

## **12 FEBRUARY 2018 MEETING**

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### **REGIONAL HOUSING INVESTMENT FUND**

### **REPORT OF COUNCILLORS DAVID POOLE & JOHN THOMAS**

### **AGENDA ITEM: 6**

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#### **Reason for this Report**

1. To agree in principle to:
  - a. The creation of a Regional Housing Investment Fund. Across the Region we need more homes to be built, and finance can be a barrier, particularly for small and medium sized builders. Through a number of initiatives the fund could support house building, ranging from larger builders and developers on stalled housing sites on former industrial sites, through to small builders, community builders, custom builders and regeneration specialists, on smaller sites across the region;
  - b. Stimulate the SME building sector across the Region through:
    - i. Providing loan development finance, which will be at varying levels dependent on market conditions and State Aid implications which arise in the Convergence and Competitiveness areas.
    - ii. A Custom Build Scheme releasing smaller plots of public sector land with a full package of support for SME's to deliver new homes in our communities.
2. Reference is made below to a number of interventions and fund features, however the recommendations are just to agree the principle of a Housing Investment Fund. Such agreement would allow the detail, mechanics and governance to be developed and tested.

#### **SUMMARY**

3. The demand for good quality housing exceeds the supply in the region, and in some local authorities the choice and range of housing available is

limited. This is a key factor in the population shift that has occurred across the region.

4. Importantly investment in new housing will strengthen the local economy, in addition to having a positive impact on communities and residents, in line with the pillars of the Future Generations Act.
5. Across the region there are brownfield development sites allocated for housing or mixed uses that have stalled for many reasons, the majority of which are due to the level of risk with the site and the potentially low profit margins. This proposal seeks to be one of a number of housing related programmes that can overcome this by offering a flexible funding source to builders, large and small, community builders, custom builders and regeneration specialists.
6. The Housing Investment Fund would be a flexible source of funding administered by the Cardiff Capital Region Cabinet. It would also aim to maximise the use of other aligned funding schemes which are available. For example, Welsh Government and the Development Bank for Wales, have a number of funding streams and potential initiatives which are entirely complementary to such a Housing Investment Fund. To date CCR Officers have had very positive discussions with senior Welsh Government officials to ensure that any new Housing Investment Fund makes best use of the public funds currently available before accessing City Deal Funding. This means that working together greater impact can be secured.
7. **It is proposed that the next stage of the creation of the Housing Investment Fund is to work with Welsh Government and the Development Bank for Wales to assess these funds within the Region, under the umbrella of support from the CCR Housing Investment Fund. This will then determine the level of financial support required from the CCR City Deal, and in what form, whether that is a form of guarantee, loan or grant or a combination of all three.**
8. In addition to the public sector funding, the leverage of private sector investment would be significant.
9. It is suggested that the Fund provides:
  - Development finance - loan funding to support the development costs of building homes for sale or rent;
  - Infrastructure finance - loan funding to support site preparation and the infrastructure needed to enable housing to progress and to prepare land for development; and
  - The loans can be tailored to individual circumstances.
10. There are sites which would need some grant to make them viable to develop. In such circumstances, all other potential funding support would need to be explored, before Housing Investment fund support is considered.

11. We want to encourage innovation, both in the kind of homes that are built and the way they are delivered. Homes for Life and other housing standards can be considered. Financing could be available to support these projects which could include community led housing projects, serviced plots for custom and self-builders, off-site manufacturing, new entrants to the market and groups of small firms working in consortia to deliver larger sites.
12. The Joint Cabinet could also offer a range of non-financial support to be made available for larger infrastructure schemes to help resolve barriers to schemes progressing more quickly.

### **How could the Housing Investment Fund work?**

13. The Fund would look to offer a flexible approach to structuring loans and providing finance on both a short and long term basis, some of which could be available through existing products available to commercial and housing developers from Welsh Government and the Development Bank for Wales. The CCR contribution to the Housing Investment Fund would be to offer financial support through a guarantee, loan or grant, and all our lending would require appropriate security. CCR's role would be to work with the respective developer and establish an effective package of financial support, which could be from a number of financial providers, to achieve the best economic outcome for the respective project.
14. The key features of the Fund could be:
  - Loans of £250,000 to £10 million for larger developers
  - Smaller loans for innovative housing solutions and serviced plots for custom builders;
  - Typical terms could be up to 4 years for development finance and up to 10 years for infrastructure loans;
  - Interest rates for loans at varying levels dependent on market conditions and State Aid implications which arise in the Convergence and Competitiveness areas. In addition to the interest rate an arrangement fee could be charged.
15. The final shape of the Housing Investment Fund will depend on the accessibility and ease of access of other public sector funding including that available from Welsh Government and the Development Bank of Wales, and new initiatives Welsh Government officials are considering in light of some of the findings identified by the CCR Housing Working Group.
16. In offering loans the Housing Investment Fund will grow as the loans are repaid. As a high level example, if a notional £40M was loaned at a 3% interest rate, and repaid at the end of 4 years, the Fund would stand at £45M, allowing potential investments in excess of £100m to be made within the first 10 years.
17. In developing the Fund it would be prudent to establish a few core eligibility criteria that could be:

- applicants will need to demonstrate that without this funding the scheme would not progress or progress as quickly, or at all;
  - developments must be in the Cardiff Capital Region;
  - the borrower must be an entity which has majority control of the site;
  - development projects must build a minimum of 5 homes;
  - infrastructure projects must ultimately lead to the development of new housing;
  - the minimum investment the Fund will make is £250,000, except in the case of innovative housing solutions and serviced plots for custom builders.
18. At the point at which a loan offer is made, applicants would be required to have a controlling interest in the land and a clear route to achieving planning consent.
  19. In addition to loans a Custom Build Scheme could be rolled out across the region. Custom Build tends to be on smaller sites and involves smaller builders, groups or individuals building houses. Only 2% of houses in Wales are Custom Built, compared to 10% in England. Barriers include land and finance.
  20. The creation of a Plot Shop across the region, which offers land and the full range of supporting features, could stimulate this market which smaller builders work within, and create opportunities right across the region.
  21. Inevitably, there will be sites that require a one-off grant to make the site financially viable for development, in addition to any loan finance offered. In such cases, before any financial support is considered, all other public and private financial support will be sought before a detailed business case for such funding would be tested through the CCR Assurance Framework and require specific approval from the CCR Cabinet.

## **INTRODUCTION**

22. Creating a Housing Investment Fund will increase the delivery of housing in the Cardiff Capital Region. This will be via a range of initiatives which will see new homes delivered right across the region, including affordable and market for sale homes.
23. The Cardiff Capital Region has a very diverse housing market, with varying delivery rates currently. Some areas need no public sector intervention for the delivery of mainstream volume housebuilding, whereas other areas, particularly those with more challenging market conditions and industrial heritage legacies, do need mechanisms to stimulate delivery.
24. The SME housebuilders also have a very variable level of activity across the region, with some of the regional players having an important role in developing sites where the volume builders are not active. However, the smaller builders have been less involved in housebuilding since the crash in 2008 and with the on-going reduced risk appetite of many commercial lenders, it is unlikely that SMEs will raise the funding required to unlock sites.

25. Right across the region there are clear opportunities to develop the Custom Build market, which in Wales delivers significantly less new homes than the UK and Europe. In areas with a buoyant housing market, it is unlikely that financial incentives would be required. Across the region, facilitating such development will have a positive impact on the number of new homes delivered, and importantly stimulating smaller builders to return to the housebuilding sector, whilst improving the range of housing choice in many communities.
26. The following workstreams have been developed by officers from the 10 Councils, working with Welsh Government, and through engagement with the housing sector:-
- The creation of a **Fund** to provide financial support to the development sector to unlock and accelerate homes;
  - The development of a **Custom Build** programme, using public land and SME capabilities;
  - Stimulating the **SME development sector**, recognising some of the challenges with the larger house-builders delivering the homes the City Region needs;
  - Reviewing the scope for more effective use of existing tools such as Council Tax mechanisms; Compulsory Purchase Order powers etc to unlock regeneration and development opportunities; and,
  - Developing a Housing Delivery Framework for South East Wales.

The first two workstreams are currently more developed.

27. The City Deal needs to deliver economic growth in the region, and building houses has a major impact on that growth through the development of the housing industry generally, including the stimulation of the SME housebuilding sector which was virtually wiped out during the global economic crash and has not recovered. It also allows the development of the right housing offer to complement the growing economy, whilst also supporting the growth of sustainable communities, particularly in our more challenging market areas and in line with the pillars of the Future Generations Act.

## **BACKGROUND**

### **Current Housing activity in the Region**

28. The housing market across the UK has undergone some significant change over the previous decade, particularly following the financial crisis in 2008. The impacts of that crisis on supply – in terms of housing delivery numbers, the impact on the SME sector, constraints in labour, skills and materials – and on demand, in terms of mortgage availability and affordability, for example, have had noticeable impacts on the sector. All of that coupled with demographic trends and the rise of the private rented sector have made for an increasingly varied sector.
29. Specifically in the Cardiff City Region, there are a number of trends which are playing out and impacting upon the local housing markets. These factors include:

### **Uneven interest across the region**

- Development activity in more disadvantaged areas such as the Heads of the Valleys is limited, with challenges exacerbated due to low land values and viability in those areas.
- On the other hand, the prime M4 corridor locations and areas with proximity to Cardiff continue to be the focal point for the larger housebuilders who can make the economics of development stack up in those locations.

### **Limited coverage from the PLC housebuilders**

- The City Region currently experiences development activity from five of the major PLCs, with a number choosing not to operate in Wales. Moreover, those that do, say that the development economics in the region do not always stack up favourably against other opportunities elsewhere in the UK when being considered for investment by their Boards. While this does have the potential to provide opportunity to local SMEs, they themselves face their own challenges in taking this up.

### **A constrained SME sector**

- In 2016, the Federation of Master Builders highlighted that, across Wales, only approximately a quarter of housing delivery is currently done by SMEs, down from two thirds back in 1980.<sup>1</sup>

### **Limited availability of finance**

- Particularly in relation to SMEs where a lack of, or difficulty obtaining, development finance is constraining ability to deliver schemes on sites which are critical to supply, but are often too small or lack of sufficient viability to interest the large volume house builders.

### **Land conditions / coal fields legacy**

- It is common across the region for sites to be constrained by topography in the valley areas; additional complications arise from upfront investment being needed to deal with the legacy of the past coal mining industry (land remediation and site ground works etc.). SMEs say that the availability of suitable development land is also a constraint to development.

### **Affordable housing**

- Affordable housing across the region accounts for a significant proportion of total completions, averaging c.25% over the last 15 years. The Home Builders Federation notes that a large proportion of affordable housing is supplied by the private sector and suggests that a market-led approach to housing could increase the numbers of affordable houses, and satisfy community's sustained preference for ownership.

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<sup>1</sup> [https://chcymru.org.uk/uploads/general/Briefing\\_20000-Homes\\_ENG\\_Final-2.pdf](https://chcymru.org.uk/uploads/general/Briefing_20000-Homes_ENG_Final-2.pdf)

### Macro-economic context and Brexit

- The current macro-economic situation cannot be ignored. While different to the financial crisis, Brexit does bring with it a number of uncertainties that the market will respond to. For example, access to skilled and unskilled labour markets may come under pressure, changes in the interest rate environment may create affordability challenges and impact upon demand, and landowners, developers and promoters will factor these risks into their investment decisions.

30. While there are clearly challenges to be overcome, the City Deal does provide an opportunity for the local authorities to work together, and with Welsh Government, in a more collaborative manner, leveraging and pooling their resources in a way that can benefit both individual authorities and the wider City Region economy.

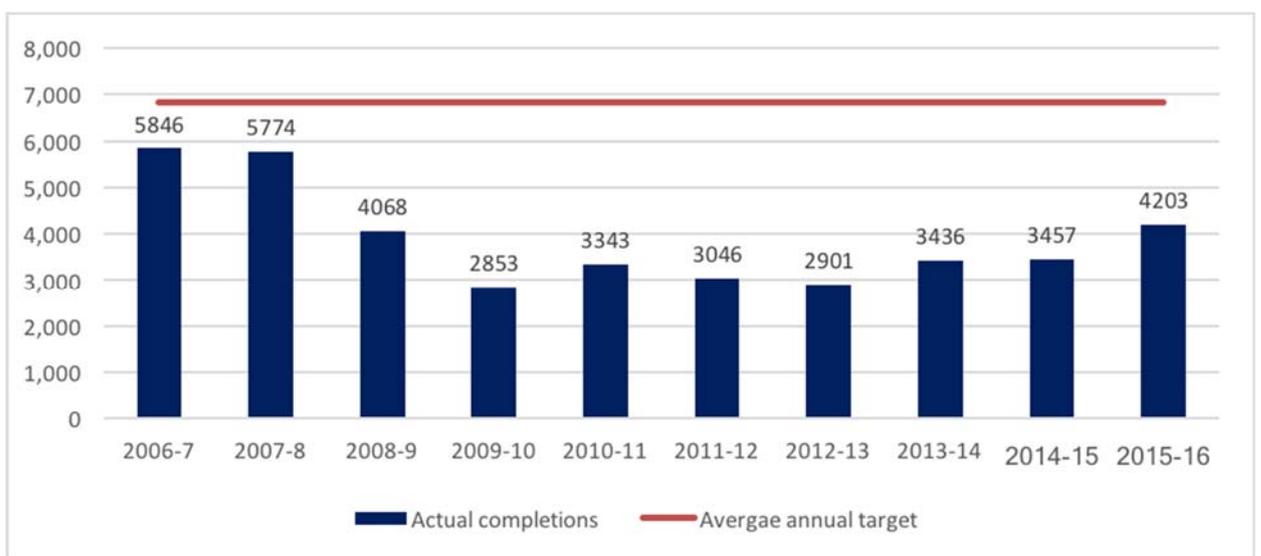
### Actual regional housebuilding performance

31. Over the past decade the primary means of monitoring delivery performance in terms of new units has been progress against each authority's Local Development Plans. It is worth noting that these plans were largely set at various points in time between 2006 and 2011, in a climate that was very different to the current one.

32. In any event, it is helpful to consider delivery performance over the decade – not least because it bears out some of the trends and challenges identified above which have led to constrained supply.

33. The following graph illustrates the actual completions across the ten local authority areas against the average annual target for the region.

**Figure 1: Actual total completions across the 10 LAs vs average annual target**



Among the key trends to note include:

- Delivery has consistently fallen short of the average annual target (6,800 new homes);
- There has been marked decline in output relative to 2006 – 2008, in part due to the factors mentioned above; and,
- The region has been unable to meet the pre-financial crisis levels of housing output.

### **Analysis of specific sites to establish real constraints on housebuilding**

34. It is important that in developing a Housing Investment Fund for the Cardiff Capital Region, the specific issues facing housing in this region are clear, so that the proposed interventions will be successful. As a pilot therefore, a Council commissioned specialist advice to assess the financial viability of 41 sites that are allocated in their current Local Development Plan, together with others that had planning permission, but had not come forward. The findings were shared with the other 9 Council's across the region to verify whether they were representative of stalled sites, and showed the same issues established in other Council areas.
35. The appraisals took into account affordable housing requirements, the CIL charging regime, and S106 financial requirements, and identify financial viability in the context of current planning policy, and the current state of economic and residential market. Each of the sites was inspected and there was discussion with landowners and a number of national and regional house builders. There was also detailed analysis of current housing schemes in the area and neighbouring authorities.
36. The sites were appraised using the residual method of valuation i.e. valuing the completed residential development by comparing sales of similar new build properties in the area. From the resulting gross development value are deducted construction costs, including professional fees, finance fees, sale and legal fees, developer's contingency and developer's profit. In most cases profit on costs is 25% to reflect the level that is actually necessary for developers to invest. The amount by which the gross development value exceeds the total costs, including developer's profit, provides the residual current day value of the site.
37. The commission also included sensitivity analysis for each development site, including valuations where there is no affordable housing requirement, a 5% decrease in sales values, a 5% increase sales values and a 10% increase in sales values.
38. Matters such as profit levels, build costs, contingencies, etc were agreed with the development industry in order to ensure they were reflective of real market conditions. Advice was also provided on the levels of land value that would be realistic to persuade a land owner to sell.

39. The research showed that currently 41% of sites do not provide adequate developers profit at £0 land value. While 58% sites show a positive value the consultants are of the opinion only 17% sites provide a sufficient land value for them to be definitely viable enough to be brought forward as of today.
40. It is clear therefore that there is no single reason why sites become stalled and it is the characteristics of individual sites that need to be addressed, however there are some broad themes:-
- Some large sites, particularly in the north are simply unviable because the cost of developing them is more than the current sales value/revenue.
  - At the other end of the scale small sites, which historically would have been built out by small, local builders have stalled because those small companies cannot access appropriate finance.
  - There are a number of large sites that on paper are viable but need considerable upfront investment in remediation and/or infrastructure so that cash flow and or risk of the unknown becomes a barrier to investment.

#### **What the current position has told us**

41. Reflecting on the above, there are a number of key considerations for the region in terms of how the City Region collaborates most effectively to deliver new housing.
42. The following principles are proposed:

**Focus on delivery** – to realise the ambitions of the City Deal the City Region will be required to facilitate and leverage investment into much-needed housing – note, the level of housing required collectively across the City Region may exceed the targets set out in the original Local Development Plans;

**Flexible approach** – mindful of the different sub-regional housing markets, and noting some of the constraints on the sector, the local authorities will be required to adopt a tailored, flexible approach which may mean offering multiple different solutions;

**A mixed economy** – the public sector should not try to address every aspect of the housing market. There is a role for other private, public and third sector organisations, and an emphasis on partnership, leverage and additionally should guide the role that the local authorities play;

#### **The Economic Case**

43. Investment in new housing will strengthen the local economy, in addition to having a positive impact on communities' and residents'.

44. Key socio-economic benefits typically associated with investment in new residential developments include:
- ✓ **Stimulating local economic activity**
    - Increased investment can provide a boost for production and strengthen the labour market;
    - Incentivise existing residents to remain in the region, and attract new residents, through the provision of a quality and broad housing offer.
  - ✓ **Safeguarding and creating new jobs**
    - An increased level of spend helps to safeguard existing jobs and increase the number of jobs across the construction and property sectors;
    - Incentivise the local supply chain to invest, diversify, increase their workforce –supporting the local SME industry;
  - ✓ **Supporting local business activity**
    - Support the business ecosystem and unlocking growth
    - Support SMEs through good quality housing and the ability to attract skilled workers and linking to skills.
  - ✓ **Productivity & welfare**
    - Reducing unemployment and providing secure, long-term jobs;
    - Creating more diverse and sustainable communities;
    - Provide a sense of belonging and social cohesion;
    - Additional positive externalities - improved health and wellbeing to the residents.
45. Clearly it will be necessary for any Full Business Case that is developed in accordance with HM Treasury “Green Book” principles to include detailed analysis on the potential financial and non-financial benefits of investing City Region funds into housing. However, completing this is complex, requiring in-depth analysis of the interventions. However, for illustrative purposes, the following example provides an indication of the types of impact that would be generated based on publically available benchmarks, notwithstanding the need for a more detailed, CCR-focussed assessment.
46. A useful case study is that undertaken by Lichfields, a UK planning a development consultancy, illustrating the economic impact of the development of 400 homes at East Lane (see below).<sup>2</sup> Nonetheless, as noted above, estimating the economic benefits applicable in the particular case of the CCR would require an in-depth analysis in the context of a full Business Case.

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<sup>2</sup> [http://lichfields.uk/media/2643/evaluate\\_making-the-economic-case-for-development.pdf](http://lichfields.uk/media/2643/evaluate_making-the-economic-case-for-development.pdf)

### **Case study: The Economic Benefits of Land at East Lane, Lichfields**

Lichfields, a planning and development consultancy, undertook an exercise of quantifying the economic benefits resulting from the development of 400 new homes in East Lane.

#### **Development scheme details:**

- 400 homes
- 30% affordable homes
- New primary school and Business hub
- £45.6m construction value (total construction costs)

#### **Estimated economic outcomes:**

##### **A. Economic output – total £13.5 Gross Value Added per annum**

- Construction GVA - £8.3m p.a.
- Operational and Expenditure GVA - £5.3m p.a.

##### **B. Number of jobs – created and/or supported c. 300 jobs across:**

- Construction
- Supply Chain
- Commercial / community areas

##### **C. Expenditure**

- £2m first occupation expenditure
- £3.2m resident expenditure

##### **D. Local authority revenue benefits**

- £3.3m New Homes Bonus payments over a 6 year period
- £c. 530k Council Tax revenue p.a.
- £4.8m Planning contributions (S106 / CIL)
- £140k Business Rate revenues p.a.

The example below focuses on the three types of impact a notional £100M of funding from a combination of other public sector sources and CCR Housing Investment Fund (that is not recycled), could have locally – namely, number of new homes that could be supported, the jobs that could be created, and the growth in local Gross Value Added. Clearly the Fund would involve a range of recyclable and non-recyclable interventions, as well as working with other funding streams, and developing non-financial interventions. This example therefore represents the worst case scenario:-

#### **High-level illustrative worst case example –**

##### **Number of new homes**

- Publically available evidence of national housing funds (in this case HCA Short Term Development Finance Fund, HCA) indicates that the contribution towards each new built home from the funds is c.£40k per unit, depending on the type of finance.

- Taking a notional £100M of funding from a combination of other public sector sources and CCR Housing Investment Fund, then on this benchmark c.2,500 additional units could be delivered.
- Clearly this number is the worst case and will vary depending on the specifics of each transaction. Where loan finance is repaid, funds can be recycled and generate further benefits as outlined in paragraph 16 above.

### **Jobs**

- According to *The Economic Footprint of UK Housebuilding* (March 2015), each unit being delivered had the potential to create, on average, 1.5 full time jobs
- Assuming 2,500 additional new units are built, this would imply the potential to create (or sustain) over 3,500 new jobs
- It should be noted that these might not be long term jobs or net additional jobs and should therefore be interpreted with some caution.

### **Gross Value Added**

- One large volume housebuilder has estimated that for every £1 million invested in housebuilding the UK economy receives a £2.4 million benefit, representing a GVA multiplier effect of 2.4
- Further work would be required on the extent to which that could be retained locally and, as with the number of new homes, any ability to recycle funds could lead to further GVA benefits

The above clearly does not constitute a detailed economic appraisal and should not be interpreted as being targets or commitments of any Housing Investment Fund at this stage. Rather, it is designed to illustrate the potential such a fund could have across three very narrow measures – there are others that can and will be appraised as part of a wider Business Case.

### **COMPONENTS OF A HOUSING INVESTMENT FUND**

47. There are a number of roles that the Cardiff City Region could adopt in seeking to deliver much needed new housing. These can be considered collectively under a Housing Investment Fund.
48. Referring back to the earlier paragraphs outlining the current levels of housing activity in the region, and the constraints on the industry to increase that delivery, there are a number of interventions which can be employed, as identified above:-
  - The creation of the **Fund** to provide financial support to the development sector to unlock and accelerate homes;
  - The development of a **Custom Build** programme, utilising public land and SME capabilities;

- Stimulating the **SME development sector** in Wales, recognising some of the challenges with the volume housebuilders delivering the homes the City Region needs;
- Reviewing the scope for more effective use of existing tools such as Council Tax mechanisms; Compulsory Purchase Order powers etc to unlock regeneration and development opportunities; and,
- Developing a Housing Delivery Framework for South East Wales, as part of a wider strategic approach.

## THE FUND

49. The Housing Investment Fund is not an untested approach and can provide the flexibility required to address a range of challenges in the local housing markets.

### Potential benefits of a Fund

50. Key benefits of a Fund in the Cardiff Capital Region context would include:
- ✓ **Fast-track delivery:** Provides a broad set of financial interventions that can be used to unlock developments that have been previously stalled by a wide range of issues (see above);
  - ✓ **External funding:** Can complement – and should actively encourage through leverage requirements - the use of external sources of funding, both private and public;
  - ✓ **Flexibility:** Investment strategy could be crafted to allow for different products to be flexibly used in different locations and different extents over time, depending on the challenges faced in each sub-market, and following review.
  - ✓ **Ongoing benefit:** the opportunity to recycle funds through repayable grants, loans etc. offers scope for funds to be used multiple times.

### Potential activity

51. There is a broad set of challenges that are faced by the Cardiff Capital Region, either regionally or in individual sub-markets. The appropriate interventions will therefore differ, hence the benefit of having a range of interventions available to address them.
52. One example of a way that a Fund could bring together a range of different financial products to provide bespoke solutions to individual sites is outlined in the table below:

Issue	What a HIF could do
<ul style="list-style-type: none"> <li>× Low site viability</li> <li>× Necessary initial costs to release sites</li> </ul>	<p>→ <b>1. Provide Grant or Recoverable Grant</b>            Plugging viability gaps and helping to de-risk sites by providing funds for upfront surveys (e.g. ground conditions), which may ultimately be at risk, could support more sites coming to market</p>
<ul style="list-style-type: none"> <li>× Areas with relatively high land value.</li> <li>× Insufficient available funding to meet covenants or barriers to accessing funding</li> <li>× Seeking to retain a degree of control over schemes of significant complexity and risk.</li> </ul>	<p>→ <b>2. Equity</b>            HIF could provide co-investment in the form of an equity stake in the development, allowing it to participate in any upside in the form of dividends.</p> <p><b>3. Mezzanine / subordinated debt</b>            HIF could provide an extra layer of debt capital to support the leverage of third party finance, allowing it to secure revenue in the form of interest receivable, albeit likely to rank behind the senior lender(s) with respect to security.</p> <p><b>4. Senior debt</b>            HIF could provide loans to unlock schemes where the owner / promoter is struggling to access finance</p>
<ul style="list-style-type: none"> <li>× Market uncertainty</li> </ul>	<p>→ <b>5. Guarantees</b>            HIF could provide a guarantee / indemnity in the event that demand risk is deterring developers (see HCA example)</p>
<ul style="list-style-type: none"> <li>× Low external development appetite</li> <li>× Stalled development by landowner</li> </ul>	<p>→ <b>6. Site acquisition and on-sale</b>            HIF could directly acquire the site from a landowner and review delivery options from that point</p>

53. The use of any financial instrument is not without risk. It will be imperative that further consideration is given to what types of product a fund might wish to offer – simplicity will be key. In reducing complexity, it is expected that the Fund would be primarily providing grant and recoverable grant in its early years.

54. A clear investment strategy and investment / underwriting criteria will need to be established and adhered to, with a robust due diligence process complimented by strong investment and portfolio management systems and processes to help identify, manage and mitigate risk.
55. Work is underway in developing criteria for potential investment, and this is placing emphasis on other City Deal activity and ambitions. Key is the Metro investment and maximising the benefits by ensuring that housing investment links to this creating connected communities, with access to work, leisure and infrastructure.

### **CUSTOM BUILD / THE SME SECTOR DEVELOPMENT**

56. The term 'self build' is well known but the term 'custom build housing' is being increasingly used to describe homes built or commissioned by individuals or groups of individuals for their own use, either by building the home on their own or working with builders.
57. 'Self' or 'Custom' Build has contributed as little as 2% of all new homes built in the region over the last few years. This compares to 10% in England and between 30% and 80% across Europe.
58. There are many smaller sites in the region that are not attractive to the larger housebuilders, but which have an important role to play in delivering variety in the housing offer, helping to maintain sustainable communities and delivering regeneration benefits.
59. There are a number of barriers to custom build projects in the region. These include:-
  - finding land
  - accessing finance
  - 'red tape' - buying the land, finding architects, planning permission etc.
60. The aim of this element of the Housing Investment Fund is to overcome these barriers through the creation of a 'one stop shop' approach. A Plot Shop is akin to a physical or virtual marketing suite which not only promotes the sale of building plots, but it also has the full range of supporting features to allow building to happen easily.

### **Potential benefits of a Custom Build scheme**

61. The need to stimulate the SME sector has been identified as important, and a number of reasons for the current activity levels established. In addition the potential for a significant number of smaller developments to have a positive impact in our communities across the region is clear, both in terms of the regeneration impact and creating housing choice.
62. Key benefits of a Custom Build or Plot Shop in the Cardiff Capital Region context could include:
  - ✓ **Stimulation of the SME building sector:** Provides a broad range of sites with limited risks which will be attractive to this sector;

- ✓ **Investment:** The Plot Shop encourages investment within communities across the region, whilst the economic multipliers are likely to be less than those associated with volume housebuilding, the impact of multiple sites across the region, within a currently dormant market should be recognised;
  - ✓ **Flexibility:** SME builders could be supported flexibly in different locations and to different extents over time, depending on the challenges faced in each sub-market.
  - ✓ **Regeneration benefits:** Many sites represent detractors in our communities, but being packaged within a Plot Shop brings them forward for development, bringing new homes and choices to our communities. Having a range of housing choice can stimulate latent housing markets, with long term benefits to communities.
  - ✓ **Potential for innovation:** As the scheme develops momentum, there is significant scope to develop innovative homes in terms of energy, construction, design and tenure.
63. Further detail around the Custom Build/ Plot Shop concept is set out below:-

### **Land**

The Federation of Master Builders representing the smaller building sector in the region has identified a lack of access to land as a significant constraint to their activity. Across the Region officers have been reviewing land which could form part of such a scheme, and it is clear that there are extensive opportunities. For an initial approach it would be helpful to include land which is easily manageable for this sector for example, being able to accommodate up to 5 plots, and being accessed directly off an adopted highway to avoid the need for any infrastructure provision, and within public ownership.

### **Sale Price**

Usually Councils take sites to the market to ensure best consideration is achieved. However as this project would aim to deliver an uncomplicated and streamlined way to buy housing plots, an independent valuation for each of the plots is needed so that each plot can have a clear price.

Current regulations allow Council's to dispose of land at less than best consideration provided that the disposal would contribute to the promotion or improvement of the economic, social or environmental wellbeing.

### **Architects Plans**

The Plot Shop is best supported by a pattern book of house-types and detailed plans. This would be a mix and match suite of pre-drawn plans for detached houses which would be acceptable on the sites in the Plot Shop, and which plot buyers could use at no further cost.

The plans would need to be developed and officers have discussed this with Cardiff University's School of Architecture which has completed considerable work already on innovative solutions for facilitating housing in Wales.

### **Planning**

Potentially a Local Development Order (LDO) could be developed to cover the sites in the Plot Shop. The LDO would grant a blanket planning permission for the sites, on the basis of the pattern book house types.

### **Building Regulations**

The pattern book could be subject to a full plans approval process so that the only time any potential customer would need to involve Building Control would be in construction when the relevant stages would need to be inspected.

### **Finance**

Officers are exploring a number of mechanisms for a finance offer as part of the Plot Shop, including whether the Fund could offer 'loan finance', and what the private sector can offer, and other funding mechanisms including the Development Bank.

### **Site Preparation**

As identified, it would be beneficial to start the scheme with sites which require little in terms of upfront infrastructure, but which may be overgrown or have trees. The potential benefits and costs for site clearance are being reviewed.

### **Other Considerations**

Terms and conditions for the Plot Shop will need to be developed. These would need to cover a range of issues including land-banking, multiple plot purchases, re-sale etc.

64. Clearly a number of these areas require further development. However through positive discussions with Welsh Government officials, funding for a pilot Plot Shop, particularly to fund plot valuations; Pattern Book; Local Development Order surveys; Building Regulations Approval; Finance potential Treasury Management advice; site preparation; web development and marketing, has been suggested.

### **Summary**

65. There is a strong case for the Cardiff City Region to create a mechanism that allows it to provide a whole range of support –from grant funding to loan financing to develop facilitation – to help unlock and accelerate much-needed housing delivery in the City Region, to underpin the growth ambitions set out in the City Deal and to deliver a whole range of wider socio-economic and regeneration benefits across the area.

66. Such intervention is not without risk, but is also not without precedent. Clearly any solution developed by the Cardiff City Region has to be specific to the Cardiff City Region, it is also important to capture the learnings from elsewhere and apply them accordingly.

## **NEXT STEPS**

67. To progress the Housing Investment Fund, the following next steps are recommended:-

### **a. The Fund**

- a. Agree the principle of The Housing Investment Fund, which could be delivered in partnership with Welsh Government and the Development Bank of Wales;
- b. Establish key aspects of The Fund, for example:
  - An Investment Strategy (e.g. what to invest in, where, in what proportion, how much co-investment is required etc.);
  - Availability and accessibility of other Welsh Government and Development Bank of Wales funding that should be utilised first before any CCR Funding, and the associated funding criteria;
  - Bid appraisal process (e.g. how to balance financial and non-financial criteria);
  - Governance and decision making processes (e.g. how will allocation decisions be made, individual investment decisions, pricing established etc. What role does each LA require in each process);
  - Risk management and portfolio management processes (this needs to permeate right through the investment, management and operational processes);
- c. Develop a Full Business Case.

### **b. The Custom Build scheme, Plot Shop**

- a. Agree the principle of a Regional Plot Shop
- b. Establish a portfolio of regional sites and the suite of development supporting features
- c. Develop governance management arrangements
- d. Develop a Full Business Case

## **Issues**

68. Subject to the Joint Cabinet's agreement to proceed to the next stages of developing The Housing Investment Fund, both The Fund and Custom Build elements, there will need to be considerable specialist work undertaken, which will need to be properly resourced. Some broad estimates have been given by providers which have worked on other Housing Investment Funds. Given the detail and specialisms involved, and depending on the extent of the Fund, the development work could cost up to a maximum of £100k.

## Legal Implications

69. From the body of the report it can be seen that an in principle decision is sought to establish a City Deal Housing Investment Fund ('the Fund'). As with any decision, Members will need to be satisfied that they have before them all material information and have had appropriate time to consider matters and raise any queries they may have, so that a reasonable and informed decision may be made. As regards this point it is noted that the body of the report acknowledges that the current proposals for the Fund and potential interventions are at early stage of development. Further, that detailed work is required to develop the mechanics of how the Fund would operate, the governance arrangements for the Fund and the nature of the potential interventions. Accordingly, the in principle decision sought is subject, amongst other matters, to approval of the Full Business case for the Fund by the Cardiff Capital Region Joint Cabinet.
70. It is important that the Full Business Case for the Fund involves consideration of the legal issues raised by the proposals to ensure that the proposals, as developed, meet (i) all legal requirements and (ii) HMT and Welsh Government funding conditions. It should be noted that developing the business case is likely to require significant legal resource, which will need to be funded by the CCRCD, as part of the costs of developing the full business case. By way of example only, consideration will need to be given to;
- (a) the legal powers available to the Councils and the Regional Cabinet to provide the various forms of investment under consideration,
  - (b) the governance arrangements that should be put in place to administer the Fund ( how and by whom decisions will be taken to award grants, loans, provide guarantees etc. at varying financial thresholds),
  - (c) the terms and conditions that should attached to the various proposed funding arrangements, and
  - (d) consideration of planning law issues, state aid, procurement law and the Councils' duties as regards to disposal of land ( best consideration and exemptions that apply).
71. In considering this matter regard must be had to the provisions of the Joint Working Agreement concluded by the ten participating authorities in relation to the delivery of the Cardiff Capital Region City Deal ('the JWA'). Of particular relevance is the provision in the JWA that provides Regional Cabinet shall finalise and recommend for agreement and adoption by each constituent Council the JWA Business Plan. The JWA Business Plan, amongst other matters, shall set out the Councils' objectives and priorities for delivery of the City Deal. The JWA Business Plan has yet to be approved by the Councils. For this reason it is understood that the in principle decision sought is subject, amongst other matters, to the approval by each of the 10 participating Councils of the

JWA Business plan (referred to in the recommendations to this report as 'discharge of the JWA Business plan reserved matter').

## General advice

In considering this matter and in developing the business case regard should be had, amongst other matters, to:

- (a) the Councils' duties under the Well –being of Future Generations (Wales) Act 2015 and;
- (b) Public sector duties under the Equalities Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. Protected characteristics are: a. Age; b. Gender reassignment; c. Sex; d. Race – including ethnic or national origin, colour or nationality; e. Disability; f. Pregnancy and maternity; g. Marriage and civil partnership; h. Sexual orientation; i. Religion or belief – including lack of belief

## Financial Implications

72. The attached reports seeks approval to agree 'in principle' the creation of a City Deal Housing Investment Fund, working with Welsh Government and the Development Bank of Wales. In particular, the report requests 'Programme Development & Support funding' of up to £100,000 to assist with the preparation of a Full Business Case.
73. In this regard, it is important that the requirements of the Wider Investment Fund Assurance Framework are followed and detailed consideration is given to how the project is developed over time. Compliance with the Assurance Framework is a key requirement of HM Treasury funding terms and conditions, as set-out by Welsh Government.
74. Section 3.7 (Business Case Development) of the Assurance Framework states:

*All Candidate Scheme Sponsors will be required to produce a business case in line with HM Treasury's Green Book using the Five Case Model – starting with an initial proposal (Strategic Outline Case) onto an Outline Business Case ("**OBC**") and finally a Full Business Case ("**FBC**").*

*The Business Case at each stage of development must evidence that:*

- *the scheme is supported by a compelling case for change – the strategic case;*
- *the scheme represents best public value – the economic case;*
- *the scheme is commercially viable – the commercial case;*
- *the scheme is affordable – the financial case;*
- *the scheme is achievable – the management case.*

*As the business case develops from initial proposal to outline and finally full case the level of detail and the completeness of the 5 cases will develop, however, each stage of the business case must provide a compelling case for the scheme before it will be supported by the Regional Cabinet to progress to the next stage.*

*Due to the potential variation in size and complexity of proposed schemes the time given to scheme sponsors to develop the various stages of the business case will be provided on a scheme by scheme basis.*

*As indicated previously, the appraisal process will apply the principle of proportionality which may result in the OBC and FBC stages being combined depending on the level and quality of information provided and the complexity of the scheme.*

75. A well prepared and structured business case:
- enables Regional Cabinet and its key stakeholders to understand, influence and shape the project's scope and direction early on in the planning process;
  - assists Regional Cabinet to understand the key issues, available evidence base and to avoid committing resources to schemes that are either sub-optimal or should not proceed at all;
  - seeks to keep Regional Cabinet informed of progress and secure their endorsement on key project decisions at the appropriate stages and minimise the risk of elements needing to be re-worked at a later stage;
  - demonstrates to senior officers, stakeholders, customers and Regional Cabinet the continuing viability of the proposed approach.
76. For the reasons outlined above, it is suggested that at an early stage consideration is given to agreeing the overall approach and timescales that will be adopted for the business case development process. This will allow the development funding requested to be broken down into the agreed business case stages and the appropriate level of resources allocated between each phase of the business case development cycle.
77. The report outlines some of the detailed work that will need to be completed in order to understand how the Housing Fund will operate e.g. eligibility criteria, delivery mechanisms and how the governance arrangements will work in practice. In particular, the business case will need to clearly address the issue of State Aid, whilst providing comfort around matters such as fund evaluation criteria, and how requests coming forward will be assessed in terms of costs, values, returns, risks, timescales, affordability and overall value for money.
78. The request for funding will be met from the Programme Development & Support revenue budget, initially from the 2017/18 allocation, with the balance being identified as a commitment within the 2018/19 Annual Business Plan. Regional Cabinet should note that there is risk that any development funding spent in advance of the JWA Business Plan being approved may prove to abortive in the unlikely event that the JWA Business Plan is not approved.

79. Attached at Appendix 1 is a 'Resource Assumptions' statement which aims to provide clarity in respect of funding requests made to Regional Cabinet in relation to sums requested, funding source and resource management/responsibilities. Documenting information in this way will also serve to act as a transparent audit trail in the event that the resources requested prove to be insufficient and requests for further funding are submitted at a later date.
80. Further financial advice will be provided as the business case is developed and reports are brought back Regional Cabinet for detailed consideration and approval.

## **RECOMMENDATIONS**

The Cardiff Capital Region Cabinet is recommended to:-

- i) Agree in principle to the creation of a City Deal Housing Investment Fund ("The Fund") as outlined in this report (working in partnership with Welsh Government, the Development Bank of Wales and others to ensure the Fund is complementary to and supports other public investment funds currently available), subject to:
- Discharge of the JWA Business Plan reserved matter.
  - Formal approval of the Full Business Case for the Fund by the City Deal Regional Cabinet in accordance with the City Deal Investment Fund Assurance Framework, with prior consideration by the appropriate advisory bodies and sub-committees of the CCRCD Regional Cabinet and which Business Case will have full regard amongst other matters, to the duties under the Future Generation (Wales) Act.
- ii) Agree to the allocation of up to £100,000.00 in revenue funding for the project development to Full Business Case.

**Councillor David Poole,  
Leader, Caerphilly County Borough Council**

**Councillor John Thomas  
Leader, Vale of Glamorgan Council**

**06 February 2018**

*The following Appendices are attached:*

**Appendix 1:** Housing Investment Report Resource Assumptions

**Appendix 2:** CCR City Deal Programme Board Candidate Observation Record

## Housing Investment Fund development stage only – Resource Assumptions v1 1 1218

Activity	Estimated Cost	Funding Source	Financial Year	Notes
External Consultancy Expertise	Up to £100,000	CCRCDC: Wider Investment Fund – Programme Development & Support Budget.	2017/18 & 2018/19	Further discussions, including with Welsh Government, Development Bank for Wales, are required to determine the exact scope of the expert consultancy support. <b>Timescale:</b> 01 Apr – 30 Sep 2018 <b>Services Procured and Contract Managed by: Housing Theme Lead / RCT Council Procurement /</b>
Procurement Support	Included in sum above	As above.	2017/18 & 2018/19	<b>Timescale:</b> 01 Apr – 30 Sep 2018 <b>Procurement Support provided by: RCT Council Procurement</b>
Programme Management Support	N/A	Not required at this development stage, but as the Fund is developed, this may be necessary	N/A	Further details will be clearly set-out in the Business Case document reported back to Regional Cabinet.
Marketing and Branding	N/A	Not required at this development stage, but as the Fund is rolled out, this will be necessary	N/A	Further details will be clearly set-out in the Business Case document reported back to Regional Cabinet.
Specialist Financial, Legal or Property advice	Included in sum above	In part included in the development funding for external specialist advice, but the roll out and Fund management will need such advice, at a cost to be determined	2017/18 & 2018/19	Further discussions, including with Welsh Government, Development Bank for Wales are required to shape proposal and will result in the Business Case document being brought back to Regional Cabinet for consideration and approval. <b>Timescale:</b> 01 Apr – 30 Sep 2018 <b>Services Procured and Contract Managed by: Housing Theme Lead / RCT Council Procurement /</b>
Development of Five Case Business Model	Included in sum above	Included in the development funding for external specialist advice	2017/18 & 2018/19	This will be the key output from this development phase of works. The format of the Business Case takes will be informed by discussions with Welsh Government, Development Bank for Wales, the Housing Theme Group and Programme Board. These discussions will give due consideration to the requirements of the Assurance Framework. <b>Timescale:</b> 01 Apr – 30 Sep 2018 <b>Services Procured and Contract Managed by: Housing Theme Lead / RCT Council Procurement /</b>

In addition to the above resources, the project will be supported internally by the ten partnering authorities via the Housing Theme Group

## **CARDIFF CAPITAL REGION CITY DEAL PROGRAMME BOARD**

### **CANDIDATE SCHEME OBSERVATION RECORD AGENDA ITEM:**

The Cardiff Capital Region Programme Board met on:

**21<sup>st</sup> December 2017**

Candidate Scheme assessed at that meeting was:

#### **Regional Housing Investment Fund**

It was agreed that that the Candidate Scheme Sponsor for this proposal is Rhondda Cynon Taf County Borough Council.

#### **Observations of the Programme Board**

The Board considered this proposal at its meeting held on 21st December 2017.

#### **Criteria for Supporting an Investment**

The criteria will be developed as part of the business case, but should include:-

- the development would not go ahead without support
- the support would be differential depending on the market conditions of the location
- the support would be tailored to ensure best use of public money
- all other areas of potential support to be fully explored before the Housing Fund.
- the development is sustainable and links to other City Deal objectives

Potential to deliver:-

- A range of housing development across the Region supporting the City Deal growth agenda
- an increase in the number of new homes delivered across the Region
- the stimulation of the SME building sector
- the safeguarding and creation of new jobs
- wider economic benefits from the growth of housebuilding
- leverage of private sector investment.

## **Business Case Development**

The Board agreed that there was a need to provide development money to develop the Housing Investment Fund proposal in order to develop a more detailed business case for consideration.

### **State Aid**

To be considered as part of the Full Business Case

### **Risk**

To be considered as part of the Full Business Case.

## **CONCLUSION**

**On the basis on the above information and analysis, the Board's recommendation to the Regional Cabinet is to**

- i) Agree in principle the creation of a City Deal Housing Investment Fund as outlined in this report, working in partnership with Welsh Government and the Development Bank of Wales to ensure the Fund is complementary to and supports other public investment funds currently available. Any agreement would be subject to:
  - Discharge of the JWA Business Plan reserved matter.
  - Formal approval of the Full Business Case by the City Deal Regional Cabinet in accordance with the City Deal Investment Fund Assurance Framework and full consideration by the appropriate advisory bodies and sub-committees, whose assessment will also include Future Generations Act pillars for sustainability assessment;
- ii) Agree to the allocation of up to £100,000.00 in revenue funding for the project development to Full Business Case.