Report to	Cabinet	**Item**
	11 November 2020	6
Report of	Director of place	
Subject	Future Housing Commissioning	

KEY DECISION

Purpose

To consider next steps in relation to housing commissioning in particular progress with regards to future delivery options for social housing and the delivery of the three previously identified priority housing sites.

Recommendation

To:

1) instruct officers to take forward proposals that build in-house expertise, capacity and resilience in a housing delivery team as quickly as possible to ensure delivery of the priority social housing schemes; and

2) note the progress that has been made on the delivery of the three priority sites and agree the timetable set out for future delivery.

Corporate and service priorities

The report helps to meet the corporate priority Great neighbourhoods, housing and environment

Financial implications

The EELGA report considers the merits of various options for housing delivery. This includes some examination of the financial implication of each option. More detailed examination of financial implications of the recommendations will need to be done if recommendations are agreed.

Ward/s: All Wards

Cabinet member: Councillor Harris - Deputy leader and social housing

Councillor Stonard – Sustainable and inclusive growth

Contact officers

Graham Nelson, director of place	01603 989205

Background documents

None

Report

Background

1. Over the course of the past year Cabinet have considered a number of reports concerning the provision of future council housing.

2. In November 2019 Cabinet approved the Norwich council housing strategy 2020-2026 that stated our council housing ambition to:

   "provide good quality, well maintained affordable homes to meet local housing needs within a safe, clean and well cared for neighbourhood.

   We want to make a difference to peoples' lives by promoting independent living and to build sustainable communities, where people take responsibility for their own lives and those of their families".

   One of the primary goals of the strategy is to meet housing need through the delivery of new homes.

3. In March 2020 Cabinet agreed to instruct the Director of Place to take forward a review of the Council's approach to the commissioning of housing development which includes:

   i) The development of a new approach to the commissioning of housing development taking full account of the Council's resources, priorities and identified housing needs;

   ii) The identification of future pipeline of sites to be taken forward for development by NRL and by other means of delivery.

4. A new housing commissioning board was set-up, chaired by the head of housing, with officers from housing, city development, finance, planning and NPSN, to agree priorities and provide oversight for this work.

5. In July, Cabinet considered a further paper which outlined the extent of housing need in the City, identified a pipeline of sites which could be used to address this need, presented the results of an appraisal of the Housing Revenue Account (HRA) business plan in order to establish the financial envelope within which further building could take place; and looked at high level delivery options open to the Council in order to undertake this delivery.

6. In addition to noting the work that had been done to date on the financial appraisal and delivery options, cabinet agreed to next steps including:

   a) to procure specialist advice to assist determination of preferred delivery option; and

   b) approve budgets to take forward design work on three priority sites for future development, Mile Cross Depot, Three Score phase 3 and Argyle Street.

7. This report updates on both progress with delivery options and on the priority sites.

Progress on Delivery Options

8. The resolution of July cabinet led the Council to seek the assistance of the East of England Local Government Association (EELGA) to identify appropriate experts to advise the Council further in relation to delivery options. The work was commissioned in August, commenced during September and was completed in October. A final version of the report produced is attached as appendix A.

9. The report explains the background to the study and the approach that the consultant team used to prepare it. Acting on advice the EELGA team kept the report as brief and readable as possible and included an executive summary.

10. It is important to recognise the scope of the work conducted by EELGA. It did not seek to identify a single preferred option for the Council to develop all of its social housing in future. The brief recognised that there would be a need for different approaches to be taken on different sites. It was focussed on how the Council was going to be able to build capacity to deliver social housing at scale in the short term and then maintain this level of building going forward over the 10 year period established by the earlier financial modelling exercise.

11. As the report has already been summarised it is not further summarised here. However, there are two main conclusions that can be drawn out from the report: firstly, the resources that are needed to deliver at the scale envisaged; and secondly; the possible options for delivery. These are considered further in turn below.

<u>Resources necessary to deliver</u>

12. The EELGA report notes that the Council through both its current level of in-house expertise, and the expertise that has been built up in its wholly owned company Norwich Regeneration Ltd, is inadequately resourced to deliver social housing at the scale and pace envisaged.

13. This conclusion is considered to apply whatever delivery route is ultimately chosen for the housing. EELGA note at pg 17 of their report that a "key 'learning lesson' that may be taken from past Council experience is the need to fully and appropriately resource to assure deliver to quality, on time and to cost. This comment relates both to building an enhanced client-side capability and development team skills and capacity, noting the specific arrangement and cost will vary depending on the delivery option(s) ultimately adopted".

14. Page 22 of the EELGA report draws attention to three particular skill sets "Taking proposals through planning process and the ability to obtain the necessary inputs from other professions from outline planning permission through to masterplanning for major sites; Surveyor skills to commission and evaluate site investigations; Clerk of works to oversee progress on-site to better control on-site quality and minimise defect."

15. On page 23 it is noted that "Typically, the cost of a full function client function is taken to be up to 2% of the development costs. We would suggest that at a minimum an in-house team with a senior manager equivalent to an MD, a development officer to manage the pipeline, a technical officer with surveying

skills and admin will cost in the region of £250k pa for direct salary costs plus associated back-office function support costs."

16. Appendix 1 to the EELGA report provides peer group examples of best practice in pursuing housing delivery available from other Councils. This provides a helpful starting point in being able to learn from experience elsewhere about the size and structure of delivery teams and how to distinguish between commissioning and delivery teams.

<u>Possible options for delivery</u>

17. EELGA were asked to examine 4 different options for delivery.

    a. In house delivery;
    b. Delivery through a wholly owned company;
    c. Partnership with a Registered Provider; and
    d. Through a joint venture with a private developer.

18. The report summarise the performance of each of these options by looking at the degree of council control, financial cost, comparative risk and ability to move at pace. A summary of advantages, disadvantages and considerations are set out in para 4.6 of the report.

19. Arising from this analysis the report concludes that options c and d are set aside. With the other two options remaining on the table for further analysis. The Council will continue to work with RP's in a targeted manner and retains the option to revisit possible joint ventures for specific schemes if appropriate in due course. The report does not finally conclude on which of the two other otions should be followed and it notes that there are merits in both options which should be weighed by the Council. However, in summary the report concludes that the arguments for setting up a Wholly Owned Company are not strong, would create an additional layer of bureaucracy and cost in the short term and importantly would take time to set up.

<u>Conclusions arising from the EELGA report</u>

20. Officer's consider the EELGA report to be a robust and well considered piece of work.

21. Following consideration of the report it is suggested that the Council should build on its current approach of having seconded expertise from Norwich Regeneration Ltd into the Council in order to progress work on the delivery of the initial priority sites that have been identified. In particular by:

    a) looking to strengthen in-house expertise and build capacity and resilence so it is able to continue and accelerate the work that has been done to date. In-house expertise has been strengthened with the temporary seoncdment of staff from NRL but it is likely that this will need to be augmented through external recruitment of specialist and experienced construction staff. A key advantage of building the team in-house is the ability to build this team at pace; and

    b) leave decisions about whether to set up a new Wholly Owned Company until a later date until after this new team has been created and the merits of this can be properly assessed. Such a review is likely to take place following a start on site on the three key sites in Autumn 2021.

22. These conclusions are reflected in the recommendations arising from this report.

Progress on delivery of the priority sites

23. Following decisions made at July Cabinet officer's on secondment from NRL have been working with officers from across the Council to move forward on the priority sites. The work to date has concentrated on the most effective way to commission design services for each of the sites.

24. In order to maximise efficiencies of the work done to date at Rayne Park, design services on the next phase of Three Score are being procured via the joint venture arrangement with NPS Norwich, to commission them to provide design, cost management and employers agent role for the next phase of Three Score. To assist this NPS Norwich will sub-contract to Hamson Barron and Smith, a Norse subsidiary, in the same way as for Rayne Park. HBS are now working up a programme and starting designs for this next phase

25. This will allow an acceleration of design through to a submission of a reserved matters application to planning in Spring 2021.

26. In relation to Argyle Street and Mile Cross it has been considered appropriate to carry out separate tender exercises to provide the same services.

27. The tender for Argyle Street is currently live, with the submission deadline being 9 November. To date over 100 expressions of interest have been received and officers expect to be commencing assessment of the final bids prior to Cabinet meeting. Due to the level of interest it is possible that the period for assessment may need to be extended slightly which may result in a contract award and work commencing in December.

28. Officers are currently working on the tender documentation for the Mile Cross project and this is expected to go live shortly with a view to selecting a team by February. As the cost of this project will be above the key decision threshold the recommendation for this contract award will be reported to cabinet.

29. A separate procurement exercise will also be undertaken to award a contract for the ground works package that is required for the Mile Cross Deport project. This will provide information to inform the foundation strategy and help to de-risk the site.

30. Revised Project timelines are provided in the attached table overleaf.

31. Officers are also currently assessing the purchase of 2 acres of land at Hethersett, which could form a fourth development site. A business case is being prepared for approval to use the Opportunities Fund for this purchase, in line with the delegated authority approved by cabinet in December 2019 and Council in January 2020. If purchased development of this site is likely to commence in 2021 and will deliver approximately 40 dwellings by 2023.

Revised Project Timelines

Task	Responsibility	Three Score Ph 3	Argyle Street	Mile Cross Depot
Project Mandate Approved	Cabinet	July 2020	July 2020	July 2020
Project Brief Approved	Housing Commissioning Board / Asset & Investment Board	October 2020	October 2020	October 2020
Outline Business case Approved	Client PM / Delivery Director - HCB / A&IB approval	October 2020	November 2020	November 2020
Procurement of employers agent / design team	Delivery Director	October 2020	November 2020	January / February 2021
Initial design work completed RIBA Stage 1	Delivery Director – HCB / A&IB approval	December 2020	February 2021	April / May 2021
Community consultation completed	Delivery Director / Client PM	January 2021	February / March 2021	June 2021
Further design work RIBA Stage 2 / 3	Delivery Director - HCB / A&IB approval	February / March 2021	May / June 2021	July / August 2021
Planning application (full or reserved matters) submitted RIBA Stage 3	Delivery Director – HCB / A&IB approval	March 2021	June 2021	August 2021
Planning permission granted	Delivery Director - HCB / A&IB approval	June 2021	September 2021	November 2021
Appointment of contractor and full technical design work RIBA Stage 4	Delivery Director – HCB / A&IB / Cabinet approval	July 2021	September / October 2021	November 2021
Start on Site	Delivery Director	August 2021	October / November 2021	December 2021
Development Completed	Delivery Director	July 2023	October 2022	December 2024
Post Project review completed inc lessons learned	Delivery Director / Client PM / HCB / A&IB – allow for 12 months defects	July 2024	October 2023	December 2025

Integrated impact assessment

NORWICH City Council

Report author to complete	
Committee:	Cabinet
Committee date:	11 November 2020
Director / Head of service	Director of place
Report subject:	Future Housing Commissioning
Date assessed:	28 October 2020

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☐	☒	☐	This represents a prudent use of financial resources to meet corporate priorities. Building in-house capacity to deliver development schemes can be capitalised against projects within the HRA and will allow greater resilience for this work. The EELGA report shows this is the option that provides the best value for money, however further work on the financial implications of the options is required. Developing social housing through the HRA allows the use of retained RTB receipts, which mitigates the risk of paying these to central Government with punitive interest.
Other departments and services e.g. office facilities, customer contact	☐	☒	☐	The secondment of staff from NRL brings intital resource to drive delivery of the 3 identified projects and also provides a revenue to NRL to cover costs.
ICT services	☒	☐	☐	
Economic development	☐	☒	☐	The delivery of new affordable housing will provide employment opportunities, opportunities for local contractors and businesses and will generate local spending for the benefit of the wider economy. Providing more housing is important in supporting sustainable economic growth and prosperity.
Financial inclusion	☐	☒	☐	Providing additional social rented housing at enhanced environmental standards will advance financial inclusion by helping to improve housing affordability and reduce fuel poverty.

	Impact			
Social (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	☐	☒	☐	Building more council homes to meet changing needs will help provide accommodation for vulnerable adults and children.
S17 crime and disorder act 1998	☒	☐	☐	
Human Rights Act 1998	☒	☐	☐	
Health and well being	☐	☒	☐	The provision of sufficient and decent quality housing is essential to ensuring decent levels of health and well being.
Equality and diversity (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Relations between groups (cohesion)	☒	☐	☐	
Eliminating discrimination & harassment	☒	☐	☐	
Advancing equality of opportunity	☒	☐	☐	
Environmental (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	☐	☐	☐	

	Impact			
Natural and built environment	☐	☒	☐	Provision of high quality new homes at enhanced environmental standards will enhance the built environment. This report will help to drive delivery of the homes that are needed at pace.
Waste minimisation & resource use	☒	☐	☐	
Pollution	☒	☐	☐	
Sustainable procurement	☐	☒	☐	Procurement of design and construction services will provide opportunities for local contractors and suppliers to bid. We would also seek opportunities for local apprenticeships and training to increase the social value of these contracts.
Energy and climate change	☐	☒	☐	There is opportunity for the new homes to be designed and built to a higher environmental standard than building regulations, which will bring benefits to both the environment and tenants, when compared with standard build types. The focus will be on reducing energy and water demands to help reduce fuel bills for residents and to assist the council with meeting the commitments to the climate change agenda. Officers are engaging across council departments to refine the specification for any new homes.
(Please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	

	Impact			
Risk management	☐	☒	☐	There are risks with all developments around cost, quality and time but these will be carefully managed throughout delivery and minimised or mitigated wherever possible. The building of in-house capacity and resilience will enable a close scrutiny of these factors on the projects identified. The building of capacity will also allow a further pipeline of sites to be identified and worked up to ensure an on-going programme of delivery over the next decade, which will help mitigate the risk of paying over retained RTB receipts to central Government in future years. Sufficient budget will be required to ensure that the capacity within the team can be built and the right resources deployed going forward. This is mitigated by the costs being able to be capitalised against development projects and RTB receipts covering 30% of the costs.

Recommendations from impact assessment
Positive
Overall this report will build capacity within the council to enable the provision of more council homes, which will improve overall affordability of the housing stock. This represents a prudent use of financial resources to meet corporate priorities and will provide local employment opportunities.
Negative
Budget will be required to build the capacity within the council, with recommendations for the skills and roles required. This is mitigated by being able to capitalise costs and use retained RTB receipts to part fund.
Neutral
Issues
Further consideration required in the future as to the financial implications of the options and the need / benefits of setting up a wholly owned company once an in-house team has been establisehed.

APPENDIX A

Improving the East

Housing Development: Delivery Options Review

Report by East of England LGA for Norwich City Council (Issued: 27.10.20)

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Appendices:

Housing Development - Delivery Options Review

Report by East of England LGA for Norwich City Council (Issued: 20.10.20)

1. Executive Summary:

Norwich City Council (NCC) is considering the options to take forward its ambitions for building new homes, specifically affordable housing. The Council already has a track record of developing sites and now wishes to accelerate delivery. It has identified the funding required to deliver up to 100 affordable homes a year together with three (3) sites which can provide some 260 units between them, with others under consideration.

East of England LGA ('EELGA') have been commissioned to provide an independent analysis of the four options the Council have identified for consideration in more depth, being:

- In house delivery
- Delivery through a wholly owned company
- Partnership with Registered Provider
- Joint Venture with a private developer

This Report is the outcome of this independent analysis. The views expressed here are based on a systematic evaluation of the current thinking within the Council, enhanced by background research together with the knowledge and experience within the EELGA team.

The EELGA team carried out interviews with Cabinet Members and senior Council officers, identifying both a degree of consensus about the strategic imperative to build affordable homes, but also some diversity of views about the preferred delivery option(s). The interviews were followed by a check and challenge workshop with the interviewees.

This Report goes on to appraise the four options in terms of the advantages and disadvantages and specific issues relating to each option, and also provides an evaluation matrix which scores each option as High, Medium or Low in terms of:

- degree of control the Council can exercise;
- financial cost (both set up and running costs);
- level of risk involved; and
- ability each option gives to move at pace.

On the basis of this analysis the Report proposes two options are set aside at this stage, being:

- Partnership with Registered Provider - the proposal to procure a preferred RP partner to develop out small sites is supported, but a greater role for RPs at this time is not.
- Joint Venture with a private developer – importantly, there was an antipathy towards this option from many interviewees. This option is costly, complex and time consuming to set-up and the benefits it can bring are more aligned to larger sites and less suited to the emphasis the Council places on delivering affordable housing.

Ultimately it for the Council to weigh the relative merits of the two remaining options and the Report provides observations to assist in coming to a final decision. In so doing, key considerations that are highlighted are:

In-house team

- A strong client in-house team is needed for all delivery options. We have suggested a minimum structure to provide the necessary skills for an in-house team, with options for a larger team with additional skills if the Council decides to manage the complete commissioning and development cycle directly. Indicative costs have been provided for a core team.

- The Council has an arrangement with Norwich Regeneration Limited (NRL), a wholly owned company, an arrangement that could continue to provide skills and expertise to an in-house team whilst it is developed and resourced.

Wholly Owned Company (WOC)

The Council already has a trading non-Teckal WOC in NRL and is considering whether to set up a sister company to NRL. This would be a Teckal company, referred to as DevCo in this Report. Considerations we have highlighted include:

- the Council could directly commission DevCo as a Teckal company to deliver affordable housing; and
- a DevCo may enable a more commercially driven Team, removed from some of the bureaucratic constraints of an in-house team; but
- there is nothing that DevCo could do that a suitably resourced in-house couldn't do;
- DevCo would involve increased set-up cost and complexity e.g. in terms of governance arrangements;
- DevCo would still need to procure a delivery partner given Teckal companies are subject to the same procurement rules as the Council; and
- we could find no examples of a WOC whose purpose main purpose was to deliver affordable housing, rather than mixed tenure or for private rental purposes.

The Report also comments on NRL as an existing WOC.

- NRL cannot be re-purposed to be directly commissioned to deliver affordable housing for the HRA because of its legal status as a Company Limited by Shares.
- NRL was set up to deliver mixed tenure and is ideally placed to take forward a pipeline of major sites on behalf of the Council.
- Setting up another WOC i.e. DevCo will not resolve the need to manage down the debt in NRL.
- Linked to this, setting up a WOC or enacting NewCo (being the existing, but currently dormant, company previously established by NCC for the purpose) to take on the PRS properties as a separate entity from DevCo to deliver affordable housing will also simply shift the problem.

In conclusion, we consider that the arguments for setting up a separate WOC in DevCo to deliver affordable housing on behalf of the HRA are not strong, but appreciate that the Council is able, and may want, to do this to create a separate wholly owned entity with potentially a more commercially driven culture.

2. Strategic Challenge / Opportunity:

Norwich City Council ('the Council' or 'NCC') wishes to build on its record of providing new housing, specifically affordable housing. To date some 191 homes have been built since 2012, funded by the Housing Revenue Account (HRA) or through developer S.106 agreements. Council led development has included the award-winning Goldsmith Street development.

The Council's housing ambitions were summarised in the new Housing Strategy for 2020/2026 (adopted in November 2019) with the aim to:

"provide good quality, well maintained affordable homes to meet local housing needs within a safe, clean and well cared for neighbourhood.

We want to make a difference to peoples' lives by promoting independent living and to build sustainable communities, where people take responsibility for their own lives and those of their families".

At present the delivery of new homes is falling well short of need, as evidenced in the Director of Place's Report to Cabinet dated 29th July this year. The strategic housing market assessment figures, together with City Deal commitments, reveal the need for some 17,074 homes to be built in Norwich over the period 2015 to 2036.

The Council currently has a retained housing stock of 14,000 properties. Right to Buy (RTB') sales are creating a replacement requirement of c. 140 properties pa and there are currently around 4,000 applicants on the Council's housing waiting list.

To help meet this housing challenge the Council has a number of advantages as a supplier to the market. For example, it has a number of wholly owned sites, either within the Housing Revenue Account or within its General Fund Account, that are suitable for development.

Three sites in particular have been identified that between them can provide some 260 units:

- Mile Cross depot site (approved at Cabinet in June 2020) - 156/200 homes
- Argyle Street, former housing site – 14 homes, and
- Three Score Phase3, adjacent to the Rayne Park development – 90 homes

Whilst these sites are not without certain site constraints and challenges, they provide the foundations of a pipeline of sites for development. Potentially, they can make a significant early contribution towards meeting local affordable housing needs.

In addition, the Council owns some larger strategic sites that could be brought forward over a longer time period to deliver up to 3,000 units, as well as a number of smaller sites with an individual capacity to deliver 5 - 20 units.

The Council has increased its housing development expertise, particularly within Norwich Regeneration Ltd ('NRL'), which it can utilise. NRL is a wholly owned limited company of the Council that was created in 2015 with the specific purpose of developing housing of mixed tenure within the City outside the constraints of the HRA. Noteworthy NRL has already produced outline business cases on behalf of the Council for the three sites identified above.

The Council has a strong commitment and focus from its Members in becoming an exemplar of sustainable housing delivery wherever practicable. This commitment is demonstrated, for example, by its wish to achieve very high environmental standards such as the internationally recognised Passivhaus Standard.

As well as developing its own sites the Council welcomes new opportunities to acquire land for development. The Council has carried out a significant amount of work, to determine how much funding is available to resource new housing. In summary, if total HRA borrowing is increased to £350m then this will fund some 75 units per year for 10 years. If the borrowing is increased to £414m then this is increased to 100 units per year (with debt repayment stretched beyond 30 years in both cases).

Having summarised the ambitions and resources that the Council possesses, The Director of Place has emphasised the need to ensure that these resources are optimised with effective and clearly defined delivery routes. To date, housing delivery has not been seamless and there have been issues concerning the best way to commission. Hence the Council's Cabinet has instructed that a number of options for housing delivery should be appraised.

These options are (quoting from the Cabinet paper):

- **In house delivery** – Maximises control but may bring operational complexities if attempt to engage in private house building. Would need to increase internal staffing capacity to deliver at scale.
- **Delivery through a wholly owned company** – Makes best use of current NRL resources, would need 'Teckal' exemption for delivery of council housing activities but would also be able to engage in private house building.
- **Partnership with RP** - May benefit from similar ethos in partner organisation. Could deliver efficiencies through use of established team. Carries some element of contract/relationship risk.
- **Through a joint venture with a private developer** – Likely to minimise cost (if contract right), cedes some control and flexibility, risk if partner is in financial difficulty.

3. East of England LGA ('EELGA'): Our Brief and Approach

3.1 Our Brief:

The Council has engaged EELGA to conduct an independent analysis of these options so that officers and ultimately Members can make an informed choice. It is noted that as part of its organisational approach the Council has already decided to appoint a Registered Provider ('RP') to develop out the smaller sites that the Council owns.

This analysis needs to be sensitive to the broader Council context in terms of its organisation and client-side arrangements for property matters. This includes the joint venture arrangements with the Norse Group and the changes being made to these.

It is understood that the Norwich Norse Environmental JV is to be replaced by a new Wholly Owned Company from 1/4/2021 and that the Norwich Norse Building JV will also be collapsed into this new entity on its expiry in April 2022. Finally, the third JV, Norfolk Property Services (Norwich) will also terminate in April 2022 and its functions will be brought in house.

These significant sourcing and organisational changes will affect the Council's client-side management arrangements and so will need to be taken into account. Appropriate client-side structures and management arrangements are being considered as part of proposals for a new senior management structure being implemented by the Chief Executive (to conclude April 2021) and ongoing work to prepare the transfer of services from the JVs with Norse to the Council's new WOC (Norwich City Services ltd).

3.2 Our Approach:

EELGA have been pleased to support Norwich City Council in the past and acquired a considerable bank of knowledge of the local context and issues affecting its organisation and people. We have gained additional insights through the joint venture review work we undertook in 2016 and the property capability and organisation review we undertook last year. This latter review touched on some of the pertinent commissioning issues the Council has now highlighted. Notwithstanding this wide-ranging background knowledge, we appreciate the need to focus on this new brief with a fresh pair of eyes.

Our approach, working in close collaboration with Council colleagues throughout, has been as follows:

1. **Information and document review**.
2. **Interviews with key stakeholders.** (See Appendix 2 for full list)
3. **Development of an Evaluation Matrix** by which the Council can compare the different approaches and appraise the options.
4. **'Check and Challenge' Workshop/Seminar** with key stakeholders (Members and officers) to test the provisional findings from the above work.
5. **Research of the key features, advantages and disadvantages** of each approach including assessing evidence, lessons learned and best practice from other parts of the country. As part of this we would explore the implications for the client-side function within the Council, since we feel that it is essential to have an appropriately sized and skilled intelligent client function in all scenarios, including in house delivery.
6. **Writing and delivering a high-level report** accompanied by a presentation summarising the options to help inform choices and decisions to be made by the Council.

Of note, in conducting our work and compiling this Report, we have relied upon data and other information provided to us by the Council – whilst we have conducted wider market and peer-group research, we have not independently verified the accuracy or completeness of the information provided to us by the Council.

Our work has only been impacted by the Covid-19 pandemic insofar as interviews and presentations have of necessity been conducted remotely rather than face-to-face as would conventionally have been the case.

Of more significance, we have had to be cognizant of the wider potential impact of the pandemic, for example in terms of the wider economic environment (e.g. buyer confidence) and development timescales. It is impossible to accurately predict the impact that the pandemic will have on the housing market, but this must be seen to have both potential opportunities and risks.

At the time of writing, the construction industry continues to work, and has done to a large extent throughout the pandemic, and the Government have ambitions to prioritise housebuilding for the future. Sales and prices appear to be holding up, with migration out of London and other big conurbations together pent up demand fuelling an uplift following the total lockdown period.

Looking to the future, as the Furlough scheme comes to an end the impact on certain sectors impacted by the restrictions imposed to control the spread of the Covid-19 virus means unemployment is expected to rise significantly, and with it the demand for affordable housing.

3.3 Our Team:

Cheryl Davenport – Project oversight (EELGA, Managing Director)
Dave Fergus – Project lead & commercial specialist (Talent Bank Associate)
Cecilia Tredget – Housing specialist and engagement expert (Talent Bank Associate)
Liz Bisset – Housing expert (Talent Bank Associate)

4. Options to Deliver Ambitions

4.1 Options Appraisal - Methodology:

This section describes the four (4) strategic delivery options which the Council is considering for taking forward its housing delivery ambitions. Each option is considered in terms of its advantages and disadvantages and any specific issues that present. Examples of successfully related peer group examples are set out in Appendix 1 to the Report. It is worth noting here that these options are not necessarily mutually exclusive and the Council may choose to deploy a combination of options, although a primary option is to be commended.

It should be borne in mind that there is an immediate priority to move to early delivery on the three sites identified in the paper to Cabinet on 29th July 2020, and a longer term need to put in place solutions to maintain a pipeline that continues to deliver new homes i.e. there may be an interim solution required to meet immediate business needs.

Having highlighted advantages, disadvantages and issues presenting, the options have been subject to a comparative appraisal by reference to an Evaluation Matrix. The purpose of so doing is to aid comparison and help rationalise a decision on the preferred option(s). The Evaluation Matrix is based upon a number of key decision-making criteria for the Council as we understand them to be; being 'Degree of Control', 'Financial Cost', 'Comparative Risk' and 'Ability to move at Pace'

We would like to take this opportunity to thank all Members and Officers of the Council who we have engaged with – there was a uniform and noteworthy openness and support to the project.

4.2 Option #1: In house Delivery

Advantages

At its simplest a strong in-house team is able to be an effective client, with the right skills to develop a pipeline of potential sites, commission and monitor development delivered through a partnership arrangement with a different body.

The Housing Revenue Account is financially strong and can afford to build a strong client team with the skills to commission affordable housing, or mixed tenure if this is used to cross-subsidize the affordable housing. Of note, the HRA cannot be used to build a team to deliver mixed tenure for profit.

The exact range of skills and the specific capacity needed within an in-house team will depend on what is to be done and/or managed in-house, both in terms of commissioning and delivery. The Council will need to decide how much control of the development it wants to retain, given parts of the development process could be done in-house or by the commissioned developer.

As a starting point, the in-house client team will need to be led by a manager with sufficient breadth of understanding of the end to end development process to be able to commission and manage contracts for development, oversee the whole process and manage the team to whom work is delegated, including those with surveyor and clerk of works type roles.

Functions to be managed will include developing a pipeline of sites, commissioning site evaluations for their potential development, site appraisal to determine most advantageous development solution and related business case preparation, taking proposals through the planning process, contract specification and agent / contractor selection and management.

At present many of the skills needed have been seconded in from NRL, but this is not considered a sustainable solution. As mentioned above, the skills that need to be established for the in-house team will depend on the extent of its role. It should also be appreciated that there is a risk that without sufficient in-house skills the Council is reliant to too great an extent on the skills of an individual or partner organisation.

An HRA funded team could commission affordable housing directly. A broader in-house team with a focus on affordable housing, but part funded through the general fund could still work with other partners to meet affordable housing needs alongside other tenures.

The Council has set up a Housing Commissioning Board with a remit to take a strategic overview of sites, and to identify the levers and barriers to delivering at pace. However, this is not considered a substitute for an adequately resourced in-house client (delivery) team with a more hands-on role.

Disadvantages

The Council is starting from a position of needing to strengthen an in-house team, which will take time. It will be in competition for attracting talent and skills with Housing Associations and developers who tend to pay higher salaries, but whose employment terms and conditions can be less generous.

The Council's internal procedures, standing orders, and the constraints of legislation relating to public bodies can create a bureaucratic drag on the ability to move at pace. This is the other side of the coin when the Council wishes to exercise a high degree of control.

Other issues

The Council has delivered schemes to a high quality in the past, and has learnt from experience, gaining knowledge about what would be needed for the next phase. This next phase can be seen as building on that experience both good and bad.

From interviewees there was a general acknowledgement that there had not been sufficient permanent resources put into an in-house team, and that now was the time to build a team with the right skills. A start had been made by seconding in skilled resources from NRL, but this is not a long-term solution.

Other local authorities have built successful in-house client teams. Recruiting individuals who are sufficiently empowered to move at pace, with drive and a commercial focus, has been a key component elsewhere. A strong team will need to recruit individuals who understand the commercial housebuilding world in order to contract as an intelligent client. In-house teams acting as commissioners should in principle remain distinct from the delivery function.

4.3 Option #2: Delivery through a Wholly Owned Company (WOC)

Regulatory Framework:

The Council currently operates two housing investment companies; Norwich Regeneration Limited ('NRL') and Norwich City New Co Limited ('NewCo'). NRL was set up to develop council owned land for social housing, private sales and private rented sector (PRS) units for profit. Newco was set up to either lease or purchase PRS units from NRL to let to tenants at open market rent (to ultimately provide the Council with an ongoing income stream). To date no transactions have gone through Newco.

The Council is considering setting up a wholly owned 'Teckal company' with the primary intended purpose of delivering social housing for the HRA, referred to in this Report hereafter as 'DevCo'.

In essence, a "Teckal company' is the common name for a company which can benefit from direct contracts for works, services or supply from its controlling Contracting Authority (i.e. the Council in this case) without having to go through a competitive tender process.

To achieve this status, the company concerned must meet two tests, being the Control Test and the Function Test. In practical terms, this means that:

- the Council must control all of the shares in the company and exercise effective day-to-day control over its affairs; in other words, the same as the relationship between the Council and one of its internal directorates (which is generally achieved through the governance structure); and
- the Company must be "inwardly and not outwardly focused" with at least 80% of its activity (turnover) being for its public sector owners

In this context, setting up a Teckal company would largely be a means to support new ways of working; including transformational changes which may otherwise be difficult to replicate within the wider Council organisation. For example, it can offer the chance for a dedicated focus on a service area, a chance for threats to become challenges to be met and/or an injection of expertise and knowledge from outside the organisation.

Of importance, NRL is not a Teckal company as it is a commercial trading company and it cannot be repurposed such that the Council could directly commission it to deliver social housing without going through a market led procurement process. It has been set up to deliver mixed tenure housing and is a business trading for profit.

Therefore, the Council is considering setting up an additional wholly owned Teckal company to develop Housing Revenue Account (HRA) owned land for social housing (DevCo).

The key question here is what would DevCo achieve that could not be achieved through an in-house team sharing the expertise from the existing WOC in the form of NRL? The following analysis is applied to setting up DevCo.

Advantages

The Council would be able to exercise a strong degree of influence but not direct control through the Board of Directors. The Company would be a separate legal entity at arms-length to the Council and the primary responsibility of the Board is towards the interests of the Company (not the Council). The Council would exercise this influence primarily in its capacity as shareholder through the Governance structure, for example in terms of using retained powers over key business matters including the appointment, dismissal and remuneration of Company directors, approval of the annual business plan and so forth.

Subject to the preparation and sign-off of an appropriate business case, the Council can set up DevCo without going through an OJEU procurement process and then directly commission it to deliver social housing. Of note, the Teckal company would still need to go through a procurement process for delivery given it is equally bound to follow Public Procurement Regulations as is the Council itself.

The arm-length status of a WOC means that it could be empowered to take a more commercial approach than an in-house team and may be able to more easily attract talent from the market (although the recruitment challenge remains in common with the in-house option). Further, it could be relieved of some, if not all, of the restrictions inherent with working within the main Council organisation.

DevCo would need to be set up as a Council wholly owned separate sister company to NRL i.e. not be a subsidiary of NRL or part of a trading group. The reason for this is that DevCo could not achieve the necessary Teckal compliant status if it were either a subsidiary of a non-Teckal company (i.e. NRL) or part of a group of companies including a non-Teckal company (e.g. NRL). In turn, DevCo would need to have its own Board of Directors and staff, but these could in principle be shared with NRL, building on expertise that is already in place.

Disadvantages

The Grant Thornton report commissioned by the Council (‘Advice on Company Models – February 2020) advised that it is not necessary to set up a Teckal Company as the company would still need to procure a deliverer and all pre-contract work could be undertaken by an in-house team.

Setting up an additional company structure will inevitably incur costs and add complexity to delivery. A company structure is not a guarantee of business success. It is vulnerable to underperforming, for example if the company does not attract and retain staff and Board members with the right skills.

Because DevCo would be a WOC it is not permissible under law to transfer RTB receipts to fund the staff posts employed by the company as RTB receipts cannot be transferred in this way. However, it would be possible for the HRA to purchase housing delivered by the DevCo using a proportion of retained RTB receipts.

Other issues relating to NRL

The Council wants to move at pace on three sites that are ready for development the solution for this may be different from putting in place structures for the longer term which are resilient and have longevity.

The purpose for which NRL was set up is still relevant, and NRL is evidently seen within the Council as a significant asset in terms of the accumulated skills and experience now embedded with the company. If the Council still wants to develop mixed tenure sites in the future, including for affordable/social housing, then should the focus be on strengthening NRL and/or leveraging up its resources?

NRL could deliver the housing on these three sites but there are constraints to this. The Council could not simply transfer the sites to NRL and directly commission their delivery without going through some form of a procurement process.

NRL holds a net trading debt of c.£6 million. The options for either paying down this debt over time or considering it as a potential tax asset need to be seen as a separate business decision, developed through the NRL Business Plan, which we would consider is currently at an aspirational stage awaiting greater clarity of its scope and role.

In terms of business planning, we would commend that a ‘whole system’ approach be taken to understanding total organisational cost and return. Considering the performance of NRL in isolation does not provide a full financial picture. This is because it would not reflect the material financial benefit the Council derives from levying an interest premium on NRL debts or the contribution it derives from support service charges made to the Company (which in turn represent significant operating costs to the Company).

NRL has new governance arrangements which strengthen the NRL Board with the addition of two new Non-Executive Directors with commercial experience. This is a welcome addition, although their influence on the future of the Company is as yet unproven.

In the course of our research we did not identify peer group examples of a WOC exclusively delivering affordable housing. The peer group practice is for such vehicles to deliver either mixed tenure or to develop PRS assets and income exclusively.

4.4 Option #3: Partnership with a Registered Provider

Norwich City Council had well established relationships with locally based Registered Providers (RPs) to deliver affordable homes on smaller sites. There is an expectation that Housing Associations, will continue to deliver on smaller Council owned sites over the next 5 years, providing around 25 new affordable homes per annum at current activity levels.

Advantages

Many RPs come with the experience of managing well developed pipelines of new homes, most often a mix of affordable rent and shared ownership, but also some market housing for sale to cross subsidise building more affordable homes. This means they will have the established skills, experience and capacity to develop with a proven track record of delivery.

The Council has good working relationships with some RPs, who are considered to be trusted partners. Historically RPs have been the recipients of Right to Buy receipts which, if not spent, would have to be passed to the Government with interest. At a time when the Housing Revenue Account was severely constrained by a combination of a four-year rental freeze and a cap on borrowing, recycling RTB receipts through RPs enabled the Council to secure additional affordable housing for the city, sometimes at social rent, with the Council gaining nomination rights. RPs are generally considered to provide good quality homes across tenures.

In the short to medium term, it is likely that RPs will still be needed to develop on smaller sites and to recycle RTB receipts. In the longer term, the HRA is now in a financially healthier position and so may seek to recycle a greater proportion of receipts to replace its own stock.

Disadvantages

If the Council were to seek to establish a Partnership with an RP to deliver Council homes at scale this would require a different type of relationship whereby RPs developed Council homes, sharing both the risk and reward of development. It would require a contractual legal framework to be put in place to protect both parties' interest, typically as a Joint Venture (JV). In this sense it would be no different from contracting with any other delivery vehicle. It would be a contractual relationship, albeit with an organisation with a social purpose. The partnership would need to be of benefit to the RP as well as the Council, most likely either in the form of an income stream or new homes for them.

Some Councils have used the resources of an RP as an alternative to developing a strong well-resourced Council client team. While many RPs do have substantial in-house development teams these are not necessarily of a size that could easily take on an additional Council programme, deliver at pace and/or offer significant cost efficiency potential. RP based consortium development vehicles exist which some Councils have bought into, but again these tend to be an alternative to a strong in-house client team.

Other issues:

None of the people interviewed saw RPs in a leading developer role, or as providing an alternative client function. The views expressed coalesced around a view that the current approach to working with RPs was the right one, with a preference for working with RPs with locally based roots.

RPs are independent organisations governed through their Board who decide the strategic direction and priorities for the organisation. They are also heavily regulated by Government which can have a major influence on priorities within the organisation.

Although this has not been tested, it is debatable to what extent an RP would work to a Council agenda or would want the added burden of delivering homes for a partner in preference to delivering homes to add to their own portfolio.

4.5 Option #4: Joint Venture with a Private Developer

A housing delivery Joint Venture (JV) with a private developer typically involves the Council providing land and/or capital and the partner providing the commercial expertise from pre-application through site investigation to build out of a site and usually also capital funding. JVs are typical for mixed tenure sites of scale that generate a profit which can be shared between partners together with a degree of risk.

Advantages

A private developer would bring experience of delivery, sales and marketing, especially on larger schemes. This brings a commercial perspective to the development of sites. The sharing of both reward and risk in JVs provides an incentive to deliver at pace and to deliver the right product for the market. These considerations are less relevant for the delivery of social housing.

JVs can be legally structured to give each party equal control where schemes cannot go ahead without the agreement of both parties. This provides the Council with a greater degree of control through their appointed Directors, but this control is not direct. If the JV is structured so that there is no overall control the Council can use its RTB receipts for the development phase as costs are incurred.

The cost of the build when developing through a JV is potentially less than through procuring a developer partner through a more traditional route and reduces internal overheads. This outcome is a function of risk / reward sharing (noting the Council's risk appetite has not been tested in this regard) and deployment of market expertise together with the ability to operate a 'thin' client. JV partners can bring added value such as establishing a local office, local apprenticeships and a commitment to use local firms where possible.

Disadvantages

JVs are typically costly and complex to set up, often taking 12 to 18 months. There is a full procurement process required (often competitive dialogue based) in which both sides take separate advice to consider the legal agreements and this can take time and resources.

Market appetite to engage may be uncertain and the Council cannot simply self-select a preferred partner.

Once set up the degree of control or influence that the Council can have will be based on the contract and the purpose of any JV.

There remains a need for a strong client team with the requisite commercial and technical skills to manage the JV partner. Without this there is a risk that the JV will not work sufficiently to the equitable benefit of both partners.

As a business enterprise a JV is not a guarantee of success. In the extreme partners can go into administration as in the well-publicised case of Carillion, but even if they remain sound the JV can be competing with other priorities within the business. Further, other issues such as bearing the cost of specification variations and remediations can become contentious.

Issues

No-one interviewed saw JVs at scale as the Council's preferred solution. This view was undoubtedly coloured by the recent experience with Norse. JVs were also considered to have a natural life-cycle, delivering well at the beginning, but tailing off over time when focus shifted to other priorities. They were not seen as having longevity and possibly serving a shorter-term purpose.

There is a strong political drive to deliver social housing and the commercial nature of JVs is not aligned to this being the primary purpose for delivery. The commercial focus means that JVs are less well matched to smaller sites, which the Council may want in time to develop themselves, rather than through RPs as now.

4.6 Comparative Options Summary: Advantages, Disadvantages & Other Considerations

Feature	**Option #1:** **In-House**	**Option #2:** **WOC**	**Option #3:** **Partner with RP**	**Option #4:** **JV Partnership**
Advantages	• Simplest structure and common peer-group practice. • Sufficient HRA budget to support. • Greatest degree of control. • Can use RTB receipts directly.	• Can be more commercially orientated than in-house option. • Have skills in NRL, could leverage in creating sister company. • Strong influence through Board incl. Council nominees • No OJEU process to commission • Limited ability to develop profitable income streams from non-council sources (in line with Teckal rules).	• Trusted partner typically. • Experienced at managing pipelines. • Developed smaller NCC sites. • Can transfer RTB receipts to RP (for own stock). • Could be an alternative to larger in-house client function.	• Developer brings commercial skills and experience. • Legal structures can give 50:50 control. • Build costs can be lower. • Shared risk and reward. • Added value potential e.g. apprenticeships, local offices etc.
Disadvantages	• Would need to recruit skills and develop capacity. • Bureaucratic drag may work against commercial focus. • Using HRA not sufficient to replace stock lost through RTB.	• Would need to recruit skills and develop capacity. • Legal advice says not necessary • Would still need to resource up and procure delivery • Cost of set up and oversight/management. • Business success not guaranteed.	• If role changed to main developer would need to have a JV or similar • Cost and time to set up new legal partnership • Doesn't develop NCC in -house development expertise.	• Costly set up • Least direct control for NCC • Would still need strong in-house client team • Less flexibility to respond to changing circumstances e.g. C-19 pandemic. • Doesn't develop NCC in -house development expertise.

<table>
<tr><th>Feature</th><th>Option #1:
In-House</th><th>Option #2:
WOC</th><th>Option #3:
Partner with RP</th><th>Option #4:
JV Partnership</th></tr>
<tr><td>Considerations</td><td>Builds on past experience of schemes
Other Local Authorities have built successful delivery arms.
Needs to have a genuine commercial orientation and edge (cultural challenge)
Second/share NRL skills</td><td>Could treat identified ready sites separately from longer term aspirations
NRL can still deliver mixed tenure, and have strengthened governance
Not a solution to NRL debt.
No other examples of WOC to deliver exclusively for the HRA found.</td><td>Not considered by NCC as potential lead developer
Has own governance structure and own drivers</td><td>View of JVs impacted by Norse experience
Not well aligned with NCC values - social purpose</td></tr>
</table>

4.7 In-Common Issues:

Each of the four options above need to be considered against the backdrop of a number of in-common issues as detailed below:

Resourcing (Including Team Recruitment):

A key 'learning lesson' that may be taken from past Council experience is the need to fully and appropriately resource to assure deliver to quality, on time and to cost. This comment relates both to building an enhanced client-side capability and development team skills and capacity, noting the specific arrangement and cost will vary depending on the delivery option(s) ultimately adopted.

Of specific note, for both the In-House and WOC options, an in-common challenge is building a suitably skilled, competent and resourced team. Whilst it is perceived as being easier to recruit from the market to the WOC, the challenge to develop the company and bring in the right people and skills remains, which would take time under either option.

Governance & Oversight:

The Council has recently set up a Housing Commissioning Board (HCB) with a remit to take a strategic overview of sites, and to identify the levers and barriers to delivering at pace. This should prove to be a significant advantage as it provides a means the Council to support a joined-up approach including considering a development pipeline over time reflecting on the most appropriate option as funding opportunities as market conditions change, and a strategic forum to make recommendations to Members. The Commissioning Board is already considered to be working well and fulfilling its objectives. It is not however a substitute for an adequately resourced in-house client (delivery) team with a more hands-on role.

Above and beyond the HCB, there is a need for strong governance, effective oversight and client-side management of the chosen delivery arrangement(s) – this has been recognised by the Council and recent progress made in strengthening the governance of NRL is encouraging.

Right to Buy ('RTB')

At present the Council has a loss of c. 140 per annum through the RTB. Internal modelling shows an HRA financial capacity to deliver 75-100 homes a year. We would therefore conclude that other routes to increasing the flow of new Council homes are needed to supplement this, using other models under consideration.

In all models of delivery Council homes will be subject to the Right to Buy, although newer homes have a higher value and are therefore less likely to be bought by those on lower incomes.

The rule for the use of RTB receipts prohibit Councils transferring these funds to WOC in which the Council has a controlling interest, although they can be used to purchase properties from a WOC, but not up front before the build costs are incurred. This means effectively that there are no advantages to the ability to spend RTB receipts through setting up a WOC.

Robust business planning:

Robust business planning is critical to ensure delivery of the strategic imperative and full benefits realisation at an acceptable risk against the backdrop of uncertain market conditions (especially for NRL). In so doing, adopting a 'whole system' approach to organisational cost and benefit is commended. As an observation, as previously detailed, viewing the performance of NRL in isolation would not reflect a full financial picture given it omits the financial benefit the Council derives from levying an interest premium on NRL debts or the contribution derived from support service charges made to the Company.

4.8 Evaluation Matrix:

Feature	Option #1: In-House	Option #2: WOC	Option #3: Partner with RP	Option #4: JV Partnership
Degree of Council Control	**High** • Direct employees with oversight provided by senior officers / Members in line with the Council's well-established and defined democratic framework.	**Medium** • Company would be 100% owned by the Council but operated at arms-length basis. • Governance through the Company Board, meaning strong influence but not direct control.	**Low to medium.** • Can specify required outputs if partner is procured. • Builds on existing relationship of trust but RPs have their own governance structures.	**Low to medium.** • Can specify required outputs. • Control is contractual and depends on way JV is structured (but unlikely to be more than 50:50).
Financial Cost (Baseline: In-House Option)	**Establishment:** • Simple, lowest cost option (i.e. Low) **NCC Internal / Governance:** • Minimal internal 'client' required but comparative operating cost disadvantage ref Single Status and fixed overheads (i.e. Low) **Housing Development (i.e. delivery):** • Makes fullest use of internal resources, but less likely to	**Establishment:** • Relatively straight-forward, additional cost and time e.g. preparing Business Case, establishing legal entity etc (i.e. Medium) **NCC Internal / Governance:** • Requires more NCC oversight resource. • Additional cost of company governance e.g. NED's and Chair (i.e. Medium) **Housing Development (i.e. delivery):** • Commercially orientated and flexible approach may result	**Establishment:** • Additional cost and time of establishing JV arrangement under contract (i.e. Medium) **NCC Internal / Governance:** • Requires NCC contract / relationship management resource. (i.e. Medium) **Housing Development (i.e. delivery):** • Leveraging up on existing RP skills and capacity may provide	**Establishment:** • Significant additional cost and time of establishing JV arrangement under contract (i.e. High) **NCC Internal / Governance:** • Requires dedicated and specialised NCC contract / relationship management resource (i.e. Medium to high) **Housing Development (i.e. delivery):** • Leveraging up on existing Partner skills and capacity can

	be lowest cost delivery option, especially on larger sites (i.e. Medium)	in marginal cost advantage (e.g. arising through quicker decision making and/or ability to engage in a more commercial manner with contractors) but ultimately this is restricted by the need to comply with Regulations as per In-house option e.g. procurement (i.e. Low to Medium).	modest cost advantage but value sharing will erode (i.e. Low to Medium)	provide cost advantage, especially on larger / mixed schemes. • Advantage less evident for smaller / less commercially attractive schemes (i.e. Low to Medium)
Comparative Risk: (See note below) (Baseline: In-House excl. Control aspect)	**Low to Medium.** • Dependent upon resourcing, competence and empowerment of the team.	**Medium.** • As per In-house option • Subject to additional risk of business failure and indirect control.	**Medium.** • RP are a proven delivery route, but they have their own drivers, which may not align with NCC's. • For RPs risk management is important for their financial viability scores	**Medium to higher:** • No guarantee of competence or longevity.
Ability to move at pace	**Medium to High:** • Quick to implement • Could advantageously leverage up on NRL in short to medium term. • Ultimate pace influenced by Council procedures slowing decisions down.	**Medium to High:** • Relatively quick to implement • Greater autonomy may increase pace although ultimately subject to same statutory restrictions as In-house e.g. re procurement.	**Medium:** • Would require formal partner selection process to operate at scale (i.e. initial delay) • Programme management and delivery capacity untested.	**Low to High (Phase Dependent):** • Would require extended formal partner selection process (i.e. significant initial delay) • Strong pace possible thereafter.

Note: Comparative Risk: Risk is multi-faceted, including aspects of quality, cost, delay, business failure, reputation damage and so forth. This section only highlights aspects of comparative risk which are considered of such significance in terms of deliverability as to warrant specific comment. The next phase of business planning should as a matter of course include more detailed consideration of risk in all its aspects together with its mitigation.

5. Our Observations:

The Cabinet has narrowed its options down to the four that we have described in the above sections.

Ultimately, it is not for EELGA to determine the preferred option(s) for the Council, that is a matter for political decision making.

That being said, on the basis of our knowledge and experience of each of these options, aligned with our understanding of what Norwich City Council wants to achieve, both corporately and within this specific strategic strand of work, we would propose setting aside further consideration at this stage of two of the options, being expanding the role of RPs to be the primary deliverer or setting up a joint venture with a developer.

5.1 Options proposed to be set aside:

Option #3: RPs as primary deliverers

Rationale: The Council has developed a successful model of working with RPs to develop smaller sites, delivering much needed affordable housing for the City, some of which has been at preferred social rents. This also enables the Council to utilise RTB receipts which might otherwise have to be paid back to Central Government with interest. There is no reason not to continue with this model.

At some point in the future, depending on the longer-term model of delivery finally adopted, the Council may be able to develop smaller sites directly itself, utilising RTB receipts, so that the housing is council stock not owned by RPs. Nevertheless, we think that the approach to procure a preferred RP partner for the next 5 years set out in the paper to Cabinet by the Director of Place is a sensible one. Selecting a preferred RP partner may also provide the Council with additional flexibility in the future should it wish to increase the amount of housing it develops, working in such partnership(s).

Option #4: Joint Venture (Commercial sector partnering)

Rationale: Joint ventures are typically set up to deliver a return on investment though the delivery of mixed tenure sites. They are most often used for programmes with large sites that will benefit from the combination of expertise and the cash investment that the developer brings. Successful JVs deliver a profit back to the Council which can be used to support other priorities. But this profit, and any risk, has to be shared between the Council and the development partner.

The Council already has a WOC (in NRL) that has been set up to deliver mixed tenure development. In our opinion, it would be preferable to concentrate on making the existing model work for Norwich, rather than embark on a costly and time-consuming process to secure a commercial sector development partner through a JV.

It is worth adding that at this point in time the impact on construction and house sales as a result of the pandemic is unknown, but if unemployment rises as expected then this could have a significant impact on housing market sales. The ability to flex tenures, as happened at Goldsmith Street, could potentially be more difficult through a JV than through NRL as a WOC.

Finally, and importantly, we did not come across a strong advocate within the Council for creating a new JV. Given the cost and complexity of both set up and management of this option, it is not really a viable option without the support of the organisation to make it a success at this point in time.

5.2 Options to take forward:

Option #1: An in-house team

Rationale: A strong in-house client team is needed whatever option is chosen to go forward. Norwich is no different from any other Council with aspirations to build homes in that they will need another developing organisation to construct for them. The exact range of skills needed will depend on what is done in house and what is done by a delivery vehicle. At a minimum an in-house client team should probably include skills & capacity in the following:

- A senior manager responsible for the team with a sufficient breadth of understanding of the end to end process of developing new homes to be able to both commission and manage contracts for development, able to oversee the whole process and delegate to others.
- The ability to develop a pipeline of sites, and to commission site evaluations for their potential for development.
- Contract management, including understanding different models of contracting, tendering or commissioning, contract management and evaluation.
- The ability to use and evaluate financial modelling tools for development options including appraisal of all costs and payback periods.
- Employers agent to represent the clients' interest pre and post contract where these skills are not present in-house (noting many Council's choose to buy this service in)

The Council will need to decide how much control of the development it wants to retain. There are a number of parts of the process that can either be done in house or by the commissioned developer. Developers prefer to have sites that have been through an appraisal process and have been de-risked to an extent by more extensive site evaluations, but this is a decision for the Council in terms of how much control (and risk) it wishes to retain over the product in the early stages. Skills which can sit either in the commissioning or the deliver side include:

- Taking proposals through planning process and the ability to obtain the necessary inputs from other professions from outline planning permission through to master-planning for major sites
- Surveyor skills to commission and evaluate site investigations
- Clerk of works to oversee progress on-site to better control on-site quality and minimise defect.

In the short term it is possible to continue to work within the current arrangement in which the Managing Director of NRL is seconded for 50% of his time to the City Council e.g. in terms of accelerating pace on the three specific development sites which the Council wishes to prioritise. If NCC retains and grows NRL with a fully developed and suitably ambitious supporting Business Plan to turn around its fortunes, as is our recommendation, then we would suggest NRL will presently require the full-time commitment of its MD.

In practical and pragmatic terms, we can foresee there being a transitionary period of (say) the next two years whereby the Council draws upon the skills and expertise of the staff of NRL to expedite progress on the three (3) identified sites and whilst a suitably skilled, competent and resourced in-house team is recruited and developed. In tandem with this, it is understood there is sufficient management capacity within NRL to continue to advance the work of stabilising and turning around the Company.

Typically, the cost of a full function client function is taken to be up to 2% of the development costs. We would suggest that at a minimum an in-house team with a senior manager equivalent to an MD, a development officer to manage the pipeline, a technical officer with surveying skills and admin will cost in the region of £250k pa for direct salary costs plus associated back-office function support costs.

Option #2: WOC

Rationale: We understand that the Council is thinking about the future of NRL, and whether as part of these considerations to set-up another WOC to take forward future affordable housing sites. On the basis of advice obtained by the Council, any such new WOC would need to be a distinctly separate company from NRL, although in nature it would be a 'sister' given the in-common ownership and primary operating purpose (being housing development).

Setting up a DevCo to deliver affordable housing

- It has been suggested to us that a new WOC, DevCo, could be used to focus on affordable housing for social rent and utilise some unspent RTB receipts. As a separate Teckal compliant company, DevCo would enable the Council to directly commission and purchase affordable housing. But this would not circumvent the need to procure a delivery partner prior to purchase under Public Procurement Regulation.
- There is a recognition that a WOC company must be staffed by skilled individuals, recruited for that purpose, and not Council officers fitting this in with their day jobs. It may be easier to attract and retain skilled individuals to a WOC operating with fewer constraints than an in-house team. It may be as a consequence that, operating at arms-length to the Council, a DevCo WOC could have a more commercially aligned culture and so it could take a more business-like approach to delivering affordable housing and be more agile, taking forward sites at a quicker pace.
- With RTB receipts accumulating, in the short term, we would suggest that the Council will get better value for money from commissioning the development of sites directly through a client team, possibly using the seconded expertise of NRL, in order to get a pipeline moving.

- To comment further on the view that a new WOC could be used to focus on affordable housing for social rent and utilise unspent RTB receipts, there are no advantages in terms of speed of allocation as RTB receipts cannot be used until costs have actually been incurred. This means they cannot be used for set up costs, or on the basis of a contract for work, and can only make payments for build costs once the development is underway.
- There is nothing that a DevCo WOC can achieve that could not be achieved through a suitably resourced and empowered in-house team (accepting that to achieve this status this presents an internal organisational challenge).

Retaining and Developing NRL:

- NRL cannot simply be re-purposed to meet the need to deliver affordable housing for the HRA – fundamentally speaking, it has a different legal status.
- NRL has been set up with the purpose of delivering mixed tenure homes. It has delivered sites that NCC are proud of, although in the process, largely down to a previous lack of skills and experience, costs, timing and market failures have historically contributed to NRL now having a large debt on its balance sheet. NCC have addressed these issues by recruiting two staff with a commercial sector background, who have made a significant impact in terms of stabilising the company and demonstrating their delivery capability. In tandem, Company governance has also been strengthened.
- We believe that NRL has the potential to meet its intended purpose i.e. continue as a successful WOC with an enhanced staff team with the right skills, and a strengthened Board with Non-Executive Directors with private sector experience.
- NRL is ideally placed to take forward for development a pipeline of major sites for mixed tenure, which can include affordable housing that the Council can purchase for affordable rent, ideally social rent.
- We believe that setting up another WOC would not resolve some of the organisational difficulties that have been evident in terms of past delivery – creating another WOC would in essence shift the problem to another delivery vehicle which cannot be fully integrated with NRL and for whom the Council is still responsible.
- In terms of NRL, it is better in our opinion to manage down net debt within NRL, explore its potential as a tax asset against which future profit can be absorbed until a loss free position is attained, at which point the Council could enjoy a dividend income stream. In considering the financial condition and contribution of NRL, we do commend taking a whole system cost approach, recognising the significant financial contribution the Council has, and continues to, enjoy through interest premium and support service charges.
- NewCo (currently a dormant company) has been described in the Grant Thornton report as a possible device to take on loss making PRS properties. This in our view simply transfers the problem. NewCo would need to purchase at market value and would still need to manage the properties. If the properties were sold to manage the debt there is little difference in terms of reputational risk of these being sold by an existing or a newly created WOC.

- We could find no examples of wholly owned Teckal companies whose main focus was to deliver affordable housing. In contrast there were many examples of similar sized councils whose client teams directly managed HRA contracts.

5.3 Concluding Remarks:

We are aware that the Council has identified three (3) priority sites for housing development, mainly for affordable housing, and another in the pipeline, and that there is a desire to move at pace to deliver these sites. The Housing Commissioning Board is already playing an important role in thinking strategically about pipelines and future delivery.

Having set aside the options to focus delivery through a Registered Provider or a Joint Venture with a developer we have gone on to carefully consider the two remaining options – that is to build an inhouse team or set up another WOC that is Teckal compliant.

Under either of these two scenarios NCC will need to build a specialist team to deliver its ambitions. NCC does not currently have the capacity to deliver and addressing this should be the priority. This being the case in the short to medium term the best and most straightforward option is to build the in-house team and start delivering against the priority sites.

Creating another WOC creates an additional layer of bureaucracy and cost in the short term and importantly would take time to set up. NCC has seconded expertise from NRL to help develop options for the sites in question which is a pragmatic approach. The focus should now be on delivering those schemes.

Over the medium term, the Council could consider the merits of setting up a WOC and transferring the team into it if this is more advantageous, but we would argue this should not be the starting point.

Appendices:

Appendix 1: Peer Group Examples from Elsewhere

Appendix 2: List of Interviews Held

Appendix 1: Peer Group Examples from Elsewhere

Option	Local Authority	Key Information	Key Points
	Norwich City	District 152,150 * stock holding 14,725	
In house delivery	Southwark Council	London Met Pop 244,866 stock holding 37,693	• Public commitment to build 11,000 new council homes by 2043 and 2,500 by 2022 • Currently considering 80 council owned sites including small garage sites and large-scale densification of council estates • In house team engages architects and other external consultants
	Dacorum Council	District Pop 154,763 stock holding 10,500	• Public commitment in 2013 to build 300 council houses by 2020 • Took completion of 300th home last week • Sites include units for sale to cross subsidise social rented units • Governance includes a New Build Project Board chaired by the Portfolio holder for Housing and made up of all relevant officers • In house team of 6 including Housing Development Manager, Project manager and 4 housing development officers. Also employ their own clerk of works. • Aim to help housing associations build 150 affordable homes per annum
Delivery through a wholly owned company	Oxford City Council	District Pop 152,450 stock holding 7,529	• Set up 2 Wholly Owned Companies in 2016 Oxford City Homes Ltd and Oxford City investment Ltd • Using Oxford City Homes Ltd to build 541 affordable homes and private development • In house development team of 10 sell services under SLA to OCH Ltd which remains a shell • Recently appointed a new MD of OCH Ltd – employed by council • Got off to slow start but now building social rented units

	Telford and Wrekin	Unitary Pop 174,781 not stock holding	• Set up a General Fund WOC in 2015 to build 425 homes on 8 sites • The WOC constructs, operates and maintains the homes in its branded organisation Nuplace https://www.nuplace.co.uk/info/1/about_nuplace
Partnership with RP	Brighton and Hove	Unitary Pop 279,652 stock holding 11,563	• 50:50 Partnership with Hyde Housing Association to build 1000 new homes • 50% at sub-market "living wage" rents
Through a joint venture with a private developer	Kings Lynn and West Norfolk	District Pop 151,811 stock transfer 2008	• Contract with Lovell house builder in 2013/14 to build 1000 homes • The partnership is based on a contract for the pre-site work/ planning then the other for construction. • Includes added value - local office and apprenticeships and a profit share and super profit share model • First contract for 600 homes. 360 sold and 15% affordable • Set up a RP (West Norfolk Housing Company) and this has 40 General Needs houses that they lease on block to Broadland HA • Small in-house client team
Mixed approaches	Central Bedfordshire Cambridge City	Unitary Pop 283,606 stock holding 5,196 after partial LSVT District Pop 136,810 stock	• Has a programme of developing HRA sites in-house, and a wholly owned company limited by shares to develop non-HRA owned sites. • Ability to create and retain stock with a wider range of tenures to meet needs not provided by the private sector or within the HRA. This includes market housing for sale, affordable rent, housing for older people, specialist housing, and homes to rent for large families. • Share expertise between the in-house team focused on delivering housing for the HRA and the wholly owned company. • Originally an in-house team that delivered exclusively for the HRA including schemes which benefitted from cross subsidy from market units.

		holding 7,074	• Now evolved to an in-house team that works through an Investment Partnership with Hill Residential, set up as an LLP with 50:50 representation on the IP Board. • The IP is a version of a Joint Venture. • Retained an experienced in-house client team, and benefit from the commercial expertise of their partner • The partnership has been used to develop major sites with a mix of affordable rent and other tenures.
	Essex Housing	County Pop 1,832,752 not stock holding	• Have been developing commercial and affordable housing for sale with an in-house team and SLAs with internal departments • Developing in partnership with other Essex district authorities • Overheads (staff, insurances, accommodation etc) £600k per annum but cap it at 2% of total development costs. Currently have 15 staff.

*Population figures 2019/20 estimates

Appendix 2: List of Interviews Held

Interviewee	Role
Members:	
Cllr Alan Waters	Leader
Cllr Gail Harris	Deputy Leader & Social Housing
Cllr Mike Stonard	Sustainable & Inclusive Growth
Cllr Paul Kendrick	Resources
Officers:	
Stephen Evans	CEX
Graham Nelson	Exec Director, Place
Bob Cronk	Director of Neighbourhoods
Dave Shaw	Managing Director, NRL
Lee Robson	Head of Neighbourhood Housing Services
Anna Scholes & Hannah Simpson	S151 / Strategic Finance Business Partner