likely scenario could be for the assumptions above. Scenarios have been constructed based upon information gathered by Housing colleagues, input from Savills as well as the council's internal approach to financial modelling. Assessing different scenarios is intended to mitigate the financial risks associated with potentially significant variations in the assumptions detailed above.
- 58 Further detail of the scenario analysis is attached at Appendix 3. The overall forecast (surplus)/deficits are summarised as follows (over a 40 year period). Whilst all variations to assumptions impact the outcomes, the key drivers here are construction cost and loan type. The breakeven construction cost has been calculated and shown below to demonstrate the sensitivity analysis within the model (if all other assumptions remained the same):

Table 2: Summary of Financial Modelling/Sensitivity Analysis

<u>Scenario Type:</u>	Best Case	Likely Case	Worst Case
Estimated Construction Cost	£0.125m	£0.140m	£0.155m
<u>Loan Type – Annuity:</u>			
(surplus)/deficit	(£82.738m)	(£59.292m)	(£37.500m)
Breakeven Construction Cost	£0.202m	£0.195m	£0.190m
<u>Loan Type – Maturity:</u>			
(surplus)/deficit	(£97.212m)	(£78.845m)	(£60.524m)
Breakeven Construction Cost	£0.240m	£0.233m	£0.227m

- 59 The modelling shows that the programme will generate a surplus in all scenarios. Looking at the “likely case” scenario, surplus is modelled to range from £59.292 million with an annuity loan to £78.845 million with a maturity loan. The model also shows that, all things being equal, construction costs can increase significantly over the modelled assumptions and the programme remain viable. Again, looking at the “likely case” scenario, construction costs can increase to £0.195 million per dwelling (Annuity) or £0.233 million (Maturity) and the programme will remain viable.
- 60 As detailed in paragraph 52(b), it is important to note when interpreting the above table that with a maturity loan, the total value of the loan would still be outstanding at the end of the 40 year period (whereas the total value of the loan is repaid at the end of an annuity loan).
- 61 The Council is legally required to establish a HRA as soon as the Council has 200 residential properties within its ownership. Whilst the HRA is projected to generate some healthy surpluses in future years, as a fledgling account it will be subject to some significant pressures in its early years of operation. The HRA is a “ring fenced” landlord account which when in operation can neither be subsidised by the General Fund or subsidise the General Fund, although it would pay a fair and

appropriate cost for the provision of corporate and democratic core recharges and overheads that support the delivery of the Council's Landlord function, and it is not permitted to go into deficit. It would therefore be prudent for the Council to provide the HRA with an opening balance of circa £1 million which is permissible. This "loan" in effect could be repaid to the General Fund by the HRA as soon as its financial position improves.

- 62 There is also an opportunity for the Council to make use of Section 106 contributions (s.106), which have been received as a commuted sum in lieu of affordable housing on site. The Council can utilise these sums, in accordance with any legal restrictions such as timescale for spend and geographical restriction of spend to deliver affordable housing. This would provide additionality as the resulting affordable houses represent dwellings that had previously not been provided by a developer on site and would be managed by the Council. There is currently in excess of £3 million outstanding in commuted sums available for the provision of off-site affordable houses.
- 63 The Council will not generally seek to work with house builders to deliver affordable houses through s106 agreements on new developments, as this would require the council competing with other registered providers. This could drive up the cost and would not represent additionality. The Council will however, continue work to deliver affordable homes with both private sector developers and registered providers through its wider housing enabling role.
- 64 The work involved in developing the model, the advice from Savills and the changes made to the assumptions as a result have highlighted the importance of having a dedicated HRA Accountant. There are key differences between how an HRA operates compared to the General Fund and this level of knowledge and expertise is currently missing from the Council.

The Management Case

- 65 In February 2021, Cabinet agreed Phase 1 sites for the programme and a corresponding management and delivery approach. This was structured around a Housing Programme Board which had an identified remit to build 500 new Council Homes, within the budgets agreed by Cabinet and over the period 2021 – 2026.
- 66 The report identified a delivery process and the programme to date has been developed in line with the principles identified in the February 2021 Cabinet report. In this context, sites have been identified within Council ownership and the programme has been developed through a Council led construction process.

- 67 Of the sites identified in Phase 1 of the programme, site layouts have been developed and initial site investigations have been undertaken. All sites were initially approved by Cabinet subject to further investigation on the viability of schemes. In practice, a number of the sites have proven challenging in a viability context in part, owing to site topography factors or indeed the scale of the sites, with smaller sites not benefiting from economies of scale.
- 68 However, fundamentally the delivery environment has become increasingly challenging owing to inflationary pressures and cost rises for materials within the construction sector. This has necessitated a review of the delivery approaches for the programme.
- 69 It is considered appropriate to have a range of delivery approaches which can be utilised as appropriate to maximise viability and pace of delivery in different development contexts. Appendix 4 provides an overview of the main delivery approaches which will be utilised to deliver the programme.
- 70 The primary delivery model for the programme going forward will be an output specification led, 'design and build' approach to development. This model seeks to capitalise on market efficiencies including, the use of established supply chains and value engineered housing products. The Council would determine the output specification to ensure that properties meet the required standards including the Building Regulations, Nationally Described Space Standard (NDSS), M4(2) accessible and adaptable homes and future homes standard. Standardised products will be utilised to ensure future repair and maintenance work is more cost effective.
- 71 It will be important to control the overall scheme costs including professional fees based upon market intelligence. Fees will be based upon the time spent on the project rather than on the basis of a flat rate percentage charge, with a cap on the overall cost in line with benchmarks. The benchmark data included within the business model include all construction costs and associated fees so costs need to be contained in line with these.
- 72 It is however recognised that other delivery approaches bring different benefits therefore the Council will scope appropriate delivery mechanisms for specific development proposals at different times as part of delivering the programme. This will be overseen by the Council Housing Delivery Operational Board with approval by the Council House Delivery Oversight Approvals Board. Appendix 5 sets out the governance approach for the programme. In summary:

- (a) Cabinet approves the overall scope of the programme, the sites to be included and the funding envelope;
- (b) the head of corporate finance & commercial services and the head of planning and housing in consultation with the cabinet member for resources, investment and assets (acting as the Council House Delivery Operational Programme Board) will approve sites for delivery that are viable; and
- (c) the Corporate Director for Regeneration and Economic Growth and the Corporate Director for Resources in consultation with the cabinet member for resources, investment and assets (acting as the Council House Delivery Oversight and Approvals Board) will approve sites for delivery that are not viable and will oversee the work of the Council House Delivery Operational Programme Board.

Sites and Delivery

- 73 For the initial stage of the programme the following sites have been identified for delivery, and are expected to deliver c.51 dwellings:
- (a) **Greenwood Avenue, Burnhope.** This site will be delivered through a design and build delivery approach and linked to the disposal of a wider portion of the site for market housing to support a consolidated form of development. This site will benefit from remediation via the Brownfield Land Release Fund to support the viability of the scheme (22 dwellings);
 - (b) **Portland Avenue, Seaham.** This site will be delivered through a design and build delivery approach. The site forms part of a wider Joint Venture with Homes England to deliver a housing led regeneration proposal for Seaham (20 dwellings);
 - (c) **Merrington View, Spennymoor.** This site delivered through a design and build delivery approach and as a Modern Method of Construction (MMC) scheme. The site is of an appropriate scale to support an MMC construction scheme which supports pace of delivery and will enable the Council to introduce innovative construction approaches to the programme (9 dwellings).
- 74 The Council will continue to progress the other proposals identified in the Phase 1 and Phase 2 sites agreed by Cabinet in February 2021 and December 2021, subject to viability considerations. Where sites are not viable for the programme, they will be returned to the disposal programme.

- 75 The Phase 1 and Phase 2 sites agreed by Cabinet in February 2021 and December 2021, were all located to the east of the A68. This is on the basis that the Council does not have suitable land holdings in the rural west of the County. For this reason, the Council will look to deliver homes in the rural west through a specific range of delivery approaches which are intended to identify suitable opportunities in the absence of land holdings.
- 76 Three distinct model delivery approaches to provide for council homes in rural areas have been identified, as follows:
- (a) identify suitable land to purchase or for a land swap;
 - (b) make use of existing buildings; and
 - (c) purchase of s.106 units where there is no interest from Registered Providers.
- 77 Opportunities will be identified in line with a rural delivery framework which includes locational and decision-making criteria to identify suitable sites and opportunities. The rural delivery framework is set out at Appendix 6 of the report.
- 78 The programme will be further developed with sites identified and suitability for development scoped. The Council House Delivery Oversight and Approvals Board will approve future sites for inclusion within the programme. Proposed sites will also be subject to other relevant approval process, for instance relating to land acquisition and any capital spend. Where a proposed new site for inclusion within the council house delivery programme impacts upon the Council's Disposal Programme and capital receipts targets this need to be agreed as part of Cabinet MTFP or Forecast of Outturn reports.
- 79 Viability of development for all sites will be tested at an individual scheme level during the development and procurement process. To assess the viability of a scheme, the purchase price / construction cost will be determined and the rent per month will be calculated. The grant level available will be discussed with Homes England. This information will be considered in the context of the equivalent approved programme level financial model assumptions.
- 80 In line with the Governance approach outlined at Appendix 5, where a scheme is viable, that is within the scope of the programme level assumptions then this scheme would be subject to consideration and approval by the Council House Delivery Operational Programme Board.
- 81 There will inevitably be occasions where an individual scheme is judged to be unviable but merits consideration. This could include situations

where a site is particularly small or complex and of no interest to a developer or housing association but housing need in that area is particularly high, or where a site attracts particularly high levels of anti-social behaviour and/or incurs considerable council expenditure to maintain in its current state. In such circumstances, a site could be considered for development provided it does not undermine the overall viability of the programme. In such a scenario, the proposal would be subject to consideration by the Council House Delivery Oversight and Approvals Board (Appendix 5).

- 82 The February 2021 Cabinet report noted that the Council was commissioning advice to understand the optimal procurement route for construction. The Council has sought external legal advice which has informed the Council's approach to contracting.
- 83 It is important to retain flexibility in procurement to secure best value and an optimal procurement approach for the development form and site or sites to be developed. Whilst it is important to retain flexibility of approach, it is recognised that an approach of combining schemes into a larger package and over a longer-term programme, potentially within a partnership approach, would support viability considerations.
- 84 On this basis it is recommended to award a framework agreement following an initial restricted procurement. The framework will be awarded based on the first sites which receive approval. This framework will have a minimum of three suppliers appointed and will have both direct award and further competition call off mechanisms permitted. It should be noted that a restricted process has a Selection Questionnaire process of a minimum of 30 days and an Invitation To Tender process of a minimum of 25 days with a mandatory 10 day alcatel standstill. This framework agreement will be reviewed for suitability for all sites which receive approval. Alternative procurement routes may be considered for those sites where it is decided flexibility is critical to scheme viability.
- 85 The Council's legal and procurement services will continue to advise as the programme develops. The Council House Programme Board will consider and authorise the commencement of procurement stages at key gateways within the programme. The Board will approve alternative procurement routes where an acceptable justification is provided.
- 86 As the programme develops, it is important that other services and teams are sufficiently resourced to support the programme. Resourcing will be monitored through the Council House Delivery Operational Programme Board. Additional resources required to support the programme, will be funded through the HRA.

Next Steps

- 87 The next steps will be:
- (a) progress to the procurement and construction phases of the programme for the sites identified within the report;
 - (b) develop a forward pipeline of sites to be subject to consideration by the Council House Delivery Operational Programme Board and as required, the Council House Delivery Oversight and Approvals Board.
- 88 This report primarily considers the business case for the programme and the reopening of the HRA. Further work will be undertaken to establish the practical operational arrangements of the delivery of the programme, including the operational management and set up of the service. This will serve to maintain the integrity of the ringfenced HRA. The practical and operational arrangements will be set out in a future report to Cabinet. This future report will also note the wider housing enabling role and how the Council works with partners, including Registered Housing Providers to deliver homes to meet housing needs.

Conclusion

- 89 This report has updated the business case for council housing by including the contribution towards reducing homelessness and the cost of temporary accommodation to the Council. It maintains at its core, the aspiration that bungalow accommodation will be the single largest type of housing provided through the housing delivery programme subject to site viability. The report also sets out the work the Council has done to establish a viable Housing Revenue Account (HRA), including updating the assumptions and delivery models.
- 90 The financial modelling undertaken to date provides assurance that the reopening of the HRA appears viable and would produce a healthy surplus based on the scenarios considered. The assumptions within the model are key to this – notably the cost of construction, levels of rental income, the amount of Homes England grant available, and the length, type and interest rate of the loan required.

Author (s)

Graeme Smith

Tel: 03000 263610

Ian Conway

Tel: 07551 301513

Appendix 1: Implications

Legal Implications

The Council has several statutory duties in relation to families threatened with Homelessness which are set out in the Homelessness Reduction Act 2017.

The Council is a Registered Provider of Social Housing and has all the necessary powers to fulfil the recommendations. The Council may hold 199 properties in the General Fund under the direction from the Secretary of State. Once it holds 200 properties it will be required to re-establish its Housing Revenue Account. The necessary direction is in place.

Tenancies granted by the Council will be in accordance with the Council's Tenancy Strategy. Where a secure tenancy is granted, the tenant may have access to the Right to Buy.

Finance

Based on a 40-year loan period for both annuity and maturity loans, the financial model included at Appendix 3 highlights that reopening the HRA is viable and would produce a healthy surplus based on the scenarios considered throughout the report and the sensitivity analysis undertaken.

Reopening the HRA will require the Council to set rents, which may include above inflation rent increase in line with the formula.

Consultation

Consultation will be undertaken on sites at an appropriate time and at project level.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

The new council homes are designed in line with building regulations standards to ensure high standards of energy efficiency. This specification would be maintained should the Council explore any alternative delivery models as outlined in this report.

Human Rights

None.

Crime and Disorder

None.

Staffing

None

Accommodation

None.

Risk

Risk will be managed through the governance approach outlined at Appendix 5.

The updated business case notes that the council house delivery programme will provide move on accommodation for those in temporary accommodation and accordingly, serve to reduce the cost of the provision of temporary accommodation of the Council. It is noted that whilst this will only be a proportion of those housed within the programme, a result of this is that these households may be associated with more problematic tenancies including rent recovery and anti-social behaviour. This risk will be managed and mitigated through the Council's housing management service.

Procurement

The report outlines and recommends a procurement approach to support the delivery of the programme.

This is based on the awarding of a framework agreement following an initial restricted procurement. The framework will be awarded based on the first sites which receive approval. This framework will have a minimum of three suppliers appointed and will have both direct award and further competition call off mechanisms permitted.

Social value considerations will be built into the procurement approach.

It is envisaged that there will be a range of interested parties from the construction sector, including potentially Registered Providers bidding as development partners.

The Council House Programme Board will consider and authorise the commencement of procurement stages at key gateways within the programme. The Board will approve alternative procurement routes where an acceptable justification is provided, for instance, where it is decided flexibility is critical to scheme viability.

Appendix 2: Overview of key work areas to date on the Council House Delivery Programme

As part of work on the programme, the Council has:

- Progressed the Phase 1 sites to RIBA Plan of Work Stage 2.
- Developed property designs for a range of house types alongside site layouts, which have been informed by pre application planning applications.
- Two soft market tests have been undertaken to better understand the delivery environment and market led approaches to development, modern methods of construction and inform the future procurement process to deliver the programme.
- Acquired six Section 106 units from Chapter Homes at Hartley Gardens, Gilesgate.
- Obtained Brownfield Land Release Funding to help remediate two sites initially included within phase 1 of the Housing Programme.
- Engaged Savills Affordable Housing Consultancy to undertake a review of the Council's financial modelling in the light of changing economic conditions.
- Developed an approach to the procurement and developed an output specification and associated tender documentation.
- Prepare a suite of procedural documents to support the delivery of housing management services.

Appendix 3: Financial Model

Summary of Sensitivity Analysis & Assumptions

Analysis by Loan Type	Best	Likely	Worst
<u>Annuity Loan:</u>			
Loan Required	£34,750,000	£42,250,000	£49,750,000
Overall Forecast (surplus)/deficit	£34,750,000	£42,250,000	£49,750,000
Viability (Yes/No)	Yes	Yes	Yes
<u>Maturity Loan:</u>			
Loan Required	£34,750,000	£42,250,000	£49,750,000
Overall Forecast (surplus)/deficit*	£34,750,000	£42,250,000	£49,750,000
Viability (Yes/No)*	Yes	Yes	Yes

* = Maturity loan viability based on any overall forecast deficit being no greater than original loan required (overall (surplus)/deficit does NOT include repayment of loan principal amount)

Key Assumptions	Best	Likely	Worst
<u>Operational Assumptions:</u>			
Construction Cost	125,000	140,000	155,000
Fees & Contingencies	0	0	0
Acquisition Fees	1,500	1,500	1,500
Rent Per Month	585	574	563
Management	1,000	1,000	1,000
Maintenance	800	800	800
Major Repairs	917	917	917
Voids (inc Bad Debts)	2.00%	2.50%	3.00%
Inflation - Rent	2.75%	2.75%	2.75%
Inflation – Management	3.00%	3.00%	3.00%
Inflation - Maintenance	2.00%	2.00%	2.00%
Inflation - Major Repairs	2.00%	2.00%	2.00%
HE Grant (Per Property)	49,000	49,000	49,000
<u>Finance Assumptions:</u>			
Pooling with GF	None	None	None
Loan Interest Rate - Annuity	4.80%	4.80%	4.80%
Loan Interest Rate - Maturity	4.60%	4.60%	4.60%
HRA/Certainty Rate Reduction	-0.40%	-0.40%	-0.40%
Loan Type (Maturity/Annuity)	Both	Both	Both

Loan Term (Years)	40	40	40
No. of Properties	500	500	500

Appendix 4: Council House Programme Delivery Approach Overview

The following delivery approaches will be utilised to deliver the programme:

(a) An output specification led, 'design and build' approach to development.

- (i) This will be the primary delivery model for the Programme going forward.
- (ii) An appointed contractor would provide the Council with design, development consultancy, project management and construction services within the scope of one contract.
- (iii) This approach would make use of a model contract linked to an approved project brief with key milestones for delivery and payment.
- (iv) The Council would make use of a separately appointed cost consultant, independent from the contractor, to undertake interim valuations and review invoices at the agreed project milestones.
- (v) The model contract would ensure standard project controls to provide certainty on delivery outputs, costs and timescales. Through the contractual arrangements, the Council would set clear requirements for the type of properties to be built and the standard and specification of the build. In this context the Council would require properties to be built to NDSS, M4(2)/M4(3) and Future Homes Standard. Furthermore, development would be subject to planning consent, building control approval, snagging and other defect check processes and a National House Building Council guarantee for 10 years
- (vi) The approach would support viability considerations to the model through market efficiencies and use of established supply chains and value engineered house types to the Council's output specification.

(b) A Durham County Council led construction process

- (i) This model was formerly the primary approach to the delivery of the new build programme.
- (ii) This approach ensures project management of individual contractors is undertaken by the Council, who procure and manage specialist services individually and to build a team of consultants to support the development of the Programme.
- (iii) For delivery of the programme, the Council would procure a contractor to build to the Council's specification and unique design. This approach involves the development of designs for new house types for the programme. To date the Council has overseen the design of bespoke Durham County

Council housing products designed. These house types meet the Nationally Described Space Standard (NDSS) and M4(2) accessible and adaptable homes standard / M4(3) wheelchair user dwellings. The properties are also designed to the Future Homes Standard and in this regard are designed to be 'off gas' and heated by an Air Source Heat Pump. To note, the house types have been designed but, technical specifications and fixtures and fittings are to be confirmed.

- (iv) The contractor would be project managed by Council on an ongoing basis.
- (v) This approach would provide the greatest oversight and control of the delivery of the project, though this would result in a trade off against delivery timeframes and the cost of a scheme.

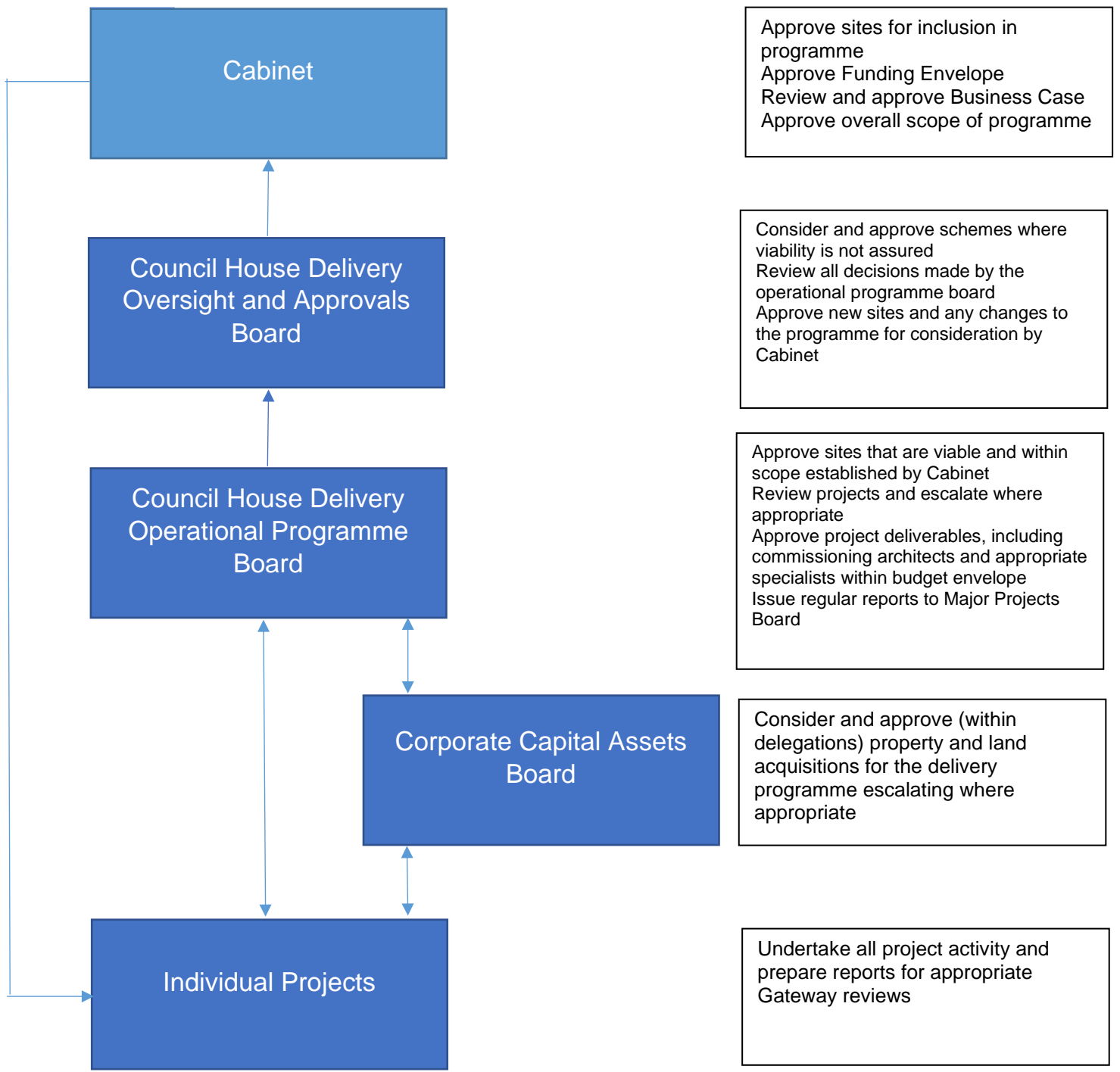
(c) A Durham County Council project managed design stage with market led construction.

- (i) This delivery model provides for two distinct contractual phases with the design of the scheme being project managed by the Council and being developed by a lead architect and the delivery phase being market led with the Council managing outputs through contractual controls.
- (ii) In the first phase, the Council would appoint a lead architect to bring together a specialist team and develop proposals. To the Council's required specification. This would include NDSS, M4(2) and Future Homes Standard.
- (iii) The lead architect would lead the design stage of the process, with project management from the Council, who would bring in Durham County Council expertise as required at appropriate junctures. The architect would work through the pre application process and would secure planning consent for a proposal.
- (iv) Throughout the first phase, the Council would require a viability assessment of the emerging proposals at key points in the design stage. Should the proposal not appear viable, amendments could be made to the scheme to compensate, or ultimately if not viable the site could be rejected for the Programme.
- (v) For the second, phase the Council would appoint a construction partner through a competitive tender procurement process to deliver a scheme on a site (or number of sites). This approach would make use of a model contract linked to an approved project brief with key milestones for delivery and payment.
- (vi) The Council would make use of an independent cost consultant, to undertake interim valuations and review invoices at the agreed project milestones.
- (vii) The model contract would ensure standard project controls to provide certainty on delivery outputs, costs and timescales. The proposal would be built in accordance with the approved planning permission. Importantly,

obtaining planning consent prior to engaging a construction partner would serve to de-risk the site for the contractor.

- (viii) Contractual controls, alongside building control approval, snagging and other defect check processes and the National House Building Council guarantee would provide controls to ensure the form and quality of the final product.
- (ix) This approach would seek to make use of established supply chains to support viability considerations but would offer increased Council oversight at the design phase of the scheme.

Appendix 5: Housing Delivery Programme Governance model



Appendix 6: Rural Delivery Framework

- 1 The rural delivery framework has been developed to consider and respond to some of the challenges of delivering homes in the rural west. It supplements the existing strategy and provides an agile process to identify, support and progress opportunities.
- 2 The absence of suitable Council land holdings in the rural west means that, in contrast to Phase 1 and Phase 2 of the Council Homes New Build Programme, a pipeline of sites is not frontloaded in the rural west. The rural delivery framework therefore supports the council in working to identify opportunities for the development of council homes.
- 3 It is also recognised that some of the opportunities which will present themselves in line with the model delivery approaches may not be able to have been foreseen and may also be time limited. For this reason, a clear and pre-defined process will support decision making.
- 4 The rural delivery framework will serve to give clear direction to the suitability of sites for development or other opportunities arising within the model delivery approaches, specifically making use of existing buildings and purchasing s.106 units. It will also provide a basis to assist in refining the locations which the Council consider suitable for council homes in the rural west and in which it will look to identify, support and progress opportunities.
- 5 The location of sites and of council homes within settlements is important, both in terms of meeting needs, ensuring new homes assist in sustaining settlements, whilst avoiding over development in rural locations and unsuitable or unsustainable forms of development. It will also ensure council homes are delivered in the right locations with the tenants in mind.
- 6 The framework as set out below will be utilised in considering the suitability of proposals in line with the model delivery approaches.
- 7 The framework considers the following factors:
 - a) Settlement characteristics;
 - b) Local area housing needs; and
 - c) Site characteristics.

Settlement characteristics

- 8 In respect of settlement characteristics, the scale of the settlement and its service offer is an important consideration. The two factors are often connected, with larger settlements being associated with a higher degree of amenities, facilities and services. However, it is important to understand interrelationships between nearby smaller settlements and the relationship of smaller settlements to those that are larger and provide a service function.

- 9 The Council Homes Programme includes the provision of bungalows to meet the needs of older people, therefore in considering the types of services and facilities that would be relevant to easily access in a settlement, it is considered, health facilities, shopping facilities, post offices, community facilities and other centres would be relevant considerations. Public transport is an important factor to consider enabling travel to other areas, which may support other services. Where family homes are considered schools and other recreation and amenity facilities, such as sport facilities are a relevant consideration.
- 10 The December 2021 Council House Programme Cabinet report noted that larger settlements generally offer more service provision as they incorporate more houses, jobs, existing infrastructure, better public transport provision and community facilities. These settlements can provide a critical service centre role for a wider surrounding area and could accommodate and sustain proportionate levels of development, allowing them to build on their key service centre role, typical to the function of a traditional market town. Such settlements would be appropriate for council housing as they will provide a range of services and facilities for tenants.
- 11 Homes England consider rural housing to consist of housing delivered in settlements with a population fewer than 3,000 people². In the rural west of County Durham Barnard Castle is the only settlement that exceeds this population level. Nonetheless, when looking at settlement characteristics for the purpose of delivering homes in the rural west it is not considered appropriate to impose a population limit, upper or lower.
- 12 In respect of larger settlements, homes delivered will serve to meet housing needs in rural areas and will likely host a good range of facilities. Smaller settlements on the other hand, may often share facilities across a 'cluster' where a group of smaller settlements rely upon one another for the provision of services and facilities. A clustering approach was utilised and defined as part of the County Durham Settlement Study³, which provides a resource for the purpose of considering the appropriateness of settlements for council housing.
- 13 On this basis, in respect of considering the suitability of a settlement for council homes consideration will be given to the range of services on offer within the settlement, or nearby locations as part of an identified cluster.

Local Area Housing Needs

- 14 The delivery of council homes should reflect the requirements of local residents in respect of property type, size and location. In considering the delivery of council homes in the rural west, the Council will consider local area housing needs to ensure homes delivered align with the needs of the

² Homes England Affordable Homes Programme 2021 to 2026. <https://www.gov.uk/guidance/apply-for-affordable-housing-funding>

³ County Durham Settlement Study, June 2018. <http://durhamcc-consult.limehouse.co.uk/file/4957345>

community. In this context, there should be an emphasis on meeting the needs of people who are local to a village or a group of villages by birth, previous or current residence, employment or by virtue of having a close family member living in the area. This approach will support communities and meet localised needs.

- 15 In terms of considering the need for affordable homes, consideration can be given to opportunities to support and sustain rural communities by providing homes within communities with the intention of providing homes for families and to support rural employment locations or sectors.
- 16 In certain locations the delivery of new affordable council homes can support mixed and balanced communities, particularly where there are concentrations of second homes and other forms of holiday accommodation.

Site location and characteristics

- 17 The County Durham Plan was adopted in October 2021 and it provides a policy framework for considering development on unallocated sites, development in the countryside and rural exception sites. The principles of these policies will guide site location and ultimately any proposals brought forward for planning consent will be assessed against the policies of the County Durham Plan.
- 18 Whilst not seeking to replicate policy content in full, the key principles of sites include ensuring any proposed development is appropriate in terms of scale, design, layout, and location to the character, function, form and setting of, the settlement.
- 19 In terms of site selection or other development opportunities for older persons accommodation, it is important to ensure homes are accessible to supporting facilities and embedded within the community. In this context, relatively central or readily accessible sites may be appropriate.

Appendix 7 Temporary Accommodation Context Overview and Statistics

Temporary Accommodation Context Overview

The Council is required to provide temporary accommodation to homeless households in the following circumstances:

- a) whilst it undertakes enquiries to determine whether it has a statutory duty to provide accommodation if the person may be considered to be in priority need for accommodation;
- b) where the council has accepted it has a statutory duty to provide settled accommodation for the homeless household, but no suitable accommodation is available; and
- c) where the council has determined the homeless household has become homeless intentionally to provide sufficient time for the household to secure their own accommodation with its advice and assistance.

20 Throughout this time the Council has maintained an annual budget of £24,999 for temporary accommodation (TA) which prior to the introduction of the Homelessness Reduction Act in 2018, covered the cost of temporary accommodation see Table 1. The following factors have inevitably impacted upon costs:

- a) Additional duties placed on the Local Authority following the introduction of the Homeless Reduction Act 2017;
- b) Inflationary pressures as costs of accessing temporary accommodation have risen; and
- c) The impact of stock transfer in 2015 with the loss of council stock and subsequent divergence in how registered providers interpret the Durham Key Options policy.

Table 1: TA spend per financial year

Financial year	TA expenditure	Percentage increase on (16/17)
2016-17	£10,343	-
2017-18	£43,348	319%
2018-19	£ 90,049	771%
2019-20	£107,851	943%
2020-21	£395,506	3,724%
2021-22	£753,028	7,181%
2022-23	£806,179	7,694%

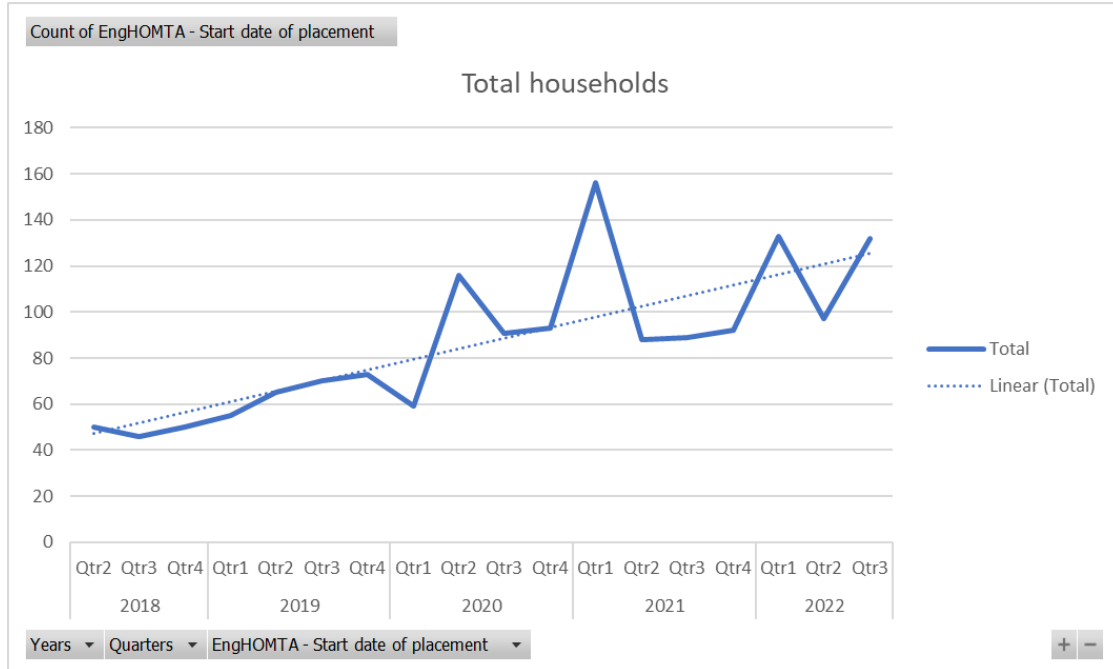
21 The cost pressures on temporary accommodation have had a particular impact on Durham County Council compared with stock owning and some other non-stock owning local authorities for three main reasons:

- a) The Council has until recently not held its own stock of TA units, resulting in it having to use costly B&B and holiday lets. The Council is in the process of acquiring units of accommodation for TA funded through government initiative such as the Rough Sleepers Accommodation Programme (RSAP) and the Single Homeless Accommodation Programme (SHAP). This accommodation tends to be for specific purposes, such as housing rough sleepers or single people, rather than families. Many local authorities, even where they are no longer stock owning authorities still provide temporary accommodation directly themselves or contract with other providers to do so;
- b) Not being a stock owning authority brings its own challenges in working with others to provide move on accommodation in a timely way particularly in relation to some cases where there is a poor housing history and complex housing needs. The Council may still have a duty towards such cases whilst other providers can legitimately exclude these individuals from consideration through the Durham Key Options system; and
- c) Stock owning authorities are able to call upon routine vacancies as they arise and redesignate them on a temporary or permanent basis as temporary accommodation to avoid using more costly TA options.

Temporary accommodation statistics

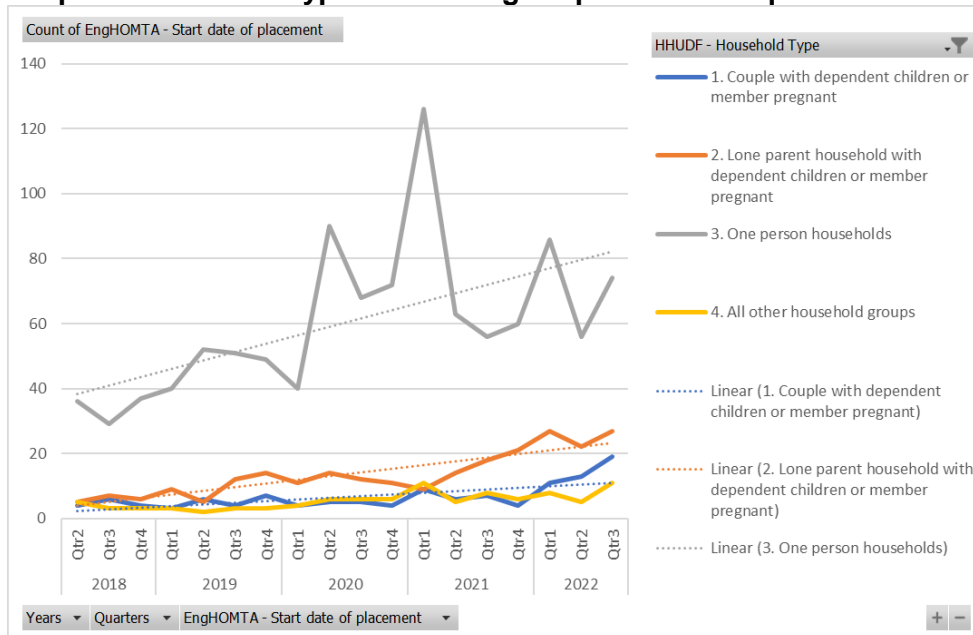
- 5 Graph 1 shows that the number of households requiring temporary accommodation in County Durham has steadily increased since 2018 with a peak in early 2021.

Graph 1: total households accessing TA per calendar quarter since 2018



6. Graph 2 shows that the number of single households and households with children requiring temporary accommodation in County Durham have both steadily increased since 2018.

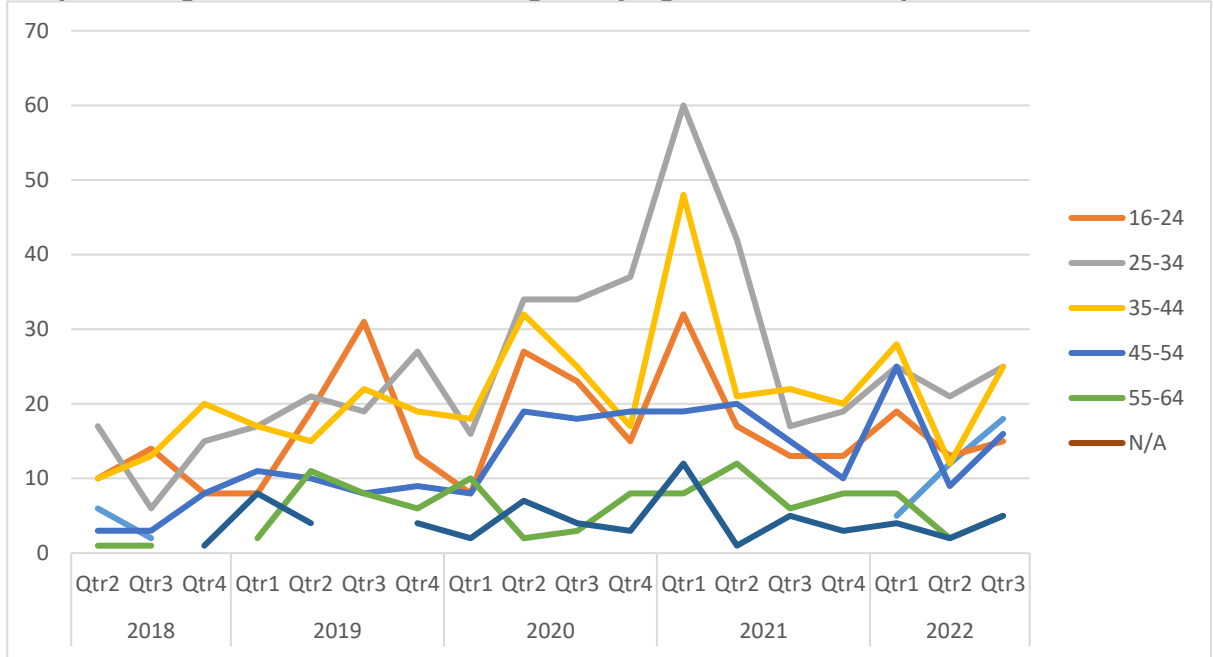
Graph 2: household types accessing TA per calendar quarter since 2018



- 7 Graph 2 above shows that the number of singles requiring TA peaked during the Covid period, due to the government's 'Everyone in' initiative.

8 However, the number of families (both couples and single parents) requiring temporary accommodation is still rising, post-Covid.

Graph 3: single households accessing TA by age and calendar quarter since 2018

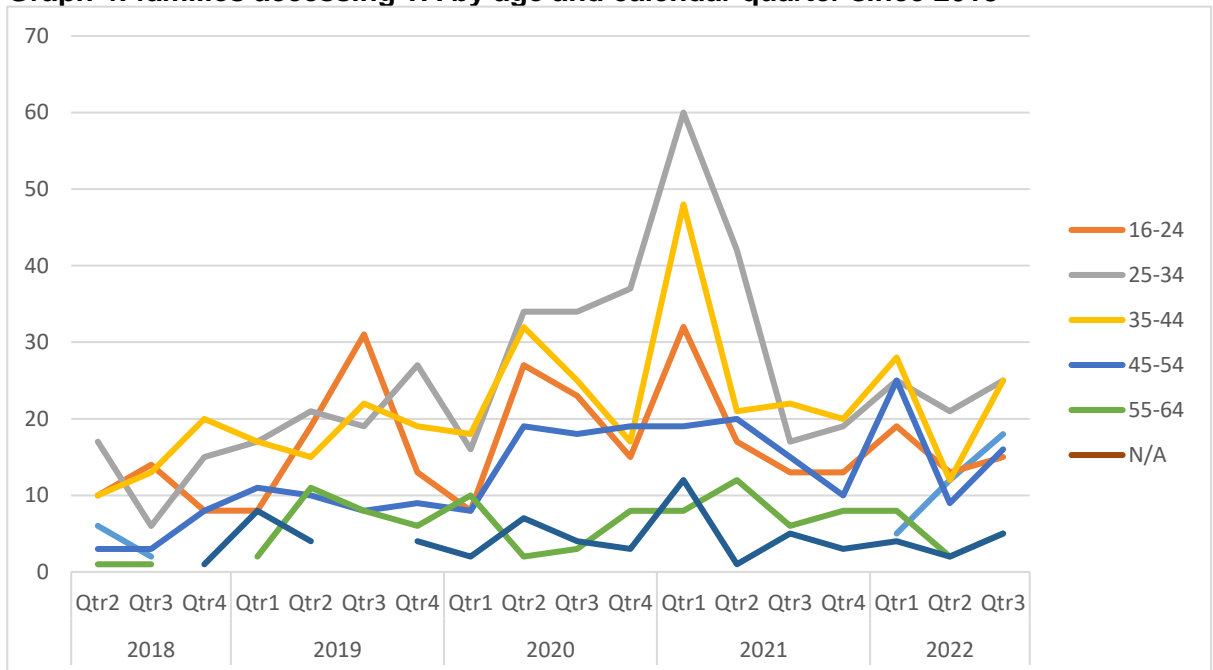


9 All age groups except 55-64 significantly increased during the second national lockdown at the turn of 2020-21. The age group requiring TA between singles is usually 25-34 and this was the same at its peak and now.

10 Despite all age groups fluctuating from quarter to quarter, the level for each age group remains similar to that pre-Covid, although the group 55-64 has seen a decrease overall.

11 Last quarter, all single household age groups in TA were rising again.

Graph 4: families accessing TA by age and calendar quarter since 2018

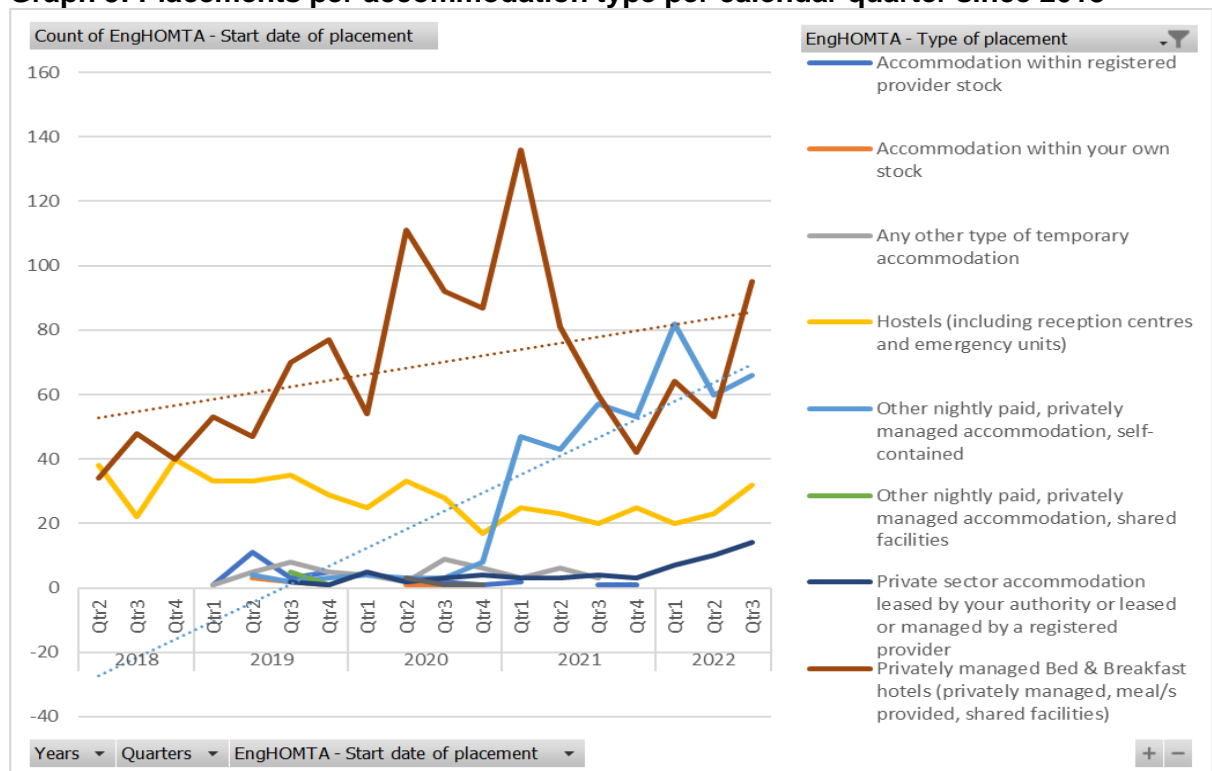


- 12 The 25-34 age group (primary applicant) with families requiring TA has significantly increased in 2021 and the age group 35-44 with families has significantly increased in 2022.
- 13 Despite all age groups fluctuating from quarter to quarter, the level for each age group remains similar to that pre-Covid, although the group 55-64 has seen a decrease overall.
- 14 Last quarter, all family household age groups were rising again.

All placement types

- 15 The number of placements made into TA is shown in the graph below per accommodation type. Some households may require multiple placements due to accommodation availability.
- 16 Bed and breakfast (B and B) usage peaked during second lockdown (late 2020/early 2021) and is rising again to a similar level pre-Covid lockdown (start of 2020).
- 17 The number of placements into other nightly paid (self-contained) accommodation (residential lettings) went up significantly in 2021, as social distancing was required, and households had no cooking facilities in B and Bs.
- 18 The number of placements into residential lettings continues to rise as the total number of families requiring temporary accommodation continues to increase.

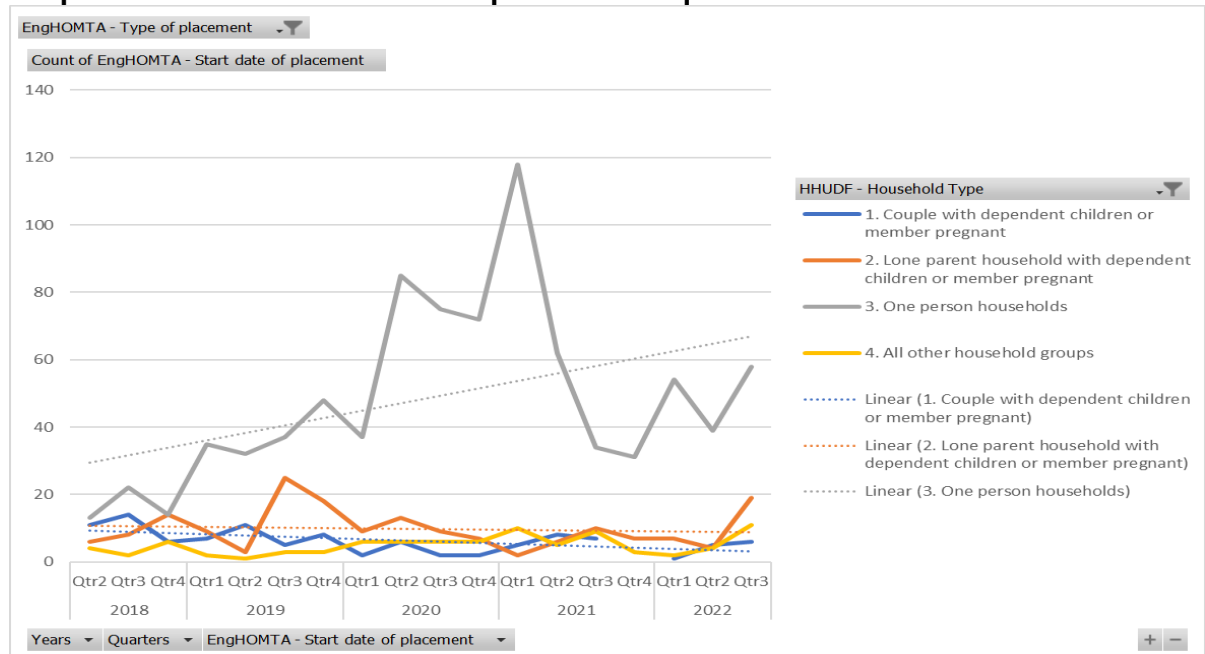
Graph 5: Placements per accommodation type per calendar quarter since 2018



Bed and Breakfast accommodation

- 19 The number of placements of single households into B and B other went up significantly in early-2021. This number fell significantly during 2021 but is now increasing beyond the 2019 levels for this household type.

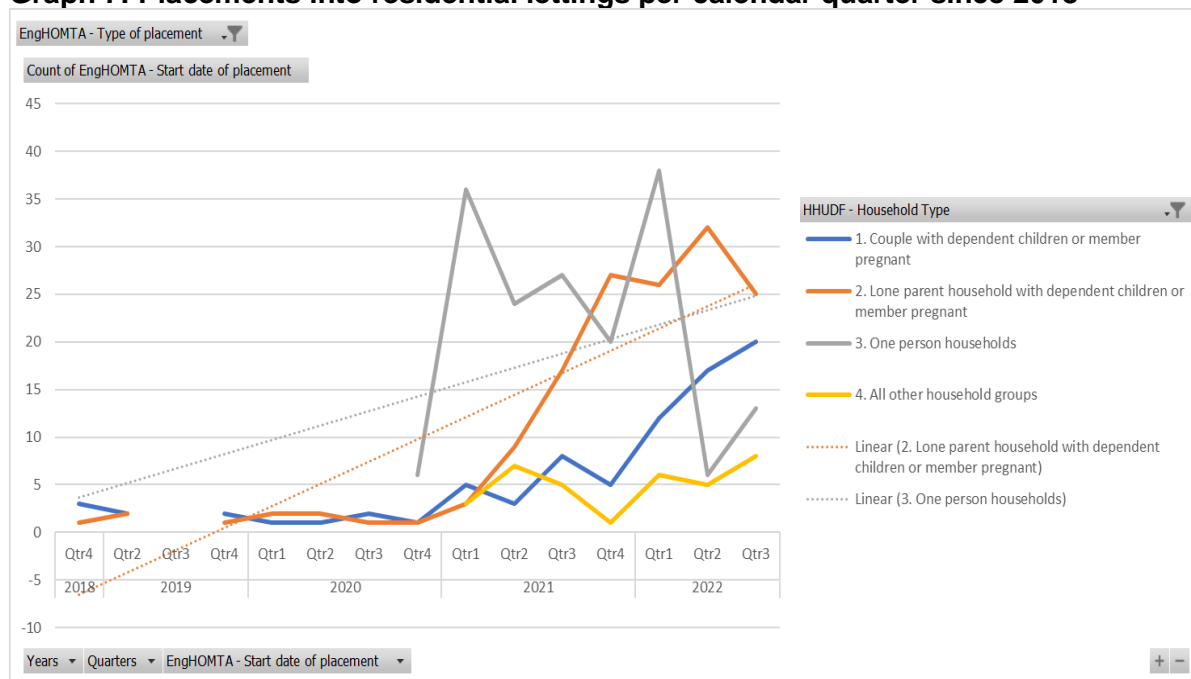
Graph 6: Placements into B and B per calendar quarter since 2018



Residential lettings

- 20 The number of placements of families into residential lettings went up significantly in 2021 and has continued to rise, particularly families with single parents.
- 21 The number of placements of single households into residential lettings went up significantly in 2020 due to the need for social distancing (and lack of self-contained accommodation).
- 22 This has now been scaled back in favour of B and B accommodation, to ensure residential lettings are available for families, as that type of accommodation is in greater demand.

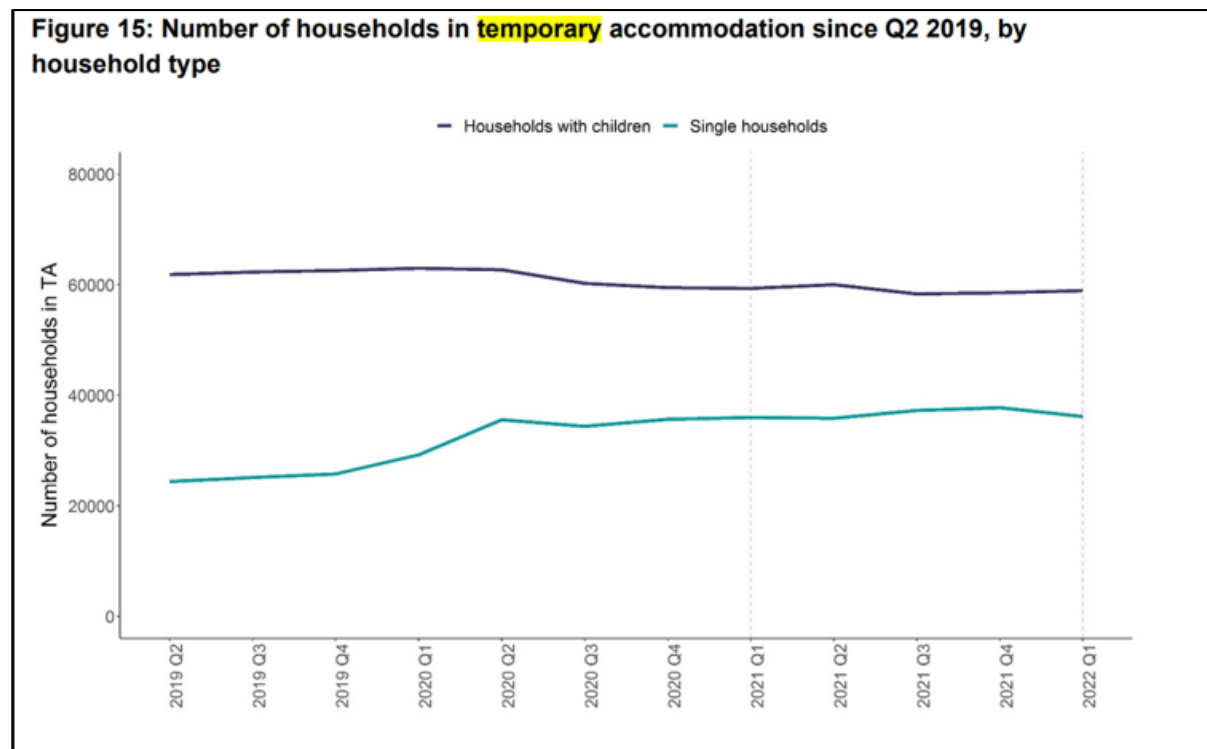
Graph 7: Placements into residential lettings per calendar quarter since 2018



Temporary accommodation nationally

23 Temporary accommodation in England has remained relatively constant between 2019 and 2022, although single households did rise slightly at the start of Covid and has levelled off at that slightly higher rate since.

Graph 8: Placements into residential lettings per calendar quarter since 2018



24 County Durham is experiencing higher request from families requiring temporary accommodation than the national average, and as this continues to rise, there is no reason to believe that the trend will change soon.

25 Durham County Council should plan for a further rise in families requiring TA.

Appendix 8 Case studies of households in Temporary Accommodation

Case Study 1

- Ms A and two daughters left a Private Rented Sector property in January 2022 as the landlord had sold the property.
- Ms A stayed temporarily with her ex-partner and her own mother until she had exhausted those options.
- Ms A applied as homeless in March 2022 and was placed in TA (Nightly paid Holiday let)
- Due to former tenant arrears Ms A was excluded from Durham Key Options in April 2022.
- In June 2022 a proposal by Housing Solutions was put forward to pay off those arrears with the covid rent arrears intervention fund which was approved.
- DCC cleared £1600 worth of former tenant arrears and a new Housing Application was submitted.
- Ms A successfully bid on a property in August 2022 and has been matched to that property, still awaiting a move in date therefore remains in TA.

Case Study 2

- Ms B and her 4 children applied as homeless Feb 2022 as landlord was selling the property.
- Excluded from DKO due to previous rent arrears (£1000) and a poor reference however this was unrelated to her eviction from the private rented sector property.
- The family were placed into temporary accommodation in March 2022 and have moved between three nightly paid holiday let placements since this date, which is unsettling for the children.
- A private rented sector offer secured in Horden, however the property has since been vandalised and repair work is delaying move in.

Case Study 3

- Ms C applied as homeless in July 2022 fleeing domestic abuse, with her 2 children.
- She was placed in TA (Nightly paid holiday let) in July 2022.
- Ms C received Main Homeless Duty decision in October 2022 (Band 1) and was matched to a property in late October / early November 2022.