

Winchester City Council Housing Development Strategy

2014/15 – 2018/19



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Foreword by Cllr Steve Miller

Winchester City Council Portfolio Holder for New Homes Delivery

Welcome to Winchester's revised development strategy for new Council homes.

Our District has many enviable qualities. But as a direct consequence of being a great place to live, it is also a difficult place to find good quality, affordable housing. That matters, because we need people of all ages and incomes to live and work in the District.

So to support our economy and provide a balanced community we have to try to meet housing need in a way which is not happening at the moment. It's a national issue and the Council can't solve all the problems of the housing market on its own. But to make a contribution, we have embarked upon an ambitious programme of building new Council homes. These will add to the homes we already own and manage to increase the opportunity for people to rent a good quality home at an affordable amount.

In the strategy we set out what we will aim to build, and explain how we will decide where to build. We also set out how we will determine whether development is financially viable when choices have to be made.

Our ambition is about more than just building houses, it is about building communities. We want to develop homes that we are proud of and integrate them successfully into our existing neighbourhoods.

We create mixed, inclusive communities and support the local economy and service provision. That's why our priority will be homes for young people, working families on low wages and local workers, as well as for older persons and the most vulnerable members of our society.

Of course we are not the only providers of affordable homes. Other organisations, most particularly our housing association partners, will still have a crucial role to play. We will continue to work with them because we have a common goal of new housing provision. The City Council's aim is to make more houses available in addition to those provided by housing associations.

Unfortunately we can't solve the all the problems people have with finding an affordable place to live. But our new homes strategy will get us building Council houses again and everyone who lives in one will be pleased that we made the effort.

Cllr Steve Miller

Winchester City Council's Portfolio Holder for New Homes Delivery

1. Introduction

Winchester City Council owns around 5,000 council houses providing a variety of good quality homes for our tenants. Successive governments have discouraged local authorities from building new houses preferring to see housing associations providing new 'affordable' homes. Now, for the first time since the 1980's, the Council does have the ability to build new housing stock. This has come about because we can now use surpluses within the Council's Housing Revenue Account (HRA) to build new homes rather than pay them to the government.

We have worked out the amount we can spend on new homes by putting together a business plan for the HRA. First and foremost this provides for maintaining our existing stock and ensuring that our tenants have the good quality homes they pay for. The business plan demonstrates that even after allowing for this, there is money available to build approximately 30 new homes a year for the foreseeable future.

In this strategy we sets out what the Council intends to build, for whom and how we will ensure that we deliver high quality affordable homes in a cost effective way. We will set out our overall aims for the next five years and what added value and initiatives our development programme can bring to the local environment and economy. The Strategy will form the framework within which Winchester will evaluate development opportunities and decide whether to proceed with a project.

This strategy will evolve as plans evolve and will be formally reviewed on an annual basis.

2. Development Objectives

The Winchester Housing Strategy 2014/15 to 2018/19 sets out in detail the context within which Winchester will be developing new homes. This development strategy shows how new Council homes will help to meet some of the objectives of the strategy.

Housing Strategy Vision

To make sure that everyone in the District has the opportunity for a good quality of life, now and in the future by ensuring communities are sustainable and inclusive and, in particular, by supporting local people in accessing high quality, affordable housing to meet their diverse needs.

The Winchester Housing Strategy Priorities

1. To maximise the supply of high quality affordable housing in urban and rural areas
2. To improve the housing circumstances of vulnerable and excluded households.
3. Supporting local people accessing high quality and affordable housing which meet their needs.
4. To make best use of housing.
5. To support our residents

Our primary objective is to provide new homes for those on the housing waiting register. In particular we will, wherever possible, create new homes that are suited to those with particular needs which are not currently being met by existing stock or through other new provision. By this more specific targeting of housing need we aim not only to provide housing which might not otherwise be available but also to 'free up' housing suitable for people with no specific requirement other than affordability.

In order to build houses we need planning permission and, where possible, the support of the local community. Obtaining planning permission requires site investigation, community consultation, design work and cost appraisal. We have a team of staff who will do this, supported by specialist consultants. We will maintain a rolling three year plan of realistic development opportunities that we will be actively pursuing. The three year plan will include sufficient site for around 100 additional houses or flats. Some of these sites may not be developed for one reason or another and other sites will be put forward to replace them.

The Council will, therefore, identify a pipeline of sites looking forward 3 years at least. This will include undertaking strategic reviews of areas where there are significant Council land holdings, including areas of Council housing.

The Council has a corporate responsibility to ensure that it is making best use of its own assets. It is the intention that going forward Winchester will retain its land and develop homes to add supply to its own housing stock.

3. What and where we intend to build

New build

The Winchester Housing Strategy identifies that new houses for rent are the highest priority for affordable homes and that half of these need to be 3 bedroom houses because these have the greatest gap between supply and demand.

Although it is envisaged that, in order to meet need, there a variety of dwelling types and sizes will be built, the priority will be to provide smaller family houses and accommodation for current tenant's who wish to downsize. The Council will not normally seek to provide homes for shared ownership in any form since this market brings additional risks and requires additional skills which others are better placed to deal with. Other providers, including the open private market, can develop this type of product. Where there is scope or a need to provide a mixture of tenures to ensure balanced communities the Council may work with partners so that each can concentrate on development which best suits their experience and expertise.

Acquiring Land

Development will almost always provide best value for money if it takes place on City Council owned land. Although it is probable that most of the opportunities will be on land which is already held for housing purposes, it will be important to also explore the potential of other land to contribute towards improving supply. The Council will consider acquiring land on the open market or by negotiation in order to ensure that homes can be provided where they are needed but the provision of more homes will be given a higher priority than even distribution across the district.

A particular focus will be to develop attractive, suitable homes for older people who may then be happy to move out of a larger property they are not making full use of.

Existing Properties

Further housing stock can be added via the purchase of existing properties to use as Council houses. These will be considered only where the properties can meet the Council's standards and it can be demonstrated that acquisition would be financially viable. Under some circumstances this might include the acquisition of existing stock currently owned by housing associations who are disposing of units under their asset management plans. Whilst this will not add to the total supply of affordable homes in Winchester it will increase the Council's own stock and generating a rental income.

In considering whether to purchase open market properties the Council will be mindful of the impact that this may have on the availability of lower value homes to prospective purchasers, for instance first time buyers, and of the potentially distorting effect on local markets. Normally such an approach will only be taken where there are additional benefits that can be realised from purchases.

The Council also has some housing stock, such as existing bedsits, which are not easy to let and which could be converted to create larger units, it can also extend properties or convert non-residential buildings to form dwellings. These may be funded from the new homes programme if they create new housing opportunities.

The Council will also consider the disposal of units which are of very high value, are too costly to maintain or are no longer suitable for housing purposes. This will generate capital receipts which could be invested in the provision of more new homes. Decisions on the use of these receipts will need to be taken by Members.

4. Viability and Affordability

Over the life of this strategy there will be an increased demand for all types of affordable housing provision in Winchester. The significant and growing imbalances between housing demand and supply will only exacerbate the increasing problems of affordability in the private rented sector. This is why the Council intends to focus on the supply of homes for rent.

To ensure that the HRA business plan can continue to fund the development of Council housing it is important that each scheme it funds has been properly assessed for viability. There must be an acceptable relationship between the cost of delivering the housing, taking all costs into account, and the rental income that will be obtained. It is not necessary to pre-determine that each scheme must meet particular criteria. It is necessary to ensure that the impact of each scheme on the business plan is calculated and properly understood and that the cumulative effect of the programme is affordable in the context of the wider HRA business plan.

Government policy for affordable housing is that the capital cost of affordable housing should largely be met from the rental income it generates. It has therefore significantly reduced the capital grants available to support new building and has set a benchmark 'affordable rent' of 80% of market rent which should be paid by the tenant, with or without help from benefits. We believe from research that most people on the housing register can afford to pay 80% of market rent with or without benefit support. However, lower rents will improve affordability and accessibility.

Early testing suggests that rents can be below 80% but this should not be assumed. The fact that people in a new property may pay a higher rent than those in a similar existing property is a fact of life and should not in itself define rental levels. In order to charge these higher rents the Council will normally need to seek the consent of the HCA. However, if there are receipts available for new house building from additional Right-To-Buy sales then it is possible to charge the higher rent level without reference to the HCA.

The aim will also be to ensure that rents fall within Local Housing Allowance levels and larger dwellings in high value areas remain affordable taking into account the limitations of the welfare system.

5. Determining Scheme Viability and Risk

Elected Members will set the strategic direction of the development programme at the Council's Cabinet. The Cabinet (Housing) Committee will take decisions necessary to implement the development programme. The Committee will recommend to Cabinet the development programme on an annual basis, approve the submission of planning applications and agree contracts for services and scheme delivery.

Each project will need to be assessed to ensure it meets the following criteria:

- It meets the aims of this Development Strategy.
- That its financial viability is fully assessed and that the basis on which it can proceed is properly understood. (The viability appraisal includes the ability to test "what-ifs" and examine the various rental streams, financial models and provide short and long term cash flows. It is normal for this financial viability to be assessed using a recognised software appraisal package).
- Has been adequately risk assessed. Building homes involves significant risks. This is why market developers and investors demand high returns in reward for that risk. It will rarely be possible to eliminate risk, however it can be assessed and managed. At a high level risk management is carried out by ensuring that proposals have a strategic fit with this Strategy, particularly with respect to viability. The Council's corporate project and risk management processes will be used to mitigate detailed risk and ensure that projects are progressed in a logical sequence to ensure that the Council is not overexposed to risk.

The criteria for determining viability are set out below:

- The period over which the assessment is made should be 30 years
- Schemes must show a positive Net Present Value (NPV)
- There should be a Cost:Value ratio of $\leq 100\%$
- All costs and expenses applicable to the scheme, internal or external, should be fully accounted for and charged to the scheme with no 'hidden' subsidy.

Note – A positive NPV assessment over 30 years means that the scheme will generate sufficient income to cover its running costs and repay the loan needed to undertake the initial construction within 30 years. A negative NPV assessment means that the initial loan will be repaid at some stage after year 30 or that a subsidy from elsewhere in the HRA will be needed in order to achieve the loan repayment by year 30.

Schemes will be evaluated on the basis that they can be considered financially viable if all of the viability parameters are achieved at a rent level up to 80% of market rent. Those projects that meet this test will be recommended to the Cabinet

(Housing) Committee to progress, normally but not necessarily at the lowest rent at which they are viable. Those that are not viable even at 80% market rent will only be recommended if there are specific circumstances that can justify an exception.

The criteria have been determined to closely match the constraints and assumptions used within the Housing Revenue Account Business Plan. It is most important that projects can finance their long term financing without the need to rely on revenue from the HRA to support them. Projects that are too costly will drain resources from the Business Plan or other sources and reduce the Councils ability to develop more homes. This will be a key consideration when deciding whether to pursue a project. These criteria will be reviewed annually.

The example below illustrates using a traffic light system how different scheme mixes and rental streams may be modelled and tested against the financial viability criteria.

Scheme Description and Costs		Tests of Financial Viability			
Appraisal name	Unit types	Total scheme cost as % of market value	Net present Value per unit	Loan repayment year	Other Council subsidy required to repay loan by year 30
Winchester Affordable Rent 50% of market..	X no x bed houses	59.1%	£-36,546	40	£109,681
Winchester Affordable Rent 60% of market.	X no x bed houses	59.1%	£-28,480	38	£85,422
Winchester Affordable Rent 70% of market.	X no x bed houses	59.1%	£-976	31	£2,963
Winchester Affordable Rent 80% of market.	X no x bed houses	59.1%	£+26,528	26	None

Should a scheme fail any of the viability criteria it does not necessarily mean that it will be abandoned. There may be specific reasons for proceeding. However, it will be important for the Cabinet (Housing) Committee to consider fully the reasons for proceeding, the risks involved and longer term implications and for them to be clear on the reasons for a decision.

New house building does not come without risks. Each project will be the subject of a risk analysis and risk management process where possible risks are minimised or eradicated. The majority of risks can be managed through adequate site investigation and ensuring developments meet housing need locally and are made available at an affordable rent. As part of its approach to project management the Council will identify, assess, and, as appropriate take action to limit risk. Risk will be reviewed regularly. Where a project is deemed to have an unacceptable level of risk it would not be recommended for approval.

Each project will be developed in accordance with the Council's Financial Procedure Rules.

6. Resources – Core Council House Investment

Resources available

The core funding to support this development strategy will come from the HRA. The funding available was agreed when the HRA business plan was approved by Council in February 2012. A total of £52M was included for capital spending over the first 10 years of the plan. Provision was also made for the associated revenue costs and income.

This will be reviewed each time the business plan is updated.

There is a clear distinction to be made between financial viability (which is covered in more detail below) and the impact on the HRA business plan. Conducting a viability assessment for each individual scheme using the same assumptions that are in the HRA business plan is a sound approach. However, it is possible for a scheme to be financially viable and not be able to proceed because there is insufficient budget available in the HRA to support the scheme. The main constraint that will need to be carefully monitored is the HRA debt cap.

Viability Appraisal assumption criteria

1. A loan interest rate of 3.52%
2. An interest only loan repayment method of 30 years.
3. Inflation at:

Baseline CPI	2.0%
Social rents	CPI plus 1.0%
Affordable rents	CPI plus 0.5%
Maintenance	CPI +0.97%
Management	CPI plus 0.5%
Major Repairs,	CPI +0.97%

4. Management and maintenances should be set at.

Maintenance, £/unit	£442
Management, £/unit	£none
Major Repairs, % of works cost	0.5% of the works cost
Major Repairs Deferral, Years	5
Voids & Bad debts combined %	1.6%

7. Other Council Investment

The Council has other resources available for affordable housing provision, for instance planning obligations and capital receipts arising from any extra Right-To-Buy sales. The report to Cabinet on 12 September on the “Capital Strategy and Programme 2012/13 to 2015/16” (CAB2378) recommends that any receipts from extra RTB sales that are available to fund new rented social housing are allocated in full to support the HRA new build programme. Other resources for affordable housing may be used to support Council house building or affordable housing provided through a registered provider. The Government has recently allowed Councils to bid for extra headroom within the HRA debt cap to build more homes for the financial years 2014/15 and 2015/16, although limited to £350M nationally it is an acknowledgement of the need to build more homes and the important role that Council’s have .

8. Lettings and Local Connections

New lettings will be open to those registered on the Council's housing register and will be advertised through Hampshire Home Choice.

<http://www.hampshirehomechoice.org.uk/Data/ASPPages/1/30.aspx>

Where the Council intends to build on rural exception sites these units will be let via a community lettings plan to ensure that priority is given to housing those who can demonstrate a local connection to the village.

In other cases the Council may also develop a community lettings plan that gives priority to certain groups, including local people.

9. Partnerships

Winchester has strong established links with housing associations who make a significant contribution to housing supply in the District. It is important that this continues and it is not the Council's intention to compete with housing associations. The Council intends to work alongside our partners and envisages a complimentary approach to the delivery of affordable homes.

Housing associations will continue to provide a vital role in delivering the affordable homes via Section 106 planning obligations and other opportunities brought to, and identified by them. In addition they will supply intermediate tenure schemes, such as shared ownership, and in some cases market properties where this supports other affordable housing provision. This may include working collaboratively with the Council on its own land where it is considered desirable to provide a mix of tenures.

Where a developer has an obligation to provide affordable homes under a Section 106 planning obligation the Council will always encourage them to work with a housing association. Only in exceptional circumstances will the Council consider acquiring units from a developer, for instance where no housing association has expressed a wish to acquire them

Rural exception sites that come forward on non Council owned land will continue to be developed through the Hampshire Alliance for Affordable Housing (HARAH) partnership. In most cases the homes will be developed and owned by the HARAH preferred provider. However, where the Council identifies a rural exception development site on land of its own the Council may develop the site under the HARAH umbrella, and retain ownership of the properties,

For the first three years at least the Council will focus on delivering housing through the use of its own land. Inevitably unexpected opportunities will arise during this period and they will be properly assessed to test whether they should be pursued.

Where opportunities arise with other public bodies such as the County Council, Ministry of Defence and the Homes and Communities Agency to acquire land or work on joint development opportunities the Council will do so.

10. Communication and Tenant Involvement

It is important that decisions are made in an open, transparent and accountable way. It is also essential that they are made promptly so that progress is maintained. Consultation and involvement is very important but it cannot entirely dictate when, where and how decisions are made.

The majority of the projects being considered will be close to existing housing stock both privately owned and owned by the Council. The Council is very aware that building more homes will bring changes but if done in a sensitive way and to a high standard there is no reason why this should be unacceptable. All our developments will be the subject to some degree of public consultation prior to finalising any plans and submitting a planning application.

Where our tenants are directly affected we will discuss proposals early in the process, outline their housing options and support them in making a choice. We will also signpost them to independent advice and provide written guidance for them that sets out statement of principles. The aim will be enable households to stay within their community if they wish. Households will be given priority to move, either permanently or temporarily, to suitable housing in an area of their choice. In many cases they will be offered the opportunity of returning to one of the new properties. In most cases tenants who have to move will be entitled to compensation.

Where garages and parking bays are to be removed we will talk to those affected and where possible offer an alternative vacant garage nearby. Where sites are large enough we may seek to provide additional residents parking spaces where necessary.

The views of our residents are important and the Cabinet (Housing) Committee has a tenant observer within it. Residents of the new homes will have the opportunity to feedback after living in the homes for 12 months. This will enable the Council to consider any improvements in subsequent projects

The use to which the HRA funds can be used is limited to housing projects, but where there is an identified need for community improvements, such as open space and play equipment, and the project can fund these, the Council will give this consideration provided this is related to the provision on the new Council homes..

11. Development Process and Design Standards

New development will need to meet high standards of design and create environments that are attractive, useable and durable. We want to leave a lasting and positive legacy from the Council house building programme of distinctive and well thought of homes.

Our District is varied in its character. New homes should embody a sense of place that is derived from local context and in terms of layout, scale, form, and materials. They should create safe, attractive, accessible environments. Where appropriate they should look for opportunities to enhance the public realm.

Our new homes must not just meet basic housing needs. The Council has set down its design criteria within a Design Brief and Specification. All new homes that are built will meet these standards. The Design Brief follows closely the objectives in the Housing Strategy and principles set down with Winchester's Affordable Housing Supplementary Planning Document of 2008. Winchester expect to provide new homes that meet the same standards as its RP partners to ensure that there is consistency in quality and design in the homes provided by whichever means.

The challenge of climate change means measures to minimise carbon emissions, promote renewable energy and manage water effectively should be an integral part of design solutions. Winchester's "District Local Plan- Part 1 Joint Core Strategy" has now been adopted. This Strategy sets down increased requirements for energy efficiency under the Code for Sustainable Homes. Winchester will provide new homes that meet these standards where it is feasible to do so within the constraints of site layout, orientation and financial viability.

Development sites may be underused parking areas, garage courts and areas of open space, though in some cases existing property may be involved. Each will present their own challenges and constraints that will affect the final design and specification.

Through direct control of the development process, Winchester will seek to include provisions in contracts to promote employment opportunities and apprenticeships in Council house construction. Examples may include requiring a specified number of training opportunities to be provided, and requiring any vacancies to be advertised through local sources, as well as any other sources which the contractor wishes to use. This added value will assist the Council in meeting the targets of its Economic Strategy and worklessness agenda.

Whilst not being required to do so, all projects will meet the core standards of the Homes and Communities Agency Design and Quality Standards. This will ensure that in the future should the Council wish to bid for development grant, it can demonstrate that the necessary standards to be eligible for funding have been met.

12. Procurement and Implementation

We are mindful of the benefits of working with local companies that appreciate the Winchester context, have a track record of delivering similar schemes and can make a contribution to the local economy by their own approaches to procurement, employment and training.

The Council will ensure that procurement takes place in accordance with its Contracts and Financial Procedure Rules contained in its Constitution, and with European Union procurement regulations under the Public Contracts Regulations.

It is important that companies employed by the Council, either directly, or indirectly, for example through lead consultants, comply with the Council's policies on equality and diversity.

Although not necessarily exclusively, at design stage (up to planning permission) the Council will be likely to utilise framework agreements or have otherwise been pre-selected in accordance with the Council's Contracts Procedure Rules (e.g. companies which are members of *Constructionline*). Given the value of the construction element for each development, the building contracts will usually be let by way of formal competitive tender.

The Council's approach to procurement will be kept under review.

The Council has a set of employer requirements that it will use as the basis for all building contracts.

13. Looking to the future

This Strategy will continue to evolve as our plans evolve. The Council will always want to keep challenging itself to make sure it is making the best use of the opportunity that it has to build more homes again.

Looking forward there will be new opportunities to acquire land and houses and seek additional investment from government via the Homes and Communities Agency.

14. Review

This Development Strategy will be kept under regular review so that is responsive to the changing world and changing local needs. The Strategy will be formally reviewed annually and approved by Cabinet (Housing) Committee.