

Subject:	New Homes for Neighbourhoods: Development costs of new build council homes		
Date of Meeting:	20 September 2017		
Report of:	Executive Director of Environment, Economy & Culture		
Contact Officer:	Name:	Sam Smith	Tel: 01273 291383
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Ward(s) affected:	All		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 A report on development costs for the council's New Homes for Neighbourhoods programme was requested by members of the Housing & New Homes Committee at their meeting on 28 June 2017 which was convened to consider the Lynchet Close project for approval.
- 1.2 This report provides context and an overview of the programme to date including projects, procurement /delivery routes, design standards and specification, development costs and associated controls. It also reports the outcome of an internal audit on the housing new builds programme in May 2017 which checked that adequate procurement and project management arrangements are in place and that budget management for each project is robust.

2. RECOMMENDATIONS:

- 2.1 That Housing & New Homes Committee note the contents of this report.

3. CONTEXT/ BACKGROUND INFORMATION

Affordable housing development in Brighton & Hove

- 3.1 Brighton & Hove is a city with an acute 'housing crisis', with over 21,000 households on the housing register, 1,800 in temporary accommodation and a serious shortage of affordable homes. The city also has areas of significant deprivation and its population of around 280,000 has significant health needs and inequalities. The first priority of the council's Housing Strategy 2015 is improving housing supply, in particular the supply of affordable housing to help meet the needs of for the majority of Brighton & Hove households who cannot afford market housing without spending a disproportionate level of their income on housing or some form of subsidy.

- 3.2 Reductions in the grant available for affordable housing in recent years have seen a shift away from social rented homes to affordable rent and housing associations delivering more low cost home ownership rather than affordable rent due to the struggle to make affordable rented homes financially viable. Despite being able to cross subsidise affordable housing through market sales of other homes and shared ownership, housing associations' provision of affordable rented housing has also reduced in light of uncertainty regarding funding and legislation, plus pressures on land and build costs. Whereas housing associations/Registered Providers (RPs) completed 147 rented homes in the city in 2008/09, that reduced to 89 in 2013/14 and none in 2016/17, with none planned in 2017/18.
- 3.3 The council's New Homes for Neighbourhoods regeneration programme has been essential in providing affordable rented housing at a time when our Registered Provider partners have struggled to do so. Initiated in 2013 following a successful pilot project at Balchin Court, the programme has completed seven affordable rented schemes, has four more currently on site and many others in the pipeline. It is exclusively for rent within housing benefit limits - not subsidised by shared ownership or market sales – and is expected to deliver 62% of all new affordable housing in the city under the Affordable Housing Programme 2015 to 2018 and 82% of affordable rented new homes. Overall, the council will have built 90% of new affordable rented homes in the city over that period.

Affordable Housing Programme in Brighton & Hove 2015 - 18

	Housing associations/ RPs	New Homes for Neighbourhoods programme	BHCC other ¹	Total
Shared ownership	65	0	0	65
Affordable Rent	20	165	17	202
Total affordable homes	85	165	17	267

¹ Hidden Homes conversions and travellers' pitches.

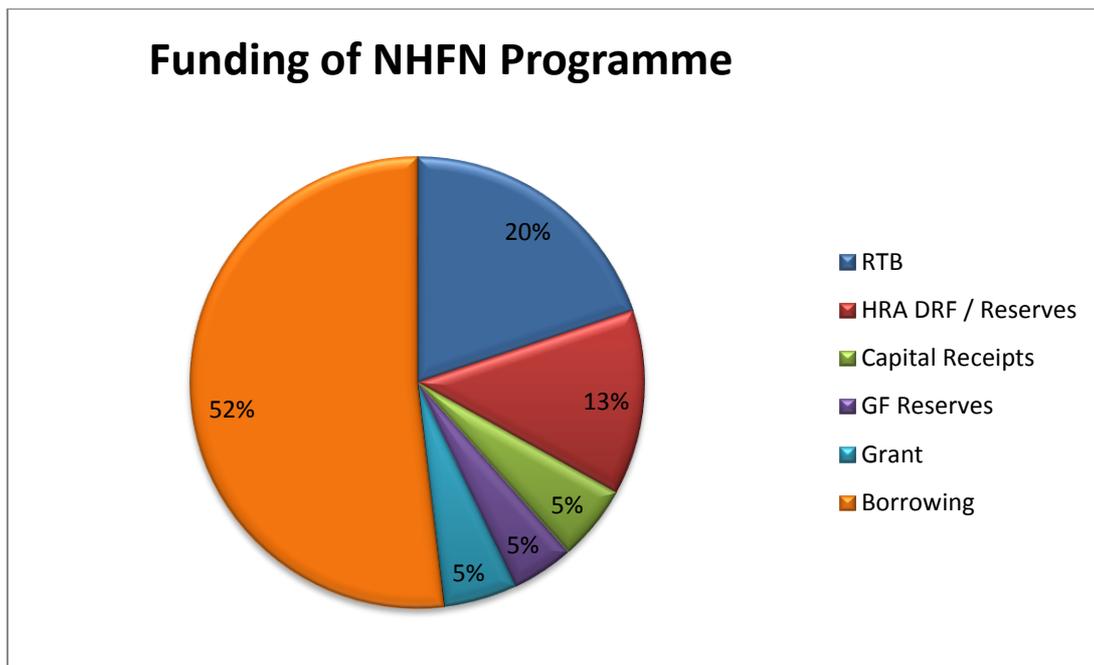
The year 2018/19 shows a similar picture with 77% of projected new Affordable Rented units being completed on council sites.

	Housing associations/ RPs	New Homes for Neighbourhoods programme	BHCC other ¹	Total
Shared ownership	67	0	0	67
Affordable Rent	19	36 council homes plus 23 by partners on HRA sites ²	5	83
Total affordable homes	86	59	5	150

¹ Hidden Homes conversions

² YMCA Downslink Group Y:Cube modular units on Eastergate Road garage site and Bunker Housing Co-op self-build on Plumpton Road former garage site. Excludes Living Wage Joint Venture homes.

3.4 Funding of the council’s new build programme comes from varying sources. The pie chart below details the funding to date from retained Right to Buy (RTB) receipts, Housing Revenue Account (HRA) direct revenue funding (DRF) and HRA reserves, HRA capital receipts, Adult Social Care contribution toward the Brooke Mead extra care scheme (shown as GF reserves), Homes and Communities Agency (HCA) grant funding and HRA borrowing. Up to 30% of a qualifying scheme’s cost can be funded by RTB receipts. However, there are restrictions placed on the use of RTB receipts, two examples being that they cannot be used in conjunction with HCA grant funding or to fund land appropriations from the General Fund.



3.5 When running the financial modelling for a scheme the HRA borrowing is predominantly supported by the new rental stream generated by the homes. Nevertheless, the cost pressures of affordable new housing development mean rental income from the new homes is often not enough to support the borrowing and so a subsidy is required. That has come from existing HRA tenants to date as the programme has not included homes for sale or shared ownership to cross subsidise the rented homes.

3.6 Compared to housing associations, the council is also developing predominantly very small and constrained sites on council owned land in very close proximity to existing council tenants and leaseholders. In addition to delivering affordable rented homes that the city urgently needs, the New Homes for Neighbourhoods programme is working with local communities to improve neighbourhoods for existing residents on council estates. For example, the Robert Lodge development has improved the communal gardens, parking provision, access for emergency vehicles and cycle and mobility scooter storage for the 70 tenant and leaseholder households already living there as well as building 15 new homes.

New Homes for Neighbourhoods programme approach

- 3.7 The New Homes for Neighbourhoods programme is using different procurement/delivery routes for developing new homes on primarily HRA land for their value for money, speed of delivery and quality. Appendix 1 gives details of schemes currently completed or on site including procurement/delivery route and constructor. All schemes, their procurement/ delivery routes and their budgets have been agreed by Housing & New Homes and Policy, Resources & Growth Committees or their predecessors prior to works starting. The Estate Regeneration Member Board, comprising the Chair of Housing & New Homes, the Opposition Spokesperson and Group Spokesperson, have regular updates on progress with all new build schemes from inception to completion.

Procurement/delivery routes

- 3.8 The Housing department appointed an external architect and cost consultants for the Brooke Mead extra care scheme to take it up to planning consent, obtained in 2014. Willmott Dixon was then procured through the SCAPE procurement framework to deliver the scheme under a design and build contract, with the council appointing BLB Surveyors as employer's agent to check and monitor quality of work and costs.
- 3.9 The Guinness Partnership was procured in 2013 through the Brighton & Hove Affordable Housing Delivery Partnership to develop four small garage and car parking sites as the council's development agent. Guinness appointed the architect and employer's agent and procured constructors. The council uses Calford Seaden to test and assure value for money on these projects.
- 3.10 The other schemes listed in Appendix 1 are being delivered through the council's corporate Sustainable Futures construction partnership, which was procured under an OJEU procurement process authorised by Policy and Resources Committee on 21 March 2013, following two previously successful construction partnerships. The partnership started in early 2014 for a contract term of four years and to a value of £60 million. It is currently delivering the majority of the New Homes for Neighbourhoods homes as well as construction projects for various council client departments and is managed by the council's Property & Design department. The council has recently re-procured the strategic construction partnership, which has resulted in a change of constructor and a small saving in the overhead and profit percentage figure. This new figure will be applied to all future projects. Further information on how the current partnership operates and its newly procured successor will operate is in Appendix 2.

Value for money

- 3.11 As indicated in paragraph 3.2 above, it is rarely financially viable nowadays to develop affordable rented new build homes, and development costs vary by site (as explained in greater detail in paragraph 3.18 below). However, value for money is the key criterion for the programme. The council carries out value engineering on all of our new build schemes in order to reduce costs whilst maintaining standards. All New Homes for Neighbourhoods developments are assessed and benchmarked for value for money by independent quantity surveyors/cost consultants. The independent cost consultant produces a Best

Value report confirming that construction costs represent value for money for each scheme.

3.12 To date, three storey timber frame houses have proved the lowest cost type of housing in the programme, in terms of core build cost per square metre excluding abnormal site costs. However, flats can achieve a greater number of homes on some sites, depending on their constraints and planning requirements, and provide homes to meet the needs of tenants who cannot manage stairs. The programme aims to maximise the number of homes developed on scarce HRA land and to deliver the mix of size and type of homes specified in the council's [Affordable Housing Brief](#) to meet the city's needs. Large blocks of flats can also be very cost efficient to develop. The second lowest core build cost per square metre in the programme is for the 43 flat West block at Kite Place.

3.13 Some particularly challenging and constrained sites which would be uneconomic for the council to develop itself will be leased to partners who will use innovative construction methods to achieve development of affordable rented homes on them, to which the council will have nomination rights. For example, Policy, Resources & Growth Committee on the recommendation of Housing & New Homes Committee has agreed to lease the Eastergate Road garage site to YMCA Downslink for development of compact modular Y:Cube homes for young single people at the end of the homelessness pathway, and the small Plumpton Road former garage site with very long, narrow and kinked access to Bunker Co-op for a self-build development. In addition to pilot modular housing and co-op schemes, the programme is also testing the value for money of developing affordable rented council homes on challenging small sites through its design competition pilot.

Speed of delivery

3.14 A notice of motion at full council meeting on 18 July 2013, just after the New Homes for Neighbourhoods programme had been initiated, called for every housing avenue available to be explored and for a speeding up of the Estate Regeneration programme to provide more homes. Different procurement routes have varying timescales, and the faster a development is completed the sooner the Housing Revenue Account starts to receive rental income from the new homes (and can repay any borrowing).

3.15 Progressing schemes through the council's corporate strategic construction partnership has been the speediest delivery route to date. The architects, constructor and principal partners are already procured and in place when a scheme receives final committee approval to proceed, so there are no procurement delays. Adjustments in the final design stage are minimised as the same personnel have been involved in earlier stages. In addition, construction via this delivery route has proved subject to fewer delays in handover in the programme to date, with some homes even being completed ahead of schedule.

Quality

3.16 Quality of new build council homes is achieved through a clear client brief and specification, achieving designated standards, ensuring all personnel and companies involved have the necessary technical and wider skills and expertise, ongoing involvement in and supervision of design and construction – using employers' agents where the construction is not directly managed by council

architects – and careful inspection before handover is accepted. Experience to date is that the corporate strategic construction partnership has delivered the best finish. Close collaborative working between Housing staff, in-house council architects and Estate Regeneration project managers, with partners' support, has also helped to develop the council's New Homes Design Specification for its own new build homes, to achieve quality and consistency. That will result in cost savings in future maintenance, again ensuring value for money.

- 3.17 Resident feedback is an important assessment of the quality of new council homes and results to date of detailed satisfaction surveys of residents around three months after first occupation of the new homes have been very positive. So have the results of inspections of new homes at the end of the 12 months' defects liability period. Any learning is shared amongst the architects, constructors, Estate Regeneration project managers and Housing and has fed into the New Homes Design Specification.

Factors affecting construction costs

- 3.18 Construction costs are influenced by a number of factors including:

- **Economies of scale**

Larger sites or blocks of flats are generally more economical to develop as there is scope for greater repetition of design and project overheads can be apportioned across a larger number of homes. For example, the core build cost per square metre of the West block of Kite Place which comprises 43 flats is some 85% of the core build cost per m² of the East block comprising 14 flats.

The council is not a volume house builder with standard products it can reproduce on large sites across the country to achieve economies of scale. Our development sites are generally very small and constrained, and not attractive or viable for most developers, even for homes for market sale. Overheads such as survey costs, fees etc. can be disproportionately large for smaller sites with fewer homes across which to apportion costs.

- **Site constraints and abnormal costs**

The sites available for development under the programme often require demolition of former housing offices or garages, diversion of sewers or other utilities and services and extensive ground works to deal with sloping sites and achieve level access to homes. Schemes have to be designed to overcome the constraints specific to each site, including overlooking of neighbouring properties and protected trees. Furthermore most of the sites are brown field, where buildings have been demolished and there are varying degrees of contamination.

Abnormal costs may not be apparent until after work has started on site. For example, dumped asbestos and a tarmac road were discovered buried in the communal grounds of Robert Lodge, which had not been detectable from surveys or other information prior to start of construction. The cost of removing those, replacing contaminated soil and replanting the gardens required an increase to the scheme budget. Appendix 1 listing all schemes completed or

on site includes information on specific constraints and abnormalities for sites in the programme to date.

- **Standards to be achieved**

The council's standards for all new affordable housing in the city are clearly set out in its [Affordable Housing Brief](#). This planning document aims to ensure that the council achieves mixed, balanced and sustainable communities and delivers high quality affordable housing for local people in housing need. It specifies the preferred affordable housing mix in terms of unit size and type to be achieved for the city as a whole and that all new schemes need to meet the government's new national technical standards for housing as a minimum. The Brief requires all new affordable homes to be built to the Building Regulations standard relating to 'accessible and adaptable' housing (Part M4(2) Building Regulations 2015), which replaced Lifetime Homes Standard, and 10% of all affordable housing to be built to the 'wheelchair user' housing standard (Part M4(3)), in accordance with current and emerging local plan policies and housing strategy objectives.

Achieving these standards incurs additional construction costs. The 'accessible and adaptable' standard requires step free access to homes, the WC and other accommodation on the entrance storey and to private outdoor space, so that a wide range of people - including older and disabled people and some wheelchair users - are able to use the accommodation and its sanitary facilities. Features must also be provided to enable common adaptations to be carried out in future to increase the accessibility and functionality of the dwelling. The wheelchair user dwellings also require a greater floor area for circulation and additional equipment. Designing to these standards in its new build homes not only meets the needs of council tenants, but will also benefit the council in savings to its adaptations budget.

Affordable homes are also expected to comply with the Nationally Described Space Standards published in 2015, which the council proposes to formally adopt through the preparation of Part 2 of the City Plan. These are up to 11m² larger than the minimum space standards that Planning previously applied to affordable homes. In comparing the cost of different construction options for the Lynchet Close scheme, it was estimated that building a four bedroom council house to Category 2 'accessible and adaptable' standard and to the Nationally Described Space Standard minimum size of 121m² gross internal area – rather than to Category 1 'visitability' standard and to an internal area of 109m² akin to private sector developments – added nearly £27,000 per house to the construction cost.

Brighton & Hove's planning policies also require all new homes to meet energy and water efficiency standards for the former Code for Sustainable Homes Level 4. This involves measures such as installing photovoltaic solar panels.

- **Design specification**

The council will be managing and maintaining the homes itself, so as landlord for the new homes it has developed a detailed New Homes Design Specification for the programme with detailed requirements for robust, well built homes with a long life span and low maintenance costs. Using the cheapest components in construction does not guarantee value for money or

cost efficient future maintenance. Equipment such as lifts and boilers need to meet the high specification Housing has developed based on its experience of managing existing stock and to fit with its maintenance contracts. Materials are chosen that are robust and have low maintenance requirements e.g. flooring in common ways, brick rather than render external finishes where planning permits.

- **Location**

Construction costs in Brighton & Hove are higher than in many other areas as evidenced by the Building Cost Information Service (BCIS) operated by the Royal Institute of Chartered Surveyors (RICS). This publishes very detailed cost indicators for many different types, size, storey height and location of new dwellings which are regularly updated. City centre development sites with lots of party walls, tight access and need for parking suspension, such as Darwell Court, can also incur more costs than sites in a less challenging location.

- **Inflation and labour shortages**

Building costs fluctuate and increase over time. The aging workforce in the construction sector is exacerbating labour shortages in some areas, which again inflates costs.

Development costs for New Homes for Neighbourhoods schemes

- 3.19 As explained above, development costs for New Homes for Neighbourhoods schemes reflect numerous cost pressures from the constraints and locality of the sites and the standards and specification homes are built to, in order to achieve value for money for the council over the time it will be managing and maintaining them. Costs vary significantly from scheme to scheme and the most accurate way to evaluate them is by comparing core build costs per square metre, excluding site abnormal costs. These core build costs themselves will vary according to the construction method appropriate for the site and ground conditions and the facilities provided at each scheme.
- 3.20 The core construction costs being achieved across all projects completed or on site in the New Homes for Neighbourhoods Programme (excluding extra care) so far range from £1,100 per m² to £2,379 per m². Construction costs are advised by the council's cost consultants to be broadly in line with those of small private developments and housing associations.

Budget setting process for new build development

- 3.21 Housing & New Homes Committee final scheme approval and Policy, Resources & Growth Committee budget approval is usually sought before a planning application is submitted, in order to avoid abortive costs in progressing schemes which may not receive committee approval. The budget figure that committee is asked to approve covers all anticipated development costs, including estimated costs for construction (core build costs, site infrastructure, preliminaries, renewables etc.), professional fees, surveys, statutory fees and s106 planning

contributions towards transport, recreation, education etc. as appropriate for each site plus any sum payable for any General Fund land to be transferred to the Housing Revenue Account . It is based on known costs and estimates including those from the council's external and independent cost consultants (quantity surveyors). It also includes prudent design and construction contingency allowances for unforeseen risks and changes, which may not need to be drawn upon as the scheme progresses.

Cost control measures

- 3.22 Following committee approval and planning consent, the scheme design is finalised and packages of work or materials are tendered to establish actual costs, which are used to build up an Agreed Maximum Price for the construction works. This is subject to independent checking and analysis by the council's cost consultants who will assure that best value is achieved for the council and produce a Best Value report confirming that the construction costs represent value for money. The final Agreed Maximum Price for construction is agreed prior to start on site . Appendix 2 outlines cost control measures for schemes delivered through the strategic construction partnerships, which are currently delivering the majority of new homes.
- 3.23 Some cost overruns have arisen due to unforeseen circumstances becoming evident after work has started on site, as can often happen in new build development. For example, ground contamination and buried asbestos or structures have been found despite surveys and ground testing not having identified these prior to work starting. Equally, there are forecast underspends on schemes where contingency provisions have not been required and actual costs of construction elements have proved below estimates. Additional budget requirements and underspends on new build schemes are reported to Policy, Resources & Growth Committee following the council's Budget Setting and TBM process, and to the cross party Estate Regeneration Member Board.

Internal audit report on Housing New Builds May 2017

- 3.24 The council's Principal Internal Auditor carried out an audit review of the New Homes for Neighbourhoods programme as part of the agreed Internal Audit Plan for 2016/17. The scope of the review included checking that each (build) project is robustly assessed to ensure it delivers value for money, including that :
- adequate procurement and project management arrangements are in place
 - budget management for each project is robust.
- 3.25 The audit reported in May 2017 that substantial assurance is provided in respect of housing new builds – the highest rating. This opinion means that controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. Testing reviewed the use of the council's strategic construction partner and other delivery routes and no concerns were highlighted. Sufficient evidence was provided over the management of risk, monitoring of contractors and validation of interim payment certificates. Documents were of a high standard. Budget monitoring was found to be operating well, and for those projects reviewed, they were all forecast to complete within or under their current/revised budgets.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 As explained in the body of the report, the programme is testing various procurement/delivery routes for new homes for their cost, value for money, speed of delivery and quality.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 The Estate Regeneration Team prioritise engagement and consultation with local ward councillors, council tenant and resident associations and local residents in the neighbourhood of each site handed over to the team for development under the New Homes for Neighbourhoods programme.
- 5.2 The Housing department determine which potential development sites are handed over to the Estate Regeneration team for development under the programme, together with their brief for the site. The standards and equipment provided in new build are set by the council's Affordable Housing Brief and New Homes Design Specification. The cross party Estate Regeneration Member Board is consulted and informed on all new build schemes in the programme from inception to completion.

6. CONCLUSION

- 6.1 Development costs of new build council homes in the New Homes for Neighbourhoods programme reflect:
- The council's Affordable Housing Brief's requirements for affordable housing to be built to the Nationally Described Space Standard, easily accessible and adaptable standards (Building Regulations Part M(4) Category 2/former Lifetime Homes Standard) and at least 10% to full wheelchair standard (Part M(4) Category 3) and in a mix of sizes to meet the city's needs
 - The predominantly small and constrained sites available for development of new council homes
 - The Housing department's requirements for robustly constructed homes that will meet tenants' needs and be cost effective to maintain
 - Local construction costs, as reported in the Building Cost Information Service (BCIS).
- 6.2 An internal audit confirmed in May 2017 that each new homes project is robustly assessed to ensure it delivers value for money, including that :
- adequate procurement and project management arrangements are in place
 - budget management for each project is robust.
- The report gave substantial assurance on the cost controls in the New Homes for Neighbourhoods programme – the highest rating.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 This report describes the processes, procedures and controls in place for the council to ensure that its New Homes for Neighbourhoods programme is

achieving value for money including competitive procurement of construction consultants and levels of independent scrutiny at each stage. The report also details the reasons why costs of developing HRA sites can sometimes be higher when compared to national house builders who will obtain economies of scale and will be building to a different standard as outlined in the report. Further assurance on the value for money obtained for the council is detailed in the independent internal audit report of May 2017 which has assessed and reported on the adequacy of these controls.

- 7.2 Budget approval and monitoring of the spend on new council homes build projects is operated according to the council's agreed Financial Regulations and Financial Procedures included in the council's constitution.

Finance Officer Consulted: Monica Brooks

Date: 25/08/17

Legal Implications:

- 7.3 The Housing Act 1985 gives the council a power, but not a duty, to provide new homes. The law requires a power to be exercised properly. This report provides sufficient information about areas such as process, procurement routes and value for money, such that Members can be satisfied that the power is being exercised properly,

Lawyer Consulted:

Name Liz Woodley

Date: 11/09/17

Equalities Implications:

- 7.4 An Equalities Impact Assessment has been carried out for the New Homes for Neighbourhood programme and actions are built into the Estate Regeneration project management procedures.
- 7.5 All homes are built to meet Building Regulations Part (M) Category 2 'accessible and adaptable' standard, the successor to Lifetime Homes Standard, and at least 10% to Building Regulations Part (M) Category 3 'wheelchair user' standard. In addition, some Category 2 dwellings as agreed with Housing are provided with a level access shower so as to be rated Mobility 2 for letting, as suitable for applicants unable to manage steps/stairs/steep gradients and requiring a wheelchair for outdoor mobility.

Sustainability Implications:

- 7.6 New build homes are designed following good sustainability design principles to save energy and carbon emissions, reduce fuel bills and encourage occupants to live sustainable lifestyles. These can include onsite renewable energy, as well as measures that encourage sustainable transport use, food growing and recycling.
- 7.7 Design and delivery of new homes aims to meet the objectives relating to new build housing in the [City Sustainability Action Plan 2015-17](#) and

meet the city's planning policies and requirements. Energy and water efficiency equivalent to the former Code for Sustainable Homes Level 4 is required.

Crime & Disorder Implications:

- 7.8 New homes are built following the police Secured by Design guidance. Sites developed to date have primarily been of redundant buildings and underused spaces which often attract antisocial behaviour.

Risk and Opportunity Management Implications:

- 7.9 There are a number of risks associated with the cost of developing new homes, including cost overruns due to unforeseen works, construction inflation and the impacts of government policy and the national economy on the housing market and construction costs. A programme and project level risks logs are maintained by the programme and project managers and key controls are in place as confirmed by the internal audit report.
- 7.10 Building much needed new affordable rented homes on vacant or underused primarily council housing land puts an end to antisocial behaviour, makes best use of council assets and brings financial benefits to the council and local economy in the form of New Homes Bonus payments, new council tax income, increased rental income to the HRA and savings on removal of fly tipping etc., employment and training opportunities.

Public Health Implications:

- 7.11 Energy efficient homes which are easier and cheaper to heat help support the health of households. A large proportion of new build homes are suitable for applicants with health needs and very limited mobility.

Corporate / Citywide Implications

- 7.12 The New Homes for Neighbourhoods programme of building new homes on council land supports the council's priorities for the economy, jobs and homes. The development of new housing has a strong economic multiplier impact on the local economy, estimated at over £3 of economic output for every £1 of public investment, creating jobs and supply chain opportunities.
- 7.13 Every new home built on small sites helps meet the city's pressing housing needs and deliver the first priority in the council's [Housing Strategy 2015](#) of improving housing supply. New homes help bring benefits to the council in the form of New Homes Bonus payments and new council tax income.

SUPPORTING DOCUMENTATION

Appendices:

1. New Homes for Neighbourhoods housing development schemes completed or on site
2. Cost controls and monitoring of new build development through the council's corporate strategic construction partnerships
3. (Part 2 only) New Homes for Neighbourhoods housing development schemes completed or on site with cost details

Documents in Members' Rooms None

Background Documents None

