

## **Economy and Enterprise**

### **Overview and Scrutiny Committee**

**12 January 2024**

### **Council House Delivery Programme Update**



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## **Report of Amy Harhoff, Corporate Director of Regeneration, Economy and Growth**

### **Electoral division(s) affected:**

Countywide

### **Purpose of the Report**

- 1 This report provides an update on the council house delivery programme. The report sets out the context to the programme and outlines the objectives of the programme. The report outlines the delivery approach, current stage of the programme and next steps.

### **Executive summary**

- 2 In October 2020, the council agreed to begin a council house building programme of up to 500 homes by 2026. On the 12 July 2023, Cabinet approved an updated business case for the council house delivery programme, which responded to challenges within the programme including:
  - (a) macro-economic changes had seen both inflation and interest rates rise significantly since the first business case was prepared.
  - (b) the opportunity to revisit both the delivery approach and assumptions, to support viability considerations within the programme; and
  - (c) to understand how the programme could support a reduction in the cost of using temporary accommodation.
- 3 The updated business case included an updated financial model, which reflected updated assumptions and forecast that the Housing Revenue Account is financially viable, without additional capital investment (other than land).

- 4 The justification for the council house delivery programme lies in the opportunity to deliver homes and to provide an additional source of supply in response to a shortfall of delivery of affordable homes to meet housing needs and in response to the requirement to deliver homes for older people. The council house delivery programme also provides a means to reduce costs to the council associated with the provision of temporary accommodation, by providing 'move on' accommodation managed by the council. The objective of the programme is therefore to deliver homes to meet identified housing needs in County Durham.
- 5 In February 2021 and December 2021 Durham County Council Cabinet agreed sites for Phase 1 and Phase 2 for the programme. All sites within the programme have been identified from land held within the council's ownership. The council has since undertaken further assessment on the suitability of sites for development.
- 6 The July 2023 Cabinet report identified that for the initial stage of the programme, three sites would be identified for delivery which would be expected to deliver c.51 dwellings. These are as follows:
  - (a) Greenwood Avenue, Burnhope (22 dwellings).
  - (b) Portland Avenue, Seaham (20 dwellings).
  - (c) Merrington View, Spennymoor (9 dwellings).
- 7 The council will continue to progress the other sites identified in the Phase 1 and Phase 2 sites agreed by Cabinet in February 2021 and December 2021, subject to viability considerations. The council is also seeking to deliver homes in the rural west. In response to an absence of land holdings, the council is seeking to identify land to purchase, make use of existing buildings and to purchase of s.106 units (in the absence of interest from registered providers). Alongside the development of sites, a programme of acquisitions is being undertaken to deliver homes to meet housing needs.
- 8 The council is currently undertaking a procurement process to appoint a main contractor to deliver the programme. This procurement exercise is expected to conclude in the first quarter of 2024.
- 9 The appointment of the main contractor will enable the council to further refine its pipeline and programme future sites within a development programme. In this context, working closely with the main contractor, the council will deliver the programme in a phased manner which best supports viability considerations.

- 10 Alongside the development workstream, the council is considering the requirements for the operational and management set-up of the service. This work will be presented to Cabinet for consideration in 2024.

### **Recommendation**

- 11 Members of the Economy and Enterprise Overview and Scrutiny Committee are asked to note and comment on the information provided within this report and the associated presentation.

## Background

- 12 In October 2020, the council agreed to begin a council house delivery programme of up to 500 homes by 2026. Subsequent reports in February 2021 and December 2021 agreed Phase 1 and Phase 2 sites for the programme. Since this point, the council has:
- (a) Progressed the Phase 1 sites to RIBA Plan of Work Stage 2.
  - (b) Developed property designs for a range of house types alongside site layouts, which have been informed by pre application planning applications.
  - (c) Undertaken two soft market tests 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.
  - (d) An ongoing acquisitions programme to purchase homes to meet affordable housing needs and to complement development opportunities.
  - (e) Obtained Brownfield Land Release Funding to help remediate two sites initially included within phase 1 of the Housing Programme.
  - (f) Engaged Savills Consultancy to undertake a review of the council's financial modelling in the light of changing economic conditions.
  - (g) Developed an approach to the procurement and developed an output specification and associated tender documentation.
  - (h) Prepared a suite of procedural documents to support the delivery of housing management services.
- 13 Progression of the council house delivery programme has been impacted upon by the wider the macro-economic environment, resulting from a series of global factors including, the impact of Covid 19, the war in Ukraine and the global energy crisis. These global events have occurred since the development of the original business plan and have resulted in high inflation and interest rates that have affected both the construction industry and the council's own budgetary position.
- 14 On the 12 July 2023, Cabinet approved an updated business case for the council house delivery programme, including a revised financial model. This report revisited and updated the original business case for the council house delivery programme outlined in the October 2020 for three main reasons:

- (a) macro-economic changes resulting in both inflation and interest rates rise significantly since the first business case was prepared.
  - (b) the opportunity to revisit both the delivery approach and assumptions, to support viability considerations within the programme; and
  - (c) to understand how the programme could support a reduction in the cost of using temporary accommodation.
- 15 The updated business case included a fundamental review of the assumptions and the approach to the delivery of the programme, undertaken by Savills consultancy. The Savills review determined that the council house delivery programme was viable and was deliverable without additional capital investment (other than land), which enabled a reduction of the capital requirement from the council. The council's capital investment in the programme has therefore been reduced from £12,500,000 to £4,500,000. The £4,500,000 will be utilised to progress sites which are unviable, however where there is a wider strategic rationale to support the delivery of council homes.

### **Objectives of the council house delivery programme**

- 16 The justification for the council house delivery programme lies in the opportunity to deliver homes and to provide an additional source of supply in response to a shortfall of delivery of affordable homes to meet housing needs and in response to the requirement to deliver homes for older people. The council house delivery programme also provides a means to reduce costs to the council associated with the provision of temporary accommodation. The objective of the programme is therefore to deliver homes to meet identified housing needs in County Durham.
- 17 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
<b>Gap</b>	<b>-363</b>	<b>-304</b>	<b>-208</b>	<b>-358</b>	<b>-300</b>	<b>-1,533 (-36.7%)</b>

- 18 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.
- 19 Furthermore, in response to the ageing population, there is a need to deliver more affordable homes for older people, including bungalows. The population of the county is already ageing and over the next few decades, there will be a 'demographic shift' with the number (and proportion) of older people increasing. 2014 based 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).
- 20 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.
- 21 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.
- 22 The Council Plan (2022-26) also recognises the importance of delivering homes to meet the needs of older people. The '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).
- 23 The July 2023 Cabinet report noted 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. The council house delivery programme can provide 'move on' accommodation directly managed by the council, for those in temporary accommodation, which would serve to reduce the cost of the provision of temporary accommodation.

- 24 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.
- 25 The council house delivery programme would therefore seek to fulfil its objective to meet identified housing needs by serving 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.

### **Approach to delivery**

- 26 The July 2023 Cabinet report set out that the programme had faced some key delivery challenges. This included the impact of macro economic factors, but also challenges associated with the originally intended delivery model, which did not support the most viable outcomes for the programme.
- 27 The July 2023 Cabinet report therefore included an updated HRA model, based upon updated assumptions informed by an independent review undertaken by Savills. 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.
- 28 The July 2023 cabinet report also noted some changes to the delivery of the programme, as envisaged in the original October 2020 business

case. These changes were to support viability considerations alongside, meeting housing needs. The key changes are as follows:

- (a) In order to support viability in the early years of the fledgling Housing Revenue Account (HRA), whilst the programme will still deliver a proportion of bungalows, these will be delivered alongside a range of house types. It remains an aspiration that, over the lifetime of the delivery programme, bungalow accommodation represents the single largest dwelling type provided.
  - (b) The programme will deliver general needs accommodation to 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.
  - (c) The programme will move from a council led construction process towards an output specification led 'design and build' approach to development as the primary delivery model. This model seeks to capitalise on market efficiencies including, the use of established supply chains and value engineered housing products to support viability.
- 29 The approach to delivery outlined in the July 2023 Cabinet report, therefore seeks to overcome challenges within the wider construction market and to support a viable programme for delivery. Alongside delivering homes to meet affordable housing needs and for older people, the programme is being configured to assist in responding to the increasing cost to the council for the provision of Temporary Accommodation.

## **Sites**

- 30 In February 2021 and December 2021 Durham County Council Cabinet agreed sites for Phase 1 and Phase 2 for the programme. All sites within the programme have been identified from land held within the council's ownership. The original intention was to ensure as broad a geographical spread as possible of sites, based on land ownership opportunities, and to identify sites in line with housing needs. The Phase 1 and Phase 2 sites list is set out at Appendix 2. Sites were broadly identified in line with the intention to deliver 500 homes.
- 31 The council has since undertaken further assessment on the suitability of sites for development, including in some cases an initial assessment of viability. In this context the programme has departed from a 'Phase 1 and Phase 2' approach to delivery and sites will be brought forward in line with viability considerations, other development factors (including available funding) and in discussion with the appointed contractor.



- 32 The July 2023 Cabinet report identified that for the initial stage of the programme, three sites would be identified for delivery which would be expected to deliver c.51 dwellings. These are as follows:
- (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).
- 33 The council will continue to progress the other sites 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 council's disposal programme.
- 34 The Phase 1 and Phase 2 sites are 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.
- 35 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.
- 36 Alongside the development of sites, a programme of acquisitions is being undertaken to deliver homes to meet housing needs. Suitable

properties can be acquired by the council, where funding is in place and where it is recognised that the property can meet housing needs. In considering whether to purchase a property, the council will give consideration to the size, location, type of the property as well as any repairs required to bring the property up to a suitable standard.

### **Key challenges for the council house delivery programme**

- 37 The key challenge to the council house delivery programme is the viability of development. Whilst the programme has been reconfigured to best support viability considerations, some of the allocated sites within the programme have proven to be challenging in a viability context owing to site topography factors or indeed the scale of the sites, with smaller sites not benefiting from economies of scale. The council will work with the appointed main contractor to consider the most appropriate form of development to best support viability considerations.

### **Next steps**

- 38 The July 2023 Cabinet Report set out an approach to procuring a contractor to deliver the council house delivery programme. This was to award a framework agreement following an initial restricted procurement, with the framework awarded on the first sites, Greenwood Avenue, Burnhope and Portland Avenue, Seaham. This procurement exercise has commenced and is expected to conclude in the first quarter of 2024.
- 39 The next milestone for the council house delivery programme, is therefore to conclude the procurement process with the appointment of a main contractor to build council homes. Following appointment of the main contractor, the council will seek to take the Greenwood Avenue and Portland Avenue sites through the planning permission, with an anticipated start on site in the second half of 2024.
- 40 The appointment of the main contractor will enable the council to further refine its pipeline and programme future sites within a development programme. In this context, working closely with the main contractor, the council will develop a pipeline to bring forward sites and to deliver the programme in a phased manner which best supports viability considerations.
- 41 Separate to the appointment of the main contractor to deliver the programme, the council will undertake a procurement exercise to appoint a MMC delivery partner. The Merrington View, Spennymoor scheme will be the first scheme to be delivered under this contract.
- 42 Soft market testing has indicated that there is a clear separation between traditional build construction and MMC providers. Furthermore,

MMC homes will consist of a smaller proportion of the council house delivery programme than traditional build houses. In discussion with procurement colleagues and in recognition of these factors, the council is engaging with the market in an optimal way to procure delivery partners to deliver the differing product types. This involves in practice, two separate procurement processes, one to appoint a main contractor and a second for a MMC provider. As noted, the procurement process to appoint a main contractor is underway. The procurement process to engage a MMC provider will commence in early 2024.

- 43 Alongside the development workstream, the council is considering the requirements for the operational and management set-up of the service. This includes the approach to repairs and maintenance of properties, tenant communications and wider communications associated with the programme. This work will be presented to Cabinet for consideration in 2024.

## **Conclusion**

- 44 The report has provided information on the background and objectives of the council house delivery programme. It is noted that the intention of the programme is to deliver homes to meet affordable housing needs alongside delivering homes for older people. The programme will also provide 'move on accommodation' for those in temporary accommodation to reduce the cost of the provision of temporary accommodation to the council.
- 45 The report also notes the July 2023 Cabinet report set out how the council has responded to a series of challenges, both macro economic conditions and challenges with allocated sites to present a viable delivery model for the programme. The council is currently in a procurement process for a main contractor for the programme.
- 46 Following the appointment of the contractor, the council will progress the Greenwood Avenue, Burnhope and Portland Avenue, Seaham sites as the first two sites in the programme. The council would work with the main contractor to determine a forward programme of sites for development from the Phase 1 and Phase 2 site allocations.

## **Background papers**

- 12 July 2023 Cabinet report: [Council House Delivery Programme Update](#)

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## **Appendix 1: Implications**

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### **Legal Implications**

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.

### **Finance**

Updated financial model approved by Cabinet on 12 July 2023.

### **Consultation and Engagement**

Will be undertaken on sites at an appropriate time.

### **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.

### **Human Rights**

None.

### **Crime and Disorder**

None.

### **Staffing**

None.

### **Accommodation**

None.

### **Risk**

Detailed risk assessments will be undertaken at the project level and as part of delivering sites.

### **Procurement**

The approach is outlined in 12 July 2023 Cabinet report. Procurement process presently underway to appoint a main contractor for the programme.

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## Appendix 2: Approved Sites with potential Total Number of Dwellings (Phase 1 and Phase 2 sites)

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Sites	Total dwellings	Council homes
<b>Phase 1</b>		
North of Portland Avenue, Seaham	45	20 - 30
St Agatha's Close, Brandon	54	30
Greenwood Avenue, Burnhope	110	40 - 50
Chaytor Road, Bridgehill	35	35
Edison Street, Murton	10	10
Clevesferye House, Ferryhill	10	10
Shieldrow Lane, New Kyo	10	10
<b>Sub total</b>	<b>274</b>	<b>155 -175</b>
<b>Phase 2</b>		
Claude Terrace, Murton	10	10
Fishburn Hall Farm	30	30
Murphy Crescent, Bishop Auckland	20	20
Thornlaw South, Thornley	35	35
Sacriston, Mafeking Tce	7	7
Wheatley Hill School p/f	70	25
Spennymoor	12	12
Langley Park	30	30
Hamsterley Walk, Annfield Plain	10	10
Barrington Street, Dene Bank	10	10
Harthope Gr, Bishop Auckland	50	20
Delves Lane, Consett	20	20
Derwent Cres, Leadgate	40	40
Grey Terrace, Ferryhill	30	30
Blackthorn Close, Brandon	30	15
Moorside School	50	20
Deneside Depot, Seaham	30	15
<b>Sub total</b>	<b>484</b>	<b>349</b>
<b>Grand Total</b>	<b>758</b>	<b>504- 524</b>