

DRAFT New Build Council Housing Strategy 2020 - 2025

1. Why Build?

The Council is committed to putting the heart into South Cambridgeshire by:

- Building homes that are truly affordable to live in
- Helping business to grow
- Being green to our core
- Putting our customers at the centre of everything we do

The New Build Strategy supports all these objectives. It also links to other agreed strategies, primarily:

- The Greater Cambridge Housing Strategy 2019 – 2023
- The South Cambridgeshire Local Plan 2018
- The Greater Cambridge Sustainable Design and Construction SPD 2020

The strategy will be updated to reflect major changes in these linked strategies.

2. Current Position

- 2.1 This New Build Strategy sets out the reasons for, and context within which, South Cambridgeshire District Council (SCDC) will acquire or directly commission new build affordable homes to be owned and managed directly by the Council. It brings the strategy which was agreed in June 2015 up to date.
- 2.2 This strategy retains those elements from 2015 which are still relevant but takes account of and makes clear where there are changes to policy and practice. The 2020 New Build Strategy will provide an updated framework for future activity, reflecting the significant changes that have taken place since the previous Strategy was written and agreed.
- 2.3 The 2015 Strategy gave the following reasons for the SCDC acquiring new build properties.
 - Increase the supply of housing which is affordable to local people, including (but not exclusively) Council rent, Council shared ownership, Council owned intermediate rented properties.

- Re-balancing of housing supply (number of bedrooms) to offset welfare benefit changes.
- Increase the housing choices available to people with disabilities – including an increased supply of wheelchair accessible housing.
- To make the best use of the Council’s land and property assets
- Reducing fuel poverty and promoting energy efficiency
- Being able to build homes that achieve high standards of design and construction; and the procurement of new homes to achieve best value for SCDC.

2.4 All the above remain relevant, but both the national and the local political landscape for housebuilding have changed since 2015, bringing additional considerations. Most influential for this strategy are the revised SCDC target to at least double Council new builds by 2024; the removal of restrictive cap on Housing Revenue Accounts (HRA) for borrowing; the mix of available sites across the District to meet the 5 year land supply requirements; and the creation of a new Investment Partnership between the Council and two development companies. The significance of these changes will be explored in the following sections setting out criteria for selection of sites, funding, delivery and risks.

3. Updated Criteria for Selection of Sites

3.1 The following are desirable criteria against which any future purchases will be evaluated. The Council is providing affordable housing alongside other providers – mainly Housing Associations, and these criteria focus on the added value that new builds bring to Council owned housing.

Increasing HRA properties

3.2 Following the elections in May 2018 a revised target was set in the Business Plan for the number of new build homes acquired by the Council, increasing the target from 35 to 70 over 5 years giving a total of 350, with an aspiration to deliver up to 100 a year if feasible. Since 2018 a total of 209 new Council homes have started on site, with a further 81 homes at Northstowe due to start on site in 2020-2021. These are a mixture of affordable rent and shared ownership. We are confident that we will exceed this target, playing our part to address the great need in South Cambridgeshire for more affordable housing.

3.3 Increasing the numbers of affordable homes the Council is able to offer will ensure that the HRA maintains a healthy income stream from rents and shared ownership sales and staircasing.

Meeting Identified Housing Need

- 3.4 The Council new build programme will seek to address housing needs that are not adequately catered for by the current market.
- 3.5 The welfare reforms highlighted in 2015 are one, but not the only reason, that the supply of smaller homes is not sufficient to cater for demand. The housing needs register shows that for December 2019 51% of applicants were registered for a 1 bed property, 31% for a 2 bed property, and 12% for a 3 bed property, leaving 6% requiring a 4 bed or larger property. This pattern is consistent over time, reinforcing the greater requirement for 1 and 2 bed properties.
- 3.6 Local villages often have specific housing needs. Assessment of individual village housing need based on local connections, usually undertaken by Cambridgeshire ACRE, differ from the district wide assessments used on larger strategic sites. Alignment with village needs assessments, particularly to address deficits, will be taken into account when considering potential HRA purchases.
- 3.7 On both larger strategic sites and village sites there remain deficits not only in terms of numbers but also in certain types of home. As identified in the Greater Cambridge Housing Strategy 2019-2023 there is a lack of homes for older people (including homes attractive to those wanting to downsize), entry level homes for first time buyers, and homes built to accessible and adaptable dwellings standards. Some types of homes for older people are exempt from Right to Buy, and new build will provide attractive opportunities for downsizing and releasing family sized property; additional reasons to favour this type of tenure.
- 3.8 For all sites where HRA purchases are considered decisions will take account of the benefits of promoting homes that are well located to services and facilities and well-integrated into communities.

Design Standards – Building Greener Homes

- 3.9 Being green to our core means a commitment to create a cleaner, greener, zero carbon future. This applies to new build. The January 2020 Greater Cambridge Sustainable Design and Construction SPD provides requirements and guidance on how new developments can be built in a sustainable and environmentally friendly way, better insulated with lower energy consumptions

and therefore a lower carbon footprint, and potentially reduced heating bills. We will seek through a revised housing design specification to set out the features SCDC will seek in new build purchases, aligned to the Council's green to the core objective. This will include modern methods of construction, including modular builds, where this meets the requirements set out in our design specification for Council homes.

- 3.10 For purchases from Section 106 sites the ability to specify precise standards for affordable housing will be limited, as these are largely pre-agreed, and although they must meet planning requirements, cost considerations for developers mean that enhanced specifications are not standard. Where there are opportunities to negotiate enhanced standards to meet our new build desired specifications SCDC will do so.

Achieving Best Value

- 3.11 As in the previous strategy sites will be evaluated to ensure they provide value for money using both ProVal- a widely used evaluation model, and the in-house assessment model based on the Chartered Institute of Housing viability model. The payback period for a scheme, using a blended rate where there is a mix of tenures, will have a payback of no more than 35 years, reflecting current property and HRA rental values, unless there are justifiable reasons relating to better design standards to meet our broader aspirations. In 2015 a reasonable payback period was considered to be 30 years. Based on current performance 35 years, with flexibility to go beyond this is more reasonable given the increase in prices and the impact of the 2016 – 2020 freeze to all social rents. Circumstances which warrant purchases of affordable housing schemes with a payback in excess of 35 years will be agreed by the Head of Housing in consultation with the Lead Member for Housing if valued under £2 million, or Cabinet if over this amount.

4. Funding

- 4.1 Funds have been allocated in the Capital Programme to meet all the current commitments. Unallocated sums have been retained to meet further acquisitions to 2024/25. The following table shows the breakdown of allocated and unallocated funds, and the available funding streams. The mid-year revision of the Medium-Term Financial Strategy will enable adjustments to be made as pipeline commitments are confirmed.
- 4.2 The lifting of the HRA borrowing cap provides capacity to borrow a further £45 million as set out in the HRA budget paper agreed at Council in February

2020, only £7 million of which is currently included within the current funding schedule.

- 4.3 Alongside new builds there is a commitment to fund the greening of the HRA existing stock, and work is underway to develop a planned and costed programme for upgrading existing Council homes, which will also require additional Capital investment. The HRA business plan shows that there is sufficient funding to deliver the target of 70 homes a year until 2024/25 and the cost of greening our homes will be built into future modelling alongside our ambitions to increase the number of Council homes year on year.

Housing Revenue Account	Budget	Budget	Budget	Budget	Budget
	2020-21	2021-22	2022-23	2023-24	2024-25
	£'000	£'000	£'000	£'000	£'000
HRA New Build					
Allocated	18,122	10,537	687	0	0
Unallocated New Build / Acquisition Budget	8,749	8,369	4,224	11,200	11,200
Total HRA New Build	26,871	18,906	4,911	11,200	11,200
Housing Capital Resources					
Other Capital Receipts (Self-Build Plot Sales)	(600)	(600)	(600)	(600)	(600)
New-Build Shared-Ownership receipts	(600)	(2,040)	(2,921)	(3,438)	(1,200)
Direct Revenue Financing of Capital	(13,713)	(9,599)	0	(4,422)	(6,660)
Other Capital Resources (Grants / S106 funding)	(1,095)	(300)	(500)	(500)	(500)
Retained Right to Buy Receipts	(5,863)	(4,367)	(890)	(2,240)	(2,240)
HRA CFR / Prudential Borrowing	(5,000)	(2,000)	0	0	0
	(0)	(0)	(0)	0	0

- 4.4 Homes England and the Cambridgeshire and Peterborough Combined Authority (CPCA) provide additional sources of funding. CPCA funding is offered through a range of measures which involve a payback mechanism including loans, investment equity that provides a return, and recoverable grants. Homes England funding programmes are targeted towards additionality - that is providing subsidy for new build that is additional to the numbers and type agreed through Section 106 agreements, or homes built on land where the units provided are additional to any pre-existing units. The

added value for SCDC new build programme of external funding will be kept under review.

- 4.5 The impact of Covid-19 on the construction industry, the ability of prospective tenants to pay an affordable rent, and the take up of shared ownership will be stress tested within the current financial model, when the impact is known. If available capital funding remains the same the model is flexible enough to accommodate changes by extending payback periods. If any funding streams were to reduce, without compensating funding from elsewhere this would reduce the numbers of new dwellings that could be achieved.

5. Opportunities for Development

HRA Land and Property Assets

- 5.1 The position outlined in the 2015 strategy has not substantially changed. The Council owns and manages 5248 homes, including sheltered housing with communal facilities, flats with leaseholders and equity share properties. 286 of the properties are of non-traditional construction and there are garage blocks throughout the district with widely differing levels of usage.
- 5.2 An up-to-date audit will be undertaken in 2021 to inform the potential for the Council to build on HRA owned land. This is a prerequisite to deciding whether, and how, to commission new build on HRA land. Availability of HRA land for new build is known to be limited. Alongside this the Asset Management Strategy, which will be updated and agreed this year, will identify potential land and property including garage sites, where assets are in very poor condition and could release valuable land, or in the case of sheltered schemes provide a greater number of homes built to a higher standard.

Large Sites

- 5.3 Council New Build on larger strategic sites will come through the purchase of affordable housing required under S106 agreements. Section 106 sites will remain the primary source of achieving the target number of new homes set out in the business plan as new sites come forward for consideration. These large strategic sites will be brought forward by developers, including the Council's Investment Partnerships, and the affordable housing element is required to meet planning obligations. The reasons for purchase will relate to specific Council objectives as set out in the criteria in sections 2 and 3 of this paper. There must be a justification for why the Council will potentially be competing against other providers for the affordable housing and where the opportunity is there, we will work collaboratively with other providers. As we

have seen the HRA has a need for certain types of housing, and the Council has broader objectives that mean it may want to invest in a geographical area, and meet specific lower carbon, more sustainable, design standards.

Rural Exception Sites

- 5.4 SCDC is very supportive of bringing forward rural exception sites. These are sites, usually on the edge of villages and sometimes in green belt or arable land sites, agreed to address the housing need of a village. These sites have a long lead in time and deliver relatively small numbers of dwellings. To date the Council has been the provider of the affordable housing on only two rural exception sites. In the first instance households eligible to be allocated affordable housing on rural exception sites will have a local connection and incomes that are potentially higher than the district wide housing needs register. If the Council is the affordable housing provider the property can be purchased under the Right to Buy and cannot therefore be retained in perpetuity for those in need. The risk of RTB purchase is greater because the preference for a local connection when allocating homes means income can be higher. This is not the case if the affordable housing is owned by a Housing Association where there is no Right to Acquire. For this reason Council purchase of new build affordable housing on rural exception sites will only be where there is no reasonable alternative offer from another provider.

Other 5 Year Land Supply Sites

- 5.5 The Council have a 5 year land supply as set out in the South Cambridgeshire Local Plan, agreed in 2018. This is updated annually. Sites agreed for housing development will be at various stages of development. The New Build Strategy can have a part to play where sites have outstanding permissions and purchase of affordable housing contribute to unlocking a site and meeting Council priorities at the same time.

6. Capacity to Deliver

New Build Team

- 6.1 The 2015 Strategy relied heavily on the Housing Development Agency, a previously shared service which is now solely focused on delivering new build for Cambridge City Council. SCDC's own new build team comprises of a manager, 3 development officers and a consultant and self-build team of 2 people. The new build team work closely with the exception sites officer, located in the strategic housing team.

- 6.2 The size of the new build team is sufficient to manage the current approach to acquiring new build Council housing, and has skills to directly commission and manage the current new build contracts on sites owned or acquired by the HRA. If SCDC were to embark on a major direct new build programme capacity would need to be reviewed. Because SCDC would have greater control over building on owned sites there are enhanced opportunities to build to a higher specification and give preference to housebuilders who contribute to the local economy and have an apprenticeship scheme.

Investment Partnership

- 6.3 In March 2020 the SCDC Cabinet agreed the terms of Investment Partnerships with two separate developers – Hill Partnership Ltd and Balfour Beatty Investments - to deliver homes of all tenures including affordable housing, and to deliver positive financial returns for the Council. The Investment Partnerships are at an early stage but will be an important source of good quality affordable housing in the future. Completions are likely to be realised in 2-3 years' time.
- 6.4 It is important to recognise that the Investment Partnerships are public/private joint ventures. The Investment Partnership Agreements are created on a “framework” basis primarily created with a view to making a profit and potentially the Investment Partnerships could refuse to develop and/or sell to the Council if it was not in the Investment Partnerships' best interests – for example, if the sale price was substantially below that being offered by a third party or was otherwise loss making. This would need to be negotiated in practice. The Council would need to establish a methodology for establishing VFM in terms of having purchased from either IP – bearing in mind that it also has a vested interest in maximising profits. Nevertheless, the IP is likely to be a key delivery vehicle for the acquisition of affordable homes

Ermine Street Housing

- 6.5 Ermine Street Housing is a wholly owned company operating from 2014 to purchase buy-to-rent properties, returning an investment for the Council. Ermine Street Housing can commission private rented housing as part of overall development packages, potentially alongside the delivery of new affordable homes in the district, or to work with developers and landowners on wider mixed use (residential/ commercial) development sites. The New Build team is tasked with delivering the Council's affordable homes programme, and opportunities may arise with developers for the Company to purchase stock for market rent as part of an overall scheme to provide new build homes to meet Ermine Street's business objectives.

7. Landlord Considerations

Affordability of Rent Levels

- 7.1 Most of SCDC Council housing remain at social rent levels which equate to approximately 45% of market rents. Current practice is to set rent levels for new build affordable rented homes at the level of the Local Housing Allowance (LHA) which equates to about 60-65% of market rents. This ensures that New Build can achieve reasonable payback of capital investment, typically within 35 years. Affordable rents set at this level can be covered by Housing Benefit where this is paid, although it should be noted that Universal Credit is not differentiated for local rental values but is capped at an overall amount. Nevertheless, LHA levels remain the best indicator of affordability available and will be retained as the benchmark rental values for SCDC new build affordable rent. Financial modelling shows that this is consistent with a payback period of up to 35 years and the assumptions in the 30 year business plan. Providing social rents for new build properties would require a level of subsidy not currently available, or savings would be required, to maintain the existing HRA business plan projections.

8. Monitoring Arrangements

- 8.1 The budget for the new build programme is agreed in the HRA business plan and will be reviewed at least every 6 months. Acquisitions valued below £2 million that are within budget and meet current policy will be agreed with the Head of Housing and the Lead Member for Housing. Acquisitions above the amount will be agreed by Cabinet. A progress report will be produced annually, in April, and will be reported to Leadership Team and Cabinet.

9. Risk Management

- 9.1 The corporate strategic risk register includes risks relating to the New Build programme. The Housing Service Plan provides an annual update of risks. As the programme has grown it now merits a specific, more detailed risk register for the development pipeline to be completed by April 2020 and to be reviewed twice yearly at Leadership Team.