

REPORT TITLE: NEW HOMES PROGRAMME UPDATE

21 SEPTEMBER 2021

REPORT OF PORTFOLIO HOLDER: Cllr Kelsie Learney, Cabinet Member for Housing and Asset Management

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WARD(S): ALL

PURPOSE

This report provides a summary and update of the New Homes programme as requested at the last meeting. It notes the progress made with 372 new homes built, acquired or supported since the inception of the programme. It also updates members on proposals for establishing a vehicle capable of managing “mixed tenure” provision for specific sites.

RECOMMENDATIONS:

The Policy Committee are asked to:

1. Review and note the progress with the New Homes programme to date and the proposals for schemes currently being worked up. The committee are requested to respond in particular to:
 - a) The current rent policy and whether an informal group should be established to review this
 - b) The proposal to bring forward a revised business case for a special vehicle to manage sub market rented housing in Winnall
 - c) The current data on housing need and how that should influence future development

1 RESOURCE IMPLICATIONS

- 1.1 The resource implications of the programme set out in this report have been modelled within the Housing Revenue Account (HRA) Business Plan. £254m has been approved within the HRA Capital Programme to support the delivery of 100 homes.
- 1.2 Current resources within the New Homes team are being reviewed with a view to establishing additional technical expertise in the team to compliment the project management officers. Whilst the original team has been very successful in bringing forward new homes, it is recognised that additional capacity is needed to deliver the enhanced programme. It is also recognised that additional capacity may be required in those teams which support the programme (legal, finance, Natural Environment and Housing Management). Funding to support these additional resources is available within the HRA.

2 SUPPORTING INFORMATION:

- 2.1 The Council established the New Homes team in 2012 with a clear target to deliver 300 homes over 10 years. With the ten year anniversary in April 2022, the team has directly delivered, acquired or supported 372 new homes across the district. The Council remains one of only a very few local authorities that has increased its net stock numbers since 2012.
- 2.2 The Council Plan has updated the New Home aspirations with the aim to build 1000 units by 2031 and earlier this year, the Council approved investment of £254m over the next 10 years to deliver this.
- 2.3 The Housing Development Strategy approved by Cabinet in March 2021 included targets for:
- a) Building 1000 new homes by 2031
 - b) All new homes to aim to be net carbon neutral
 - c) All homes to be very energy efficient, cheap to run and resilient to climate events/overheating
 - d) All schemes to be designed to create a sense of place, and include easily accessible and safe green spaces with foot and cycle paths linking with local networks.
- 2.4 It identified key challenges as:
- a) Finding suitable sites and the need to acquire land to support the programme

- b) The tension between cost and quality – The targets above will result in higher build costs (a particular challenge for any council owned trading vehicle which is discussed later in the report).

2.5 This report provides an update on progress with the New Homes programme and with work to bring forward a vehicle to manage mixed tenure housing, specifically at the new Winnall scheme. It includes:

- a) a summary of New Build progress to date
- b) Work in progress/emerging schemes
- c) Summary of Housing Needs
- d) Current proposals for a wholly owned vehicle/housing company to support mixed tenure at key sites

3 Summary of Progress to Date

3.1 Since the start of the New Homes programme, the Council has built 287 new homes and created an additional 16 units by converting existing “non-operational” assets (former common rooms, stores, a former shop and a former library). A further 49 units have been purchased (most notably Milford House and Gordon Watson House from a registered provider and a number of individual private homes (many ex Right to Buy sales). In addition, grant funding has been given to assist partners in developing 20 new units of supported accommodation. Overall, this has resulted in 372 new homes being created using the Council’s Housing Revenue Account funds. Further details are set out in Appendix 1.

3.2 As stated above, 119 of these units have been completed since the latest 10 year programme and the Development Strategy was approved in March 2021.

4 Work in progress/Emerging schemes

4.1 The table below sets out the progress of existing schemes and work in progress.

Project Name	No. new homes	Projected End Date	Upcoming Milestone	Comments
Southbrook Cottages Micheldever	6	Mar-23	Final Business Case – Jan 22	planning approval now received
Woodman Close, Sparsholt	5	Aug-23	Submission of planning application	Outline business case approved
Winnall Flats	75	Apr-23	Start on site	Final Business case approved by Council July 21, but subject to variation (exempt report CAB3317 refers)

Dyson Drive, Abbotts Barton	8	Dec-22	Outline Business Case – 6/10/21	The scheme can proceed to Planning if outline case approved
Corner House, North Walls	6	Dec-22	Outline Business Case	Final design being prepared in advance of community consultation. Progress affected by staff shortages
Witherbed Lane, Whiteley	4	Mar-23	Submission of planning application	Outline Business case approved 6 Sept 21
Whiteley (CAB3304 refers)	54	Mar-23	Start on Site	Negotiations to acquire new build homes are ongoing
North Walls, Winchester	6	TBA	Outline Business Case	Design options reviewed and viability of 6 one bed units currently being assessed
Tower St, Winchester	2	Jul 22	Final Business Case – Jan 22	Currently subject to tender

4.2 In addition to the above, work is in the early stages on a number of potential opportunities, including the provision of an Extra Care scheme on the next phase of the Kings Barton development and also a significant “community led” proposal on land owned by Homes England in Knowle.

4.3 The New Homes Capital programme includes provision of £180m between now and 2031 for land acquisition and for bringing forward sites that have yet to be identified.

5 Rent Policy

5.1 Rents for most council homes are based on “social rents” in accordance with the national rent policy ad formula. This typically equates to between 50-60% of market rents.

5.2 In order to ensure new build developments are viable over 35 years, can meet borrowing and other financing cost and do not have a negative impact on the HRA Business Plan, most schemes have been based on an affordable rent averaging 70% of market rents. The affordable rents remain within the “local housing allowance” and have significantly reduced utilities bills compared to most other council housing.

5.3 TACT has expressed concerns regarding rents and asked for more focus on social rented housing. This has been achieved at the most recent development at the Valley in Stanmore, with the support of £6m grant from Homes England.

5.4 The business case and viability assessment of future schemes will continue to assume a 70% affordable rent. Where available, Homes England grant can be bid for to support social rents.

- 5.5 It is some years since the Winchester Rent Policy was developed and members may wish to review this. If so, the Committee may consider an informal member/officer group to appropriate for this purpose.

6 Summary of Housing Need

- 6.1 The current housing register includes 1374 applicants. The table below summarises need by bedroom numbers required.

	1 Bedroom Need	2 Bedroom Need	3 Bedroom Need	4 Bedroom Need	Total
Band 1	2	0	1	0	3
Band 2	124	53	11	18	206
Band 3	699	189	127	26	1041
Band 4	116	6	1	1	124
Total	941	248	140	45	1374

- 6.2 Demand in each locality is listed in appendix 2. It should be noted that many applicants may not express a preference for an area and are recorded as Winchester but may bid across the district.

7 Establishing a Housing Company

- 7.1 The Council determined to establish a Housing Company over 5 years ago, principally as a means to extend funding for the New Homes programme and due to the borrowing limits of the HRA Debt cap.
- 7.2 The Debt cap was removed in 2018 and the Council has now substantially revised its New Homes programme and HRA Business Plan, with a £254M programme funding 1000 homes over the next 10 years.
- 7.3 The majority of councils and particularly those that do not hold an HRA have some form of housing company, joint venture or trading vehicle to support housing delivery. However, examples of strong programmes are few and far between. Whilst some excellent examples are building at scale, particularly in London, there have been a number of very high profile failures (and many more operating at a loss or with fewer than 10 properties held).
- 7.4 Examples include:
- a) London Borough – Housing company poorly administered and a major contributor to the eventual 114 notice
 - b) Large Metropolitan Council – Very high profile launch with the intention of delivering 1000 homes a year. Recently disbanded after delivering less than 30 homes in total.

- c) South West Council – Presented to Winchester members with an impressive resume and some excellent new build experience including Passivehaus. However, delivery claims related to direct Council delivery. The company itself at last reporting period had no completions, £3-4m work in progress and servicing a £10m debt (loan from the council). It had been established in 2018 and still had no income generated in 2020 accounts. Subsidiary vehicles referred to in member presentations were at that time lying dormant. The vehicle still has potential for a successful operation and more information currently is being sought regarding the strategic aims of the company structure.

7.5 Companies have often been viewed as required to give protection against losing properties through “Right to Buy”. However, this has proved to not be a significant issue for Winchester, where high build costs and values offer this protection. The “cost floor ceiling” equation in the RTB process means councils can allow for build costs to be taken into account which effectively removes any RTB discount for new build properties.

8 Housing Company Options

- 8.1 Local authority delivery vehicles can take many forms. Many councils established housing companies in the last 10 years without too much thought to their purpose or requirements. A large percentage of them lie dormant, have failed or have yet to deliver against their original ambitions (largely due the difficulties we are experiencing which are set out in section 9.2 below). They are clearly not the solution to large scale housing delivery that many commentators originally claimed, although can make a valuable contribution and do support mixed tenure delivery.
- 8.2 There is a clear direction towards establishing vehicles for specific sites, with some councils establishing several site specific vehicles.
- 8.3 Structures include:
 - a) Small scale wholly owned companies for housing purposes – typically funded by council loans, no dedicated staff and council services providing support. This approach provides flexibility and can be useful for small sites and individual properties. However, they will always be marginal and risk diverting focus from core delivery programmes. Will always be more expensive to operate than direct delivery programmes.
 - b) Larger Scale wholly owned structures for both housing and investment purposes – Often a mix of separate site specific or service specific vehicles (some with charitable status). Legally complex and with dedicated staffing so requires significant scale to be effective.
 - c) Joint Ventures – Probably the most common approach currently, with a mix of site specific agreements through to strategic partnerships. Eastleigh and Fareham companies actually form part of a joint venture with two Hampshire housing associations and sit within the Aspect

Housing structure. Delivery and management is largely coordinated by the registered providers.

- d) Jointly owned companies/Local Authority partnerships – A number of councils have joined forces to establish partnership vehicles. This has the advantage of increasing scale and land supply which can improve effectiveness. Typically this would be non “stock holding” councils with no HRA
- e) Regen Companies – Some larger councils have established large scale regen companies with dedicated boards/staffing, particularly where they have access to strategic sites. These have the advantage of securing very specialist expertise as well as access to significant external/corporate funding deals.

9 The Original/Approved Model

- 9.1 Approval to establish a Housing Company was given in March 2019 (CAB3139 (HSG) refers). This was based on the principle of the vehicle borrowing from the Council to fund building, which was eventually to be offset through rental income.
- 9.2 However, to date, officers have not been able to bring forward schemes in line with the assumptions included in the original business case, largely due to:
 - a) High unit costs – Generally smaller sites with exceptional design to meet planning policies and which meet the “net carbon neutral” aspirations the Council now aspires to (currently significantly better than the market housing delivers).
 - b) Need to account for land costs.
 - c) Need to account for commercial borrowing costs (4% +) and tax implications.
 - d) No access to subsidies which generally support affordable housing.
 - e) Whilst HRA build schemes are subject to the high unit costs, most have had free land or subsidised land, have access lower borrowing costs (currently less than 2%) and can also access subsidy, either through Homes England grant or use of “Right to Buy” receipts.
- 9.3 To make a “build to rent” model work and be sustainable would require larger development sites with only limited development constraints (flat, easy access to services, etc). There are no such sites included in the current programme.
- 9.4 It is therefore not recommended to formally establish the model set out in CAB3139 (HSG).

10 A Revised Model

- 10.1 In light of the above challenges, a revised model has been worked up based on the HRA building and retaining units but leasing them to a wholly owned council company. This model would also support the short term transfer of existing assets to a company (HRA stock under review, general fund units subject to regen etc).
- 10.2 A business case based on a block of the Winnall new build scheme has been worked up and is sustainable, but only very marginally over 30 years.
- 10.3 The company would require some working capital (a loan and/or equity investment from the Council) but nowhere near the amounts previously provided for. It would hold few or no assets and effectively be a simple financing/housing management model to support the provision of sub market rent and market rent housing. Margins are very tight and risk of losses would be relatively high (model very sensitive to performance). However, any impact would be small/manageable.
- 10.4 Governance arrangements could remain as agreed set out in CAB3139 (HSG), although it will be necessary to review and cost these to ensure “on costs” charged to the company are reasonable.
- 10.5 Impacts include:

a) **The Company**

The company makes a paper loss in the early years and then shows a surplus for the remaining periods with a net surplus at the end of 30 years. Any surplus will be subject to the annual costs of governance (how much “on cost” the Council charges for administering the company (directors, company secretary, accounting, reporting and scrutiny) and final rent levels.

b) **The HRA**

The HRA provides the housing management, the housing maintenance and the governance resources to the company at a mark-up of 5%.

c) **The General Fund**

- d) Since all services are assumed to be provided for the company by the HRA at a 5% mark-up the impact on the GF is also reasonably neutral.

11 Risks

- 11.1 Before determining whether to proceed, members need to consider the potential risks, including:

- a) Income projections are based on 2% voids and 1% rent loss. 1% increase on either of these would have a significant impact on company viability. With 90%/95% rents and shorter term tenancies with significantly more frequent changeovers, maintaining this performance will be challenging.
- b) Governance – Costed currently modelled at an average of £50k per year. If limited to director's/company secretary time, accounts preparation/reporting and quarterly performance monitoring, this should be more than sufficient and may well be less. However, any desire for greater member scrutiny and involvement would challenge this.
- c) Management services - The HRA would benefit from being able to charge for management services. However, tenants will expect a different offer if paying a 90% rent. Managing different service levels to different customers should not be under-estimated. The Housing team has current difficulties and challenges with managing leaseholders and in particular with the increasing numbers of shared ownership properties (add also the Partnered Homes Purchase scheme and other initiatives – all add to the risk of compromising core services)

12 Conclusions

- 12.1 Despite the challenges set out above, a vehicle to support the provision and management of missed tenure housing is required if the Council is to meet its Council Plan aspirations.
- 12.2 The Housing Company model can be financially viable based upon current assumptions stated above but very sensitive to performance. Now that the final development costs and values for the Winnall development have been determined, it is proposed that a detailed business case be developed with a comprehensive sensitivity analysis and brought back to a future meeting.
- 12.3 Delivering affordable housing through the HRA will always be more cost effective than through a local authority trading vehicle and it is important that the Council continues to focus its efforts on HRA delivery if it is to meet its 1000 homes target by 2031.
- 12.4 The first 10 years of the Council's New Homes programme has been really successful. The original 300 homes target has been exceeded ahead of time and the Council has secured the resources to deliver its long term ambitions.

13 OTHER OPTIONS CONSIDERED AND REJECTED

- 13.1 The report has set out why the previous housing company model is not considered to be appropriate or sustainable based on the current development opportunities.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

CAB3139 (HSG) Establishing the Winchester Housing Company dated 20 March 2019

CAB3291 - Housing Development Strategy 2021 – 2030 dated 20 march 2021

Other Background Documents:-

None.

APPENDICES:

- 1 New Homes Programme – April 2012 - September 2021
- 2 Housing Needs Data by Area

New Homes Programme – April 2012 - September 2021

Appendix 1

Site	Location	Total Homes Delivered	Tenure
Completed New Build Sites			
Barron Close	Micheldever	5	5 AR
Bourne Close	Otterbourne	3	3 AR
Station Close	Itchen Abbas	5	5 AR
New Queens Gate	Stanmore	21	21 AR
Symonds Close	Weeke	12	12 AR
Hillier Way	Abbots Barton	13	13 AR
Springvale	Swanmore	2	2 AR
Mitford Rd	New Alresford	8	6 AR, 2 S/O
Chesil Lodge	Winchester	52	44 AR, 6 S/O, 2 Sale
Bailey Close	Stanmore	5	5 AR
Victoria Court	Winchester	27	18 AR, 9 S/O
Mayles Lane	Knowle	13	11 AR, 2 S/O
Dolphin Hill	Twyford	2	2 AR
Rowlings Rd	Weeke	7	7 AR
The Valley	Stanmore	77	54 SR, 23 S/O
Hookpit Farm	Kingsworthy	35	25 AR, 8 S/O, 2 Sale
Total Completed Sites		287	
Conversions of Existing "Non Operational" units			
Former Post Office	Compton	2	SR
Highcliffe Rd	Winchester	1	SR
Lisle Ct	Stanmore	1	SR
Upper Firmstone Rd	Winnall	1	SR
Whitewings House	Denmead	1	SR
Spring House Close	Colden Common	3	SR
Airlee Corner	Stanmore	1	SR
Colson Close	Winnall	1	SR
Drummond Close	Stanmore	1	SR
Harwood Place	Kingsworthy	1	SR
The Valley	Stanmore	1	SR
Stanmore Library	Stanmore	1	SR
Chester Court	Winchester	1	SR
Total Conversions		16	
Acquisitions			
Milford/Gord. Watson Hse	Winchester	34	SR/Licence
Kings Walk	Colden Common	4	AR
The Mews, Hill Lane	Colden Common	1	AR
Colbourne Ct	Abbots Barton	1	AR
Stuart Crescent	Stanmore	1	AR
Westman Rd	Weeke	1	AR
Braxton Hse	Winnall	2	AR
Blanchard Road	Bishops Waltham	1	AR
Wykeham Place	Stanmore	1	AR
Furley Close	Winnall	1	AR
Taplings Close	Weeke	1	AR
St.Martins Close	Winnall	1	AR
Total Acquisitions		49	

Funded by Grant			
Emmaus	Winchester	8	
Trinity "Under One Roof"	Winchester	12	
Total supported by Grant funding		20	
Total New Homes Delivered at September 2021		372	

Housing Needs Data by Area

(If no specific, preference, applicant listed under “Winchester”)

	1 Bed	2 Bed	3 Bed	4 Bed	Total
Abbots Barton	16	3	4	0	23
Abbots Worthy	0	0	0	0	0
Avington	2	0	0	0	2
Badger Farm	27	7	5	1	40
Beauworth	1	0	0	0	1
Bighton	1	0	0	0	1
Bishops Sutton	4	0	0	0	4
Bishops Waltham	49	21	7	3	80
Boarhunt	3	0	0	0	3
Bramdean	3	0	1	0	4
Cheriton	5	2	1	0	8
Chilcomb	1	0	0	0	1
Colden Common	30	7	5	1	43
Compton and Shawford	14	4	1	0	19
Compton Down	0	0	0	0	0
Corhampton	0	1	0	1	2
Crawley	2	0	0	0	2
Curdrige	4	1	0	0	5
Denmead	17	19	10	0	46
Droxford	4	2	1	0	7
Durley	5	1	0	1	7
East Stratton	2	0	0	0	2
Easton	1	2	0	0	3
Exton	0	0	0	0	0
Hambledon	5	4	1	0	10
Harestock	24	9	3	3	39
Headbourne Worthy	1	1	0	0	2
Highcliffe	17	9	5	1	32
Hinton Ampner	2	1	0	0	3
Hursley	3	1	2	0	6
Itchen Abbas	1	2	1	0	4
Itchen Stoke	1	0	2	0	3
Itchen Valley	0	0	0	0	0
Kilmeston	1	0	0	1	2
Kings Worthy	62	49	9	1	121
Knowle	4	2	0	2	8
Littleton	8	5	2	1	16
Martyr Worthy	5	0	1	0	6

Meonstoke	3	0	1	0	4
Micheldever	13	4	2	0	19
New Alresford	52	17	6	1	76
Newlands Common	0	0	0	0	0
Newtown	0	0	0	0	0
Northington	0	0	0	0	0
Old Alresford	5	1	2	1	9
Olivers Battery	5	3	1	1	10
Otterbourne	6	3	1	0	10
Ovington	0	0	0	0	0
Owslebury	9	3	1	0	13
Shedfield	6	1	3	0	10
Shirrell Heath	1	0	0	0	1
Soberton	4	1	0	0	5
Soberton Heath	1	0	0	0	1
South Wonston	11	8	0	2	21
Southwick	5	1	0	0	6
Sparsholt	8	4	0	2	14
Stanmore	94	35	18	4	151
Swanmore	17	11	4	1	33
Teg Down	2	1	0	0	3
Tichbourne	0	0	0	0	0
Twyford	17	1	1	0	19
Upham	3	1	0	0	4
Waltham Chase	7	11	1	0	19
Warnford	1	0	1	0	2
Weeke	43	13	13	3	72
West Meon	5	1	1	0	7
West Stratton	0	0	0	0	0
Whiteley	7	4	4	0	15
Wickham	32	7	4	3	46
Widley	0	1	0	0	1
Winchester	940	247	139	45	1371
Winnall	65	21	20	4	110
Wonston incl Sutton Scotney	23	0	2	3	28