

**BABERGH AND MID SUFFOLK
JOINT AFFORDABLE HOMES 3-YEAR
ROLLING DEVELOPMENT STRATEGY
COMMENCING 2017**

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1.0 GENERAL AIMS, SCOPE AND CAPACITY

- 01.01 Babergh and Mid Suffolk District Councils (BMSDC) are committed to growing their managed portfolio of homes and new home supply in their areas generally through new development and the support and enabling of others. When directly developing new homes the aim remains to provide a range of high-quality buildings to meet the needs and circumstances of BMSDC residents both now and in the future. This strategy addresses growth through new homes directly developed by the Councils on a rolling three year basis commencing 2017, and sets out what the Councils intend to build, for whom and how they will ensure delivery of high quality affordable homes in a cost effective way. This strategy will evolve as plans evolve and viability assumptions will be formally reviewed on an annual basis when budgets are set.
- 01.02 This document sits under the 'Housing and Regeneration' strand of the Asset and Investment Strategy. The finance for development will be provided from General Fund and/or Housing Revenue Account (HRA) resources. In addition to the development of new affordable rented and low cost home ownership homes under this strategy, the Councils' will also consider providing other housing products. This could include development of homes for market sale and market rent which generate 'profit for purpose'. These developments will be undertaken through the Councils' incorporated company structures and the subject of a 'Joint Market Homes Development Strategy' separate to this document.
- 01.03 A pipeline for new homes is held for each Council which takes into account deliverability. Factors included in developing each pipeline include site availability, operational capacity of the delivery team, and risk. For example, although the financial capacity and sites might be available for a large shared ownership programme, market risks might determine the limit to the numbers at any given time.
- 01.04 Where General fund 'prudential' borrowing is used to fund development, the Councils are not restricted by borrowing limits, however, the Council must demonstrate it is prudent for it to undertake such borrowing and its Treasury Management parameters will determine borrowing capacity.
- 01.05 The HRA business plans demonstrate that there is financial capacity to build and (acquire) Homes for both BDC and MSDC over 3 years. This utilises Right to Buy receipts for both Councils and in the case of BDC additional borrowing capacity within its HRA. Both HRA's are constantly being reviewed for capacity

and therefore these numbers are indicative and subject to annual change as a result. A breakdown of these indicative numbers is laid out in Appendix 1.

- 01.06 The Councils' development purpose under this strategy will be the provision of new homes for letting at affordable rent or for low cost home ownership. Where possible these will be subsidised through Government Grant and Right to Buy receipts and where appropriate new homes will also be delivered through S106 Planning Agreements. Homes England (Formally HCA) Grant funding, Community Infrastructure Levy (CIL) and other subsidy available from time to time, is essential to maintaining increased capacity in future programmes. New sources of such grant will be constantly sought both directly and through the development partner.
- 01.07 In determining BMSDC priorities for the provision of new housing due regard will be given to housing demand and need. Joint consultation and co-operation will take place with development partners, other public authorities, registered providers organisations and individuals to ensure a co-ordinated approach to meeting that need.
- 01.08 BMSDC is aware that housing demand and supply is not static and can change periodically due to a range of factors. Therefore, development priorities will be reviewed and updated as required, or as Government Policy or market conditions change or as the emerging Strategic Housing Market Assessment (SHMA) demands.
- 01.09 Construction of new homes is administrated by the Councils' appointed development partner. This partner will manage development activity, from design, through planning, construction and handover and will be expected to meet objectives, priorities and targets set out in this strategy. The development partner will be encouraged and expected to engage with East Anglian based small and medium size enterprises (SME's) when entering into construction contracts for new homes. Although the use of national volume house builders will be necessary if strategy targets are to be met, the use of local SME's can create a more bespoke product and the use of local companies and labour can result in finance being retained in the local economy.

2.0 NEED AND LOCATION

- 02.01 BMSDC 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 the Councils 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.
- 02.02 To build houses the Councils need planning permission and, where possible, the support of the local community. Obtaining planning permission requires site investigation, community consultation (and engagement), design work and cost

appraisal. Delivery requires a strong development partner, a team of investment and commercial delivery staff, supported by specialist consultants.

- 02.03 The Councils will, identify a pipeline of sites looking forward three years at least. This will include undertaking strategic reviews of areas where there are significant Council land holdings, including areas of Council housing. The Councils have a responsibility to ensure that it is making best use of its own assets. General Fund and HRA Asset reviews identify which sites, already in ownership, might be used in a more beneficial way.
- 02.04 In considering a new development of affordable rented homes, regard will be had to the long term housing management implications. This might include the accessibility of the development and its proximity to existing stock.
- 02.05 BMSDC recognises that there remains considerable housing need in rural areas particularly where the number of council or privately rented homes available for letting is low. These homes can also be difficult to deliver on the grounds of site availability, local lobbying against such housing, the planning process and cost. BMSDC is committed to the delivery of rural housing schemes and accepts that in planning a pipeline of such schemes allowance will need to be made for the additional cost and time likely to be accrued.
- 02.06 In identifying potential development opportunities the Councils will have due regard to regional and national housing priorities, employment, the need for a mix of rural and urban housing as well as meeting ongoing identified and specific housing needs.

3.0 SITE SELECTION

- 03.01 Development will almost always provide better value for money if it takes place on Council owned land. Although it is possible that many 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 has already, and will consider further, acquiring land on the open market or by negotiation in order to ensure that homes can be provided where they are needed. Each Council will look to maximise its use of resources and build as many new homes as capacity allows.
- 03.02 Further housing stock can, and has already been 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 own asset management plans.
- 03.03 Whilst this will not add to the total supply of homes it will increase the Council's own stock and generating a rental income. In considering whether to purchase

open market properties the Councils 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.

03.04 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.

03.05 In Summary, the development programme will be met by the provision of homes:-

- Built on vacant sites
- Created from the refurbishment/conversion of existing buildings
- Through the redevelopment of sites currently in use
- Acquired from developers “off the shelf”.

03.06 Where homes are proposed on previously developed or contaminated land the Council will ensure that adequate ground works and/or remedial works take place to:-

- Minimise risk to the health and safety of contractor and future occupiers
- Minimise risk of financial loss and impact on BMSDC reputation.

03.07 The location of any proposed development will be expected to be appropriate to any potential occupiers with particular regard to such matters as access to public transport, post office, shops, schools etc. to enable any adopted standards to be achieved.

03.08 There must be clear evidence from housing needs or housing survey data that there is a current demand for the proposed development and that as far as can reasonably be established this demand will be sustained in the long term.

4.0 LAND/BUILDING ACQUISITION AND ‘LAND BANKING’

04.01 BMSDC has already acquired and will continue to consider the acquisition of land or buildings where this is deemed to be strategically important and provide a pipeline for future delivery. Full relevant details of the site or buildings including a site development appraisal and viability assessment will be required to enable Members to reach its decision.

04.02 BMSDC will consider “land banking” opportunities but only where there is a burden of proof in favour of this being a strong use of capital or some alternative non-financial strategic reasoning.

5.0 DESIGN AND SPECIFICATION

05.01 BMSDC will endeavour to design to the highest possible standards in every respect. Such standards inevitably lead to additional cost so regard has to be had to the balance between increasing higher standards and the viability of such schemes. In general though, new homes design will comply with:-

- The Councils' adopted Technical and Design Standards
- Homes England Development Standards where appropriate
- Health and Safety, Planning and building design legislation
- Environmental considerations and the desire to reduce running costs for occupants.

05.02 Full regard will be given to all relevant sustainable development policies and environmental considerations in the design process and the scheme design will be expected to complement the locality.

05.03 The design and specification will take into account the need to minimise ongoing utility and fuel costs to the occupier. Consideration will be given, where viability allows, for specialist environmental standards for homes or design that is targeted to reduce the impact on the environment.

05.04 The Council will consider the long term sustainability of new developments and particularly any additional features of a non-housing nature which can be provided to supplement housing facilities and enhance the scheme or environment for the benefit of prospective tenants and wider community.

05.05 There may be occasions where BMSDC will be prepared to waive some or all of the specific design and specification requirements to ensure deliverability.

6.0 DELIVERY PARTNERSHIP AND PROCUREMENT

06.01 The Councils Development Partner (DP) acts as developer on behalf of the 'client' Councils. The DP acts in all development matters from site identification where necessary through to handover of completed projects. The DP will carry out its activity in line with a BMSDC 'Development Manual' which will contain all policies and protocols required to complete a successful BMSDC development. The manual will also lay out the most appropriate procurement methods and in particular;

- Provide clear evidence that the method of procurement used for the selection of a particular consultant, contractor or developer demonstrates value for money and quality benefits and met the Council's policies in all respects
- Complies with the law that relates to such activity

7.0 BUILDING GUARANTEES/WARRANTIES

07.01 The Councils will obtain collateral warranties from all consultants and contractors/developers in respect of design and construction works. These must be capable of assignment and assigned to BMSDC on completion of each contract.

07.02 Long term building guarantees provided either by the NHBC, Zurich Municipal or similar in accordance with the adopted Technical and Design Brief must be obtained and assigned to the Council on completion of each contract.

8.0 LINK WITH ASSET AND INVESTMENT STRATEGY, HOUSING DELIVERY STRATEGIC FRAMEWORK

08.01 The Refreshed Joint Strategic Plan developed in 2016 establishes the framework for the Councils priorities: Economy and Environment; Housing and Strong and Healthy Communities. The strategic priorities which are supported by this Development Strategy include;

- Investment in land and property to generate income and regenerate areas
- Manage our corporate assets effectively
- Manage our housing assets effectively
- Making best use of land and buildings across the Suffolk System
- Community led solutions to deliver services and manage assets
- Existing estate regeneration
- Financially sustainable Councils

08.02 The Housing Strategy Framework was the subject of a Members workshop in January 2017. 'Direct Delivery' was one of the themes discussed in detail. Members identified the following top three items for further investigation;

- The development and sale of self- build serviced plots
- On site viability cross-subsidise across two or more sites in order to deliver schemes that may not be viable in their own right. (N.B. This has already been included as 'coupling' of schemes in this strategy).
- Modern Method of Construction including the potential for a joint venture manufacturing facility.

9.0 **FINANCIAL CONTROL, VIABILITY AND RISK MANAGEMENT**

Members will set the strategic direction of the development programme through the approval of this strategy and delegate (subject to viability tests and criteria laid out in Appendix 2) the Assistant Director Investment and Commercial Delivery, operational authority to proceed with schemes.

09.01 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. This includes the application of Local Housing Allowances when considering outcome rent levels in viability tests. The Council's chosen methodology for this is through the use of 'Proval' software.
- Has been adequately risk assessed. Building homes involves significant risks. 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 the Council's over exposure to wider risk of which development activity will be one element.

09.02 The criteria for determining viability are set out in Appendix 2 along with the assumptions used in the assessment. Each scheme will be considered on its own merit and it may be the case that a scheme is desirable meets strategic aims but is not viable within the criteria set. In such circumstances a case will be made for 'coupling' the scheme with another that exceeds the viability standard and when 'combined' are viable. Such 'coupling' will only be considered for capital costs of a project and in no circumstances to cross subsidise on-going revenue costs where the scheme is say a supported housing or other specialist scheme.

09.03 The viability criteria have been determined to closely match the constraints and risks identified and used within the Housing Revenue Account Business Plans for each District. Although the constraints at MSDC are more notable than at BDC (and this will inform the size and scale of each programme) the risks of developing unviable schemes remains regardless of this. It is imperative that projects can finance themselves without the need to rely on revenue from (principally 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.

- 09.04 The Council's development partner will provide scheme budgets and cost variation information for all new schemes as soon as this information is available. The scheme budget will be accompanied by a Financial Scheme Assessment (FSA) which, in addition to detailing scheme costs, will provide a long term assessment of the scheme's viability. This will normally be based upon the Councils' 'Proval' viability assessment.
- 09.05 The assumptions to be used in each FSA and the process for approving scheme budgets and variations thereto are set out in Appendix 2.
- 09.06 For each proposed scheme BMSDC will ensure that:-
- They have (or can obtain) adequate funding to cover all costs during the development period.
 - Overall viability will be secure in relation to any long term financial commitments.
 - There is a market or identified long-term demand for the proposed scheme.
- 09.07 It is recognised that all development involves short and long term financial risk. As such, the development partner will be expected to adopt and agree policies and practices that minimise the likelihood of contractual cost overruns and long term risk of loss to BMSDC.
- 09.08 The provision of shared equity/ownership schemes involves greater short term financial risk in the marketing and sales of properties. To minimise its exposure to these risks BMSDC will;
- Adopt and implement clear marketing procedures
 - Wherever possible ensure that no more Shared Ownership/Equity or market sale development is undertaken than is necessary to secure the viability of the scheme
 - Consider options for "converting" shared equity/ownership homes to affordable rented homes where sales difficulties are encountered.
 - Not embark on the acquisition or development of new shared ownership or market sale homes where market conditions are likely to result in protracted sales periods and excessive void losses.
 - BDC currently allows 'staircasing' of shared ownership to a maximum of 80%. It will aim to move, over time, towards a staircasing policy that can result in 100% ownership.

09.09 A development risk register will be maintained and updated by the Assistant Director Investment and Commercial Delivery specifically for the development function. This will feed into the corporate risk register through the normal risk reporting mechanisms.

10. PARTNERSHIP WORKING AND SECTION 106 OPPORTUNITIES

10.01 Both Councils have strong established links with housing associations and private developers that make a significant contribution to housing supply in the District. It is important that this continues where in the wider interests of delivery.

10.02 Housing associations will continue to provide a vital role in delivering 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. BMSDC are open to the opportunity to work collaboratively with housing associations on their land where it is considered desirable to provide a mix of tenures.

10.03 Where a developer has an obligation to provide affordable homes under a Section 106 planning obligation the Council will look to bid for such opportunities even where partner housing associations might also bid. It should be noted though that this competition might result in higher value being paid. To avoid this, and in such circumstances, a single viable bid 'first and final' bid will be made and no additional 'counter bidding thereafter will be undertaken.

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

11.0 IMPLEMENTATION OF STRATEGY

11.01 The Assistant Director - Investment and Commercial Delivery, is responsible for ensuring that this strategy is implemented.

12.0 STRATEGY REVIEW

12.01 This strategy, and particularly assumptions, will be subject to rolling review in March of each year.

APPENDIX 1

2017 to 2020 DEVELOPMENT PRIORITIES & TARGETS

UNIT NUMBERS

Over the life of the strategy the following indicative programme is considered deliverable within the context of need and demand, land and finance availability. A 'Pipeline Programme' will be maintained and updated as new schemes become live.

BABERGH

210 New Homes

MID SUFFOLK

98 New Homes

TYPE AND SIZE

Affordable rented - no specific requirements but demand for proposed accommodation must be evidenced. Size of homes provided must also include evidence that Local Housing Allowance/welfare benefit cap/spare room subsidy does not affect the long term viability of the development.

Shared ownership/equity – no specific requirements but demand must be evidenced and affordability demonstrated. Subject to general market conditions there should normally be a presumption against significant numbers of flats and, in particular, one bedroom flats or smaller should be avoided.

Market rent (to cross subsidise affordable homes) – to be agreed on a site by site basis and subject to viability/profitability test of target 6.0% yield.

CLIENT GROUPS

Affordable rented units – general needs, sheltered, supported housing (subject to revenue funding being available), wheelchair accessible.

Shared ownership/equity – non-specific.

Others – to be agreed on a site specific basis

LOCATION

Homes will only be developed within the Babergh and Mid Suffolk district areas

APPENDIX 2

ANNUAL FINANCIAL ASSUMPTIONS & SCHEME APPROVAL PROCESS

AFFORDABLE RENTED SCHEMES

Financial Assumptions

- NPV discount rate - 4.5%
- Loan repayments based on 30 year loan repaid under annuity method.
- Development interest rate – At prevailing rate
- Short term investment rate receivable
- Inflation – Retail Price Index
- Rent on completion – target rent (as per formula) *
- Rent increases – As per Government Rent Policy
- Allowance for voids and bad debts – 2%
- Management costs – £400 PUPA
- Maintenance (day to day) - £500 PUPA
- Service Costs (where appropriate) - £521 PUPA

* All are to be subject to RPI increases to estimated scheme completion date

Approval and Delegations

The following definition applies in calculating the Net Present Value for determining the level of internal approval required:

- 30 year projection of Net Rent Income and loan interest and capital payments reflected at current levels using discount rate. (Net Rent + Cap. Value – Loan).
- “Coupling” of two schemes where one showing a high NPV can offset one with a low or negative NPV to an average positive NPV.

The following table sets out the approval process to be followed when a scheme is presented or varied:-

Category	Criteria	Approving Body
1	Within the terms of the Development Strategy and Net present value – positive after 30 years or “coupling” required to aggregate two concurrent schemes to positive outcome.	Assistant Director – Investment and Commercial Delivery
2	Outside of Development Strategy; or Net present value – negative after 30 years	Member Approval

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 (principally the HRA in most cases) will be needed in order to achieve the loan repayment by year 30.

SHARED EQUITY/OWNERSHIP SCHEMES

Key Factors for Consideration

1. The loan required by a purchaser to finance the purchase of the level of equity assumed at the date of the assessment must be affordable by the purchaser, as agreed jointly by BMSDC and the development partner.
2. The income to BMSDC from the sale of a shared equity home (either on an individual or on a collective basis) must be no less than the sum of:-
 - (a) The total cost to BMSDC in providing the home, including all land and building costs, fees (including development partner fee) and other on-costs.
 - (b) One per cent of land and building costs as a provision for legal and marketing cost
3. The valuation assumption used in the assessment of any scheme must not take account of potential property inflation/deflation between the date the assessment is made and the assumed completion date of the homes.

Annual Financial Assumptions

The financial assumptions used for assessing the long term viability of shared ownership schemes will be the same as for affordable rented schemes subject to the following exceptions:-

Sale initial tranche rate 30%

- Management costs* – 25% of rental stock assumption
- Rent increases – As per Government Rent Policy

* Subject to RPI increases to estimated scheme completion date

Approval Process

The process for approving shared ownership schemes will be the same as for other schemes set out above.