

MORE COUNCIL HOMES STRATEGY

DRAFT

September 2016

1. Introduction

- 1.1 Key reforms to the way in which Council housing is financed in Wales means that each of the 11 stock owning Welsh Local Authorities can now forecast more financial resources being available within their Housing Revenue Accounts (HRA).
- 1.2 Whilst it is for each individual Council to determine how to use these resources, the opportunity to directly provide more affordable housing to help fill the chronic shortfall in supply is now available – something that has not been possible for a generation.
- 1.3 There are limitations. The HRA remains a ring fenced account which means that it can only be used for housing purposes and a cap has been imposed as part of the self-financing ‘deal’ which limits the total amount that can be borrowed when existing borrowing and the need to fund investment in the improvement of the existing stock up to the Welsh Housing Quality Standard (WHQS) is taken into account. Also, the financial projections are based on assumptions many of which (particularly rent levels) are outside the direct control of the Council.
- 1.4 Nevertheless, this does represent a significant opportunity and the purpose of this strategy is to set out the level of funding that can be reasonably forecast, the extent of need for more affordable housing in the area, the potential options for making best use of the resources and key actions to support a long term development plan.
- 1.5 With the Council’s Local Housing Strategy as a backdrop, the aim of this document is not to set out in detail a development programme but to establish a platform and context for those decisions to be taken.

2. Background and Current Provision

- 2.1 Council’s across the UK have been restricted in directly building new homes for affordable rent since the early 1980s. A succession of Government policies have further inhibited supply with Registered Social Landlords (RSLs) (i.e. Housing Associations) primarily taking on this role using public subsidy in the form of grants to help with development costs and thereby, providing new properties for rent or purchase at affordable levels. Councils have retained responsibility for measuring local need, providing a strategy to meet that need and acting as an enabler to channel Government grant to schemes that best meet local priorities.
- 2.2 At the same time as restricting direct build by Councils, the Right to Buy (RTB) scheme has reduced the number of Council houses available for affordable rent. The total stock of the new Unitary Authority in 1996 was 17,387. Currently, the stock is 13,496, a reduction of 22.4%, largely as a result of the RTB.
- 2.3 The term ‘Affordable Housing’ describes housing which is let or sold at below market rent or value. However, build costs are similar irrespective of the eventual tenure and Government standards can mean that costs can actually be higher for affordable housing. Therefore to be a viable proposition, affordable housing schemes need to be subsidised which can be in the form of lower land values and / or subsidy from Government to help cover some of the costs.

- 2.4 Affordable housing can also be gained through the planning system whereas a condition of the approval, the developer is obliged to return a proportion of the properties as affordable housing or as a commuted sum up to the value of the homes that would have otherwise been provided.
- 2.5 However, despite the available mechanisms, the net result over the years has been a failure to keep up with the demand for affordable housing at a time when house prices have spiralled upwards and the number of Council houses has reduced.
- 2.6 Therefore, whilst on its own the return of Council house building will not fill this cumulative and chronic shortfall in supply, the opportunity to directly contribute is both welcome and long overdue.

3. The More Council Homes Project

- 3.1 To respond to this, a project was initiated within the Council to establish a coherent and deliverable strategy for HRA investment in new affordable housing. The project has examined current and projected needs, locations for development, projections of available funding and options for maximising their use.
- 3.2 This project has the title 'More Council Homes' and its key objectives have been to:
- Appraise available options to make best use of the HRA resources to support the provision of more affordable homes in Swansea
 - To provide recommendations on a course of action
 - To identify the resources and organisational requirements to support a programme of ongoing investment.
- 3.3 The project has sought to evidence and bring together three fundamental elements that will collectively form the basis and underpin a coherent plan for the future:

Element	Evidence
What sort of housing needs to be provided?	<ul style="list-style-type: none"> • Local Housing Strategy • Local Housing Market Assessment • Housing Waiting List
Where should the housing be developed	<ul style="list-style-type: none"> • Assessment of HRA owned land • Unitary and Local Development Plans • Housing Waiting List
How can this be achieved to make best use of the resources.	<ul style="list-style-type: none"> • HRA Business Plan modelling • Partnerships and other options

- 3.4 Ultimately, the aim will be to plan a number of individual developments over both the short and long term with each one reflecting the housing need in the given

locality, on land that is available, using a funding option that makes best use of the available resources.

4. Financial Context

- 4.1 In April 2015 two major changes that affect the financing of Council housing in Wales took place, the combination of which has made a substantial impact on the forecasted level of resources available within the HRA.

Housing Subsidy System

- 4.2 The Housing Revenue Account Subsidy system (HRAS) was a complex and bureaucratic system whereby all 11 of the remaining Welsh Councils with a housing stock returned a combined total of around £73m in negative subsidy payments each year to the Government. Its replacement with a new 'self-financing' system, allows Councils to retain in full the rental income and to use it to support housing priorities.
- 4.3 For the new system to be introduced, stock owning Welsh Councils contributed to an all Wales 'buy out' from the HRAS and have each taken on additional borrowing to fund this. However, the annual cost of servicing this debt is lower than the previous negative subsidy payments meaning that each Council's HRA is better off as a result.
- 4.4 For Swansea an additional £73.5M was borrowed to contribute to this 'buy out' resulting in interest payments of £3.29m each year instead of the negative subsidy payment of around £5.8m. After taking into account debt repayments, the net benefit of the change is around £1m per year.

Rents Policy

- 4.5 In April 2015, the Welsh Government (WG) introduced a new policy for calculating the level of social housing rents to provide consistency for all social housing providers including Council's and RSLs.
- 4.6 The new policy is based on target rents which are set by the WG and apply to all social landlords in a prescribed area. Whilst the overall target average rent will be set by the WG, there is a discretion for Landlords (subject to transitional arrangements) to set different rents as long as the actual average rent is within 5% (+ or -) of the target average rent. The target average rents for an individual landlord are expressed in three bands. The mid band is essentially the target average rent with the lower band equating to 5% below this and the higher band equating to 5% above. Transitional arrangements are in place to ensure that neither tenants nor Landlords face substantial upheavals in their financial affairs as a result of implementing the new policy.
- 4.7 The Council's policy is to aim for the higher band and although progress in meeting this level is retarded by the transitional arrangements, it does mean an increase in net income over and above that previously forecast.

4.8 Rental income is a fundamental component of the HRA Business Plan (HRABP) and is the key financial support for providing more Council housing. However, despite the new self-financing regime, rent policy continues to be outside the direct control of the Council and predicting future levels with any certainty is impossible. For example, social rent policy in England is controlled by Central Government and as part of the 2015 budget statement, the Chancellor of the Exchequer announced a decrease in social rent levels for the next 4 years. Although self-financing has been in place for English Councils with a housing stock since 2013, many are now revising downwards their new build plans following this announcement. In Wales, housing (including rent policy) is a function devolved to the WG and whilst its current policy allows for a growth in rent levels, there is no guarantee that this position would not be reviewed at some point in the near or long term future. This therefore remains a significant risk within the HRABP.

The HRA Ring-fence

4.9 The HRA is a ring fenced account which means that any income from Council house rents has to be used to pay for the running costs of providing Council houses including the management and maintenance costs and capital financing charges on HRA capital schemes (i.e. projects that contribute to the quality or quantity of the Council's housing stock). This means that the HRA cannot be used to subsidise transfers from the Council's General Fund or vice versa.

4.10 Any additional forecasted resources are therefore ring-fenced and in calculating the amount that may become available, two important factors have been taken into account – the affordability of the HRA Business Plan and the imposition of the debt cap.

Affordability of the HRA Business Plan

4.11 The HRA is not permitted to record a deficit so maintaining this surplus affects the amount that can be afforded in any one year. The HRABP forecasts HRA income and expenditure over a 30-year period using the following key assumptions:

- For **rental income**, the model reflects the WG assumption that the target rent bands will increase by the Consumer Prices Index (CPI) +1.5% until 2020/21 and then by CPI thereafter. The model also assumes that Swansea will maximise rent income by increasing its average rent to the upper band (target rent +5%) as quickly as possible taking into account the transitional restrictions set by the WG. Other income is assumed to increase by CPI. However, as stated previously, rent policy is outside the direct control of the Council and there is a risk that the WG could review its approach.
- The model assumes that all **revenue expenditure** for both management and maintenance will increase in line with CPI.
- For **loan charges** the model assumes that interest on the HRAS debt will be 4.25% and that the interest charge for all other debt both existing and new will be at the Council's pooled rate (currently 5.44%). The capital repayment (MRP) will be at 2% per annum.

- **Void Loss and Bad Debts** have been set at 4% of the gross rent income. This will be subject to review once the impact of further welfare reform and the introduction of the Universal Credit is assessed.
- The model also assumes that the **Major Repairs Allowance (MRA)** capital grant of £9.1M, provided annually by the WG on condition that an acceptable Business Plan is submitted will continue each year for the full 30-year period of the Business Plan. This funding is subject to annual review by the WG and under current consideration is whether Councils should access other funding streams (currently not available to Welsh HRAs), which could possibly offset the impact of any reduction or withdrawal of the MRA.

4.12 The difference between income and expenditure in any year impacts on the level of HRA reserves. The HRA Business Plan sets out the forecast level of HRA reserves based on planned income and expenditure. Good accounting practice assumes that the HRA will retain a prudent level of reserves and it is the amount above this level that provides the capacity to pay for additional borrowing which can then be used to fund the provision of more affordable housing.

The Borrowing Cap

- 4.13 A condition of the exit from the HRAS is the imposition by the UK Treasury of an all Wales debt cap which has been distributed to each Council according to their current HRA debt, the debt needed to exit the HRAS, the debt for known commitments (i.e. WHQS) and a proportion of the headroom between these and the overall cap.
- 4.14 For Swansea's HRA, the total level of indebtedness (i.e. the cap) is just under £221M and the allocated 'headroom' will be subject to review by the WG in future years.
- 4.15 Effectively, the cap restricts the amount of additional borrowing that can be used to fund the provision of new affordable housing by the Council. The level of the all Wales cap may be reviewed by the UK Treasury and this may result in a different distribution by the WG. However, even if via the HRABP, it can be demonstrated that more borrowing is affordable, the debt cap cannot be breached. Therefore, any surpluses that cannot be used to fund borrowing can be used to fund new build but depending on the size of programme, these may take time to accumulate.
- 4.16 Therefore, the combination of the amount that can be afforded and regard for the debt cap are major influences on the overall size and timeframe of the resources available for any new build programme.

Timeframe of forecasts

- 4.17 Whilst the overall HRABP forecasts are for 30 years, to provide a rational programme, the 5-year period from 2016/17 to 2020/21 has been assumed for the financial plan and should be adopted for any subsequent development programme. This also coincides with the target completion of the WHQS programme which in itself will release additional resources.

- 4.18 This 5-year time frame is also usual practice amongst many RSLs in terms of balancing the risk of changes within the HRABP parameters and the need to commit to a programme.

How much is likely to be available?

- 4.19 There is always a degree of uncertainty when forecasting resources into the future and there are significant risks which may impact on the level of resources available. The HRABP is based on a set of assumptions all of which are liable to change over time and some of which are outside the direct control of the Council. The rent income assumptions in the HRABP take into account the current Welsh Government's Rents Policy which currently has only been guaranteed for one year. In addition, the UK Government has announced substantial welfare reform changes which again could affect the level of rent income collected. The HRABP also reflects the significant investment of £200M in the current housing stock to meet the WHQS by 2020. There will always be risks associated with such a high level of investment and even a relatively low percentage increase in the cost of the WHQS works would impact on the resources available for More Council Homes. These risks are aggravated by the fact that new build schemes can take time to develop and complete which means that resources have to be 'committed' much more in advance.
- 4.20 The HRABP forecasts that around £10M may be available for new build up to 2020. This would be funded by additional borrowing which would be spread out over the next 5 years with the bulk of the borrowing being taken out towards the end of this period once the available reserves have accumulated. Given the risks set out in 4.19 above it would be financially prudent to only commit a proportion of the forecast available resources and it is recommended that a figure of around £6M be used for planning purposes at this stage.
- 4.21 Forecasting resources beyond 2020/21 is highly speculative although with the planned completion of WHQS and rents at the higher band, additional surpluses are almost certain to arise. The key issue is the proximity of total borrowing to the level of the debt cap and how much headroom is available. This will fluctuate considerably from year to year as existing debt is paid off. Although there is likely to be a future review of the all Wales level, depending on the amount borrowed for WHQS and new build between now and 2020/21, it is likely that the majority of funding post 2021 will come directly from revenue (i.e. it will be funded by the difference between income and normal expenditure in each year). Whilst these sums are likely to remain significant, it will have a profound effect on planning a new build programme as time will need to be allowed for the level of surpluses to accumulate.
- 4.22 Given the risks highlighted above it is suggested that the Council earmarks the affordable housing monies, received through section 106 contributions, to further support the new build programme. This money has traditionally been used to support the Social Housing Grant Programme, however this was agreed before the Council was able to build new housing itself.

5. Housing Need

- 5.1 The primary evidence of projected Housing need is the Local Housing Market Assessment (LHMA) as this takes into account predicted changes across a range of socio economic and demographic factors. However, the current waiting list and real time market intelligence also play their part in determining the size and type of housing needed in a particular locality.

Local Housing Market Assessment

- 5.2 LHMA's provide the intelligence that helps to inform current and future requirements on a relatively local basis and the nature and level of housing demand and need within Swansea. As such, it provides an authoritative evidence base for deciding what type of housing should be provided to best meet need in any given locality.
- 5.3 The most recent LHMA was carried out in 2012 and published in 2013 by Opinion Research Services (ORS). It was a joint commission by the City and County of Swansea and Neath Port Talbot County Borough Council to carry out a comprehensive study of current and future housing requirements, housing mix and housing need. It was undertaken in full accordance with the requirements of the Welsh Government.
- 5.4 The full explanation of the methodology and the parameters used in the modelling are set out in the current Local Housing Strategy and in the draft Local Development Plan (LDP). The LHMA highlighted several significant features in terms of household size, age structure and affordability, which will influence the demand for housing (particularly for affordable housing) in Swansea.
- **Household Size:** Between the 2001 and the 2011 Census, Swansea's population increased by 15,700 to a total of 239,000 people, representing an increase of 7.0%. This includes 234,400 residents living in 103,500 households, representing an average household size of 2.26 persons. The remaining residents occupy communal living establishments including care and nursing homes, services and student accommodation. Furthermore, the total number of households in Swansea increased by 9,100 in the same period. The upward growth trend identified in the 2011 Census is continuing on a similar trajectory in Swansea both in terms of population numbers and also in terms of household numbers. Between 2013 and 2014, Swansea's population increased by approx. 1,000 (+0.4%) to 241,300. By mid 2013, there had been a further increase of 700 households in Swansea (0.06% increase) since the publication of the last Census figures. These increases will put further pressure on the housing market in Swansea where the supply of housing in all tenures is not keeping pace with demand.
 - **Age Structure:** Comparing the age structure for the population in Swansea against the whole of Wales shows a higher proportion of young adults aged 15-34 years, and particularly those aged 20-24 (largely as a result of the significant local student population). Swansea also has a slightly higher proportion of residents aged over 75 compared to the Welsh average. This demographic, coupled with a growth in the number of older residents (whether single people

or couples) will need to be reflected in a housing requirement for smaller properties across all tenures.

- **Affordability:** In terms of affordability, over 46% of non-homeowners in Swansea have incomes of under £10,000 per annum, while 72% have incomes under £20,000 per annum. Assuming that housing costs (to be affordable) do not exceed 25% of income, many of these households could afford no more than social rent and many would need Housing Benefit support to meet the cost of social rents in Swansea

- 5.5 The Government's continuing reform of the welfare system is likely to lead to a greater demand for smaller accommodation as well as for an increase in shared accommodation for single persons under 35 years. Previously, single people aged over 25 were entitled to Housing Benefit to cover one bedroom, self-contained accommodation. The changes mean that single people aged up to 35 will now be assessed using the lower shared accommodation rate. This is likely to increase demand for Houses in Multiple Occupation (HMO) accommodation within Swansea.
- 5.6 **Area Variations:** The results of the assessment show that despite being relatively prosperous, the areas further west in Swansea demonstrate a requirement for affordable housing due to having both the highest house prices and lowest build rates. The Swansea North area has a significant demand for new housing, although has historically seen low levels of house building primarily attributable to a lack of developer interest. Areas in the east of the city typically show less of a requirement for affordable housing mainly due to sufficient quantity of affordable private sector dwellings in this area. The greater North West area of Swansea has the greatest requirement for market dwellings and the greatest capacity to deliver.
- 5.7 **Number of Units:** On the basis of available evidence, the projections in the LHMA indicate a requirement over the LDP period (2010 to 2025) for an additional 17,100 new dwellings. Of these, around 7,400 should be for a mix of affordable rent or sale.

Housing Waiting List

- 5.8 Whilst the LHMA will show the type of housing that people want and aspire to across all tenures, the waiting list for affordable housing provides evidence of a particular need. However, both the LHMA and the current waiting list suggest the main demand in the social housing sector is generally for smaller properties.
- 5.9 For example, including tenant transfer applications, there are currently 3,073 separate applications on the housing waiting list of which single people and childless couples account for 43% (1,334). After adding OAP single persons and couples, this figure rises to 55% (1,695). Of the single persons on the list, 23% are aged below 25 (261). In terms of the types of property that applicants have applied for, 57% have applied for 1 bed properties, 29% for 2 bed properties and 10% for 3 bed properties.
- 5.10 The current waiting list indicates a demand for 1 bedroom accommodation, which is exacerbated by the relatively low number of such properties in the social

housing sector. This unmet need is also compounded by those on the current waiting list who are applying to downsize to 1 bedroom accommodation.

- 5.11 Currently 31% of non-tenant applications are from those in the family home, staying with friends, having no accommodation or staying in bed & breakfast. A further 27% of applicants are from those in the Private Rented Sector. These figures indicate applications from people in acute housing need who are either homeless, potentially homeless, threatened with homelessness and/or lack security of tenure. Welfare reform is likely to have a significant impact not only on those already in accommodation but also by preventing people from being able to secure their own suitably sized accommodation which help to explain the high figure of those living with family and friends.

Hometrack Market Intelligence

- 5.12 Hometrack's Housing Intelligence System is a web based application which provides up to date property market information. The system provides for the analysis of information on a number of boundary levels including Lower Super Output Area (LSOA) and ward level. The system is used in support of local and strategic housing market assessments, planning viability, financial assessments for affordable housing, planning & developer negotiations, development appraisals and price setting.
- 5.13 Relevant Hometrack housing intelligence includes house price to earnings ratios, affordability based on disposable incomes, the costs of home purchase and rents.
- 5.14 The data provides real-time evidence on a site-by-site basis to consider tenure mix, size mix (including within each tenure) and a range of affordability information including preferred sale price should the scheme include market housing. This helps mitigate some of the risks with developments through understanding the dynamics of very local housing markets. The software also provides detailed information about income and affordability, which identifies appropriate cost thresholds for sizes and tenures.

Combining and Using the Evidence

- 5.15 The three evidence sources serve slightly different purposes. The LHMA is the most authoritative in terms of projecting housing demand. However, it can only provide the strategic backdrop to deciding the type and tenure mix on any given development. The Housing Waiting List is current and is an accurate portrayal of current need. However, it only registers the needs of those that have applied and will not necessarily reflect the type of housing they may be able to afford and aspire to. The real time software will provide a range of market data to help determine the viability of a scheme and what the local market could support. However, in the context of providing more Council housing, the primary use of this market intelligence is to calculate the amount that market sales could potentially yield in order to subsidise the amount of housing let for affordable rent.
- 5.16 Therefore, the type of housing in any one development needs to refer to all three evidence sources in combination on a scheme-by-scheme basis and take into account any local variations.

6. The Supply of Land

- 6.1 Along with an assessment of housing demand and housing need, the supply of land is a key factor for the delivery of affordable homes in Swansea. The development programme for delivering new Council housing relies on a supply of sites that are capable of being developed. To give a manageable perspective and in keeping with practices in the RSL sector, a development programme should look to 5 year intervals with the subsequent 5 year plan developed by year 3 in the cycle. The eventual selection of sites for development in any one 5 year period will be influenced by housing need, the housing market, changes in the HRABP and contractor capacity, all of which will change over time.
- 6.2 Progress with the development programme will be reliant on the supply of land and the viability of each scheme will to some degree, rely on current ownership and whether there are any acquisition costs.
- 6.3 The HRA sites that have potential for inclusion in any future development programme have already been submitted as candidate sites as part of the Local Development Plan (LDP). These will form the starting point for future discussions on the development programme although sites not currently under HRA ownership should also be considered.

Specification

- 6.4 The Council is keen to explore energy efficient low carbon housing to address fuel poverty of occupants in Swansea. The current pilot schemes (detailed below) are testing the Passivhaus specification and the findings from this will inform future developments. All new Council housing will need to be built to the Welsh Government's 'Design Quality Requirements' (DQR) which is likely to become a mandatory standard for all new social housing and includes the requirement to achieve the Lifetime Homes Standard. This will ensure that the homes are sustainable for people as they get older and will not have to move home. The Council will also ensure that new developments will achieve the principles of Secure by Design.

The More Homes Pilot schemes

- 6.5 In addition to developing the overall More Council Homes strategy, 2 pilot schemes are already underway. These schemes are being funded directly by the HRA and the objectives of the pilots are to test a number of issues which in turn will help inform the longer term strategy. These include:
- Overall financial viability of directly developing new Council housing
 - The practical, organisational and capability issues that will need to be addressed as part of the ongoing More Council Homes programme
 - Specification options to balance the viability of the scheme with the affordability for the occupants and overall sustainability of the design.

- 6.6 The pilot schemes are on land at Parc Y Helig Birchgrove and at Milford Way, Penderry. The Passivhaus specification has been used and data on its performance and cost will inform the specifications for future developments.

Sites linked to WHQS Priorities

- 6.7 The Council is under a legal obligation to improve its current stock up to the requirements of the WHQS. The required investment is significant although the programme remains on course to meet the 2020 deadline. There are significant variations in the improvement works required depending on the property type, age and condition.
- 6.8 Up to now, any consideration of alternative options (i.e. demolition and replacement of the stock) has been shown to be less cost effective due to the additional costs involved (i.e. demolition and compensation), the build cost of the replacement stock and the practical difficulties of replacing the same or higher number of properties lost in the same area.
- 6.9 However, the opportunities arising from the financial reforms to invest in new build provide a fresh perspective and context to such appraisals, especially where there is adjacent HRA land that could be developed as part of an overall package.
- 6.10 Such locations will need to be the subject of separate and detailed option appraisals, but the concept should be included as part of this overall new build strategy and taken into account as part of the initial programme.

General Programme Limitations

- 6.11 Whilst in due course, locations for potential development areas for each 5 year cycle will need to be identified, subsequent site investigations may reveal that they cannot be taken forward within the initial programme due to unforeseen circumstances (i.e. site abnormalities and / or changes within the HRA Business Plan). As a result it may be that sites scheduled for the longer term may need to be brought forward.
- 6.12 Also, depending on the adopted delivery model, the capacity of external agents such as planning consultants, developers and contractors will impact on the programme and its priorities.
- 6.13 The detailed tests of viability, scheme design and costs will need to be modelled on a site by site basis which may result in more or fewer homes being delivered than expected.
- 6.14 Viability alone will not mean that sites cannot be brought forward but it will affect where they sit in the programme to ensure they do not place a drain on resources and affect the HRA Business Plan. All sites will have risks and it is important that there are robust risk management processes in place and that the risks are shared and regularly reviewed.
- 6.15 An investigation of all HRA land and assets will be carried out and appraised in preparation for a development programme which will be continuously reviewed.

This is to ensure that future schemes are appropriate and sustainable in terms of the housing market, demand and affordability.

7. The Strategic Options

- 7.1 Whilst the HRA Business Plan projects resources to be available for new build, they will be insufficient on their own to fill the significant deficit between the number of affordable homes needed and supplied. There are also limitations on the amount of finance available for new build and what tenures the Council can provide.
- 7.2 The ring-fence means that any investment needs to benefit the HRA and not subsidise the provision of other forms of housing. Part of the negotiated exit from the subsidy system included the imposition of a cap on total borrowing, including that needed for new build. Whilst there will be revenue resources available, the cap on borrowing will limit the rate of supply of new homes for affordable rent by the Council.
- 7.3 In addition, as things currently stand, new Council housing would be let for social rent whereas in many locations, a mix of tenures alongside affordable housing (such as low cost ownership and market housing) is both desirable from a planning policy perspective and would be more economically efficient to provide.
- 7.4 A variety of separate options has been assessed but they boil down to whether the HRA is the sole funder or whether these resources are used to support a partnership arrangement with a developer.

HRA Sole Funder

- 7.5 The economic case for the HRA to be the sole funder of new Council housing has significant limitations in that:
- Rents have to remain within the prescribed target bands
 - It is unlikely that Major Repairs Allowance will be available to help with any ongoing maintenance and improvements
 - Overall borrowing is limited by the debt cap.
- 7.6 Whilst access to other forms of public subsidy via Social Housing Grant or Housing Finance Grant may be available, overall levels are likely to be minimal. The economic case for direct funding is further eroded if meeting the need for social rented housing in a particular location required the acquisition of non HRA owned land, and as the use of HRA resources are bound by legal and accounting provisions, the tenure options that the Council could offer may be limited.
- 7.7 Where there are small pockets of HRA land and where there is an overriding need is for more Council housing alone and the size of the site limits any other form of tenure, it would be appropriate for these to be directly provided and wholly funded by the HRA. However, the overall numbers are likely to be limited.

Working in Partnership

- 7.8 The more viable, effective and productive option is to use HRA resources (whether in terms of funding or use of assets) as a contribution to working in partnership with others in order to maximise supply across all tenures – including the provision of more Council housing. Partners could be private developers, RSLs or a combination of both.
- 7.9 Partnership working is becoming a common approach and one adopted by other Welsh Councils who find themselves in a similar position.
- 7.10 The type of partnership arrangement will depend on a number of factors including the availability of HRA resources and the value and viability of land in HRA ownership. However, for illustrative purposes, a typical outcome would be a mixed development of affordable housing (which could be a mix of homes for social rent and / or low cost home ownership) and homes for market sale, provided on HRA owned land. The cost of the development would be subsidised through a combination of low or nil land value and possibly a funding contribution from the HRA. The number of units returned for rent as Council Housing is then negotiated with the developer and subject to viability testing.
- 7.11 In many cases, several pockets of land in different areas could be put into the mix and their individual values taken into account as one package allowing an element of cross subsidy between locations to achieve the best outcomes in the given area.
- 7.12 In relation to the partnership arrangements, some Councils have entered into long term relationships and packaged land into tranches of development. This brings a degree of certainty and mitigates some of the risks for the developer which should result in economies of scale.
- 7.13 However, the arrangement needs to take into account local economic factors and the availability of funding to help support the programme. These will vary from area to area and the risks that a developer is willing to take. However, a starting point will be to select the tranches of land to be included in such an arrangement and subject them to independent valuation to ensure the data can be used as the basis for the viability negotiations.

The Council as a Partner

- 7.14 A possible option is for the Council to be its own partner and such an arrangement is worthy of exploration. In this case, a distinctive developer function would need to be established in possibly, an arms length arrangement but within the organisation of the Council. This separation may allow the provision of new housing for renting as Council housing by the HRA and in addition, homes for market sale to help viability and a range of tenure options in between (i.e. low cost home ownership, sub market rent or if needed, private sector lettings).
- 7.15 Such a separation may overcome the HRA ring fence anomaly and the risks associated with market sale etc. would be limited to the Local Housing Company.

- 7.16 Such an arrangement will need to have its own governance arrangements to reflect its distinction from the Council in general. However, there are a number of models that could be considered.

Asset Valuation

- 7.17 A key component of taking forward a development programme is the detailed, accurate and up to date valuation of HRA land and assets. In particular, an independent valuation will provide the basis for negotiation with potential development partners on scheme viability and will inform a HRA asset management plan which may also include disposals to help fund a wider programme of development. This will include high level viability testing on sites to test the numbers, unit types and tenures that could be delivered which will help the council determine the best approach for each site, either as a stand-alone or as a package of locations. This approach will also allow cross subsidy between less valuable and more profitable sites.

8. The Conclusions

- 8.1 As set out previously, the objective is to link the **what** (i.e. the need) to the **where** (i.e. the availability of land) and the **how** (i.e. the most effective delivery model) into a coherent development strategy that secures all three. The eventual aim will be to establish a programme that delivers homes that are required in areas they are needed using a funding model that is affordable and maximises delivery.
- 8.2 A time frame of 5-year tranches has been put forward to allow sufficient time for the agreed developments to progress and to minimise the risks from any changes in the Business Plan assumptions.
- 8.3 Becoming a developer of housing (either directly or in partnership with others) will be a new and challenging role for the Council and in addition to the known evidence of need and the availability of land, other issues which have influenced the broad conclusions are as follows:
- There is no absolute certainty on the level of finance that will be available. There are key assumptions around income and expenditure in the HRABP (some of which are outside the direct control of the Council) and changes in any one aspect can have a significant impact on the amount available.
 - The initial programme will occur at the same time as considerable investment is continuing into the improvement of the existing stock. This will change post 2020 when the standard is achieved but up until then, it remains the priority for investment.
 - There are commercial type risks surrounding development which will need to be taken into account. Individual developments will take time to assemble and commission and if they involve partnership arrangements, then these will take longer to establish.
 - Taking on the developer role will require the acquisition of new skills and capacity within the Council at a time when the focus for housing investment

remains the achievement of the WHQS and when other Council services which will need to help support this new role (i.e. legal, finance etc.) are facing significant budget pressures.

- Developments that require the direct involvement of others (either through a procured or partnership arrangement) will take time to arrange. Once in place, the model can then be repeated but in the early stages, time will need to be set aside for the procurement process.
- If the preference is for the Council to provide the developer role within the overall organisation of the Council, then this will take time to research and create, to ensure the model is the most robust and effective for the local context.

8.4 All of these factors will have a bearing on the shape of the programme and the rate at which it can be delivered. As such, the following principles will need to underpin the initial programme:

- Focus on smaller developments to ensure they are affordable within the HRA Business Plan at a time when considerable investment is being made in the existing stock, the headroom below the borrowing cap is limited and capacity is being built within the Council.
- Use of HRA sites only to avoid any acquisition arrangements that could delay the progress of schemes and negatively affect viability.
- Continue some small schemes where the sole funder is the Council but also, procure a developer to become a preferred partner for other areas and in particular, for those identified in the 5 – 10 year programme and / or create an arrangement for the Council to provide this function directly either in tandem or instead of the procurement option.

Acquisitions

8.5 The acquisition of new or existing housing which would then be added to the HRA stock would be a relatively quick and cost effective way of providing more homes. Housing provided by developers as part of their planning obligations for affordable units could be acquired by the Council at a cost substantially below the build costs.

8.6 There is also the possibility of acquiring market housing (new or existing) for affordable rent or sale where other means of meeting need is limited, particularly empty homes. However, the viability of each proposal would need to be considered on a case by case basis. A further recommendation of this strategy is to include acquisitions in the overall plan.

Wider Objectives and Priorities

8.7 Whilst this plan is for the use of HRA resources, the More Council Homes Strategy will complement the wider role of the Council in enabling the provision of more affordable housing generally (primarily through channelling grant to RSLs and planning gain through section 106 agreements). The overarching plan is the

Authority's Local Housing Strategy and the provision of more Council housing via 'More Council Homes' is and will be an integral part of the Council's wider strategic aims and contribute to delivering the Council's corporate objectives, particularly in terms of 'Creating a vibrant and viable City and economy', 'Tackling poverty' and 'Building sustainable communities'.

- 8.8 With this in mind, a further conclusion is to allow financial provision for any contribution the HRA can make in support of corporate priorities, specifically the regeneration of the City Centre. At the time of writing, the precise development had yet to be agreed and the extent of the housing dimension is unclear. Any contribution by the HRA would need to satisfy the legal and accounting provisions.

The Programme Costs

- 8.9 Whilst an indicative line has been included in the HRA Capital budget, it is not possible at this stage to provide accurate costs of any partnering arrangements as scheme viability will be assessed on a case by case basis. The cost of any acquisitions will be dependent on market forces although in terms of any gain through section 106, the costs will be significantly discounted. The pilot schemes are intended to test and establish the budget implications and resource requirements of the Council directly funding and building new Council housing.

Number of Properties to be Supplied

- 8.10 In terms of the number of properties to be delivered, it is difficult to determine until viability has been established on a case by case basis. However, by maximising the opportunities that can be used within the development options, the aim of the programme will be to make a significant contribution to the housing supply deficit mentioned in 5.7.

Programme Timescale

- 8.11 Completion of the two pilot schemes will be the priority in terms of delivery as they will provide invaluable learning and data for the longer term.
- 8.12 In terms of the partnership arrangements, the assessment of the right model of partnership for Swansea and the procurement process itself is likely to take time to complete. Therefore, a meaningful number of completions within the first 5 years is unlikely but adopting a partnership model as the predominant feature of the 5 – 10 year programme will tie in with the changed financial outlook of the HRA.
- 8.13 In terms of acquisitions, depending on how the opportunities present themselves, these could feature very early in the programme and throughout the plan.

9. Programme Risks

- 9.1 The return to direct provision of more Council houses will help fill the chronic shortfall in the supply of affordable housing. It will also contribute to wider regeneration and decisions on specifications, quality and design will largely be for the Council to take (subject to planning consent and relevant building regulations).

The economic benefits and opportunities (both short and long term) which stem from such a programme are significant but expectations need to be tempered as this is not without risk. Most have already been highlighted in this report and a summary of the key risks are as follows:

- 9.2 **Business Plan Risks:** The HRABP is based on a number of key assumptions many of which are outside the direct control of the Council. Of particular concern is the policy for social rent levels which is controlled by the WG. The main source of revenue that will fund the provision of more Council housing is the rental income and even slight changes in the percentage increases assumed in the HRABP will have a significant impact on the resources available.
- 9.3 **Development Cost Risks:** Whilst there will eventually be a degree of certainty on the build costs (subject to usual contingencies and dependant on the specification), unforeseen issues with the site, infrastructure items and any local considerations will impact on the eventual costs. The budget will need to be agreed and set aside well before the on site development so there is a considerable risk to budget planning and the impact on other schemes in the wider programme if appropriate contingencies are not built in.
- 9.4 **Time Risks:** On a similar vein to the above, appropriate allowance needs to be built into the time frame for the programme. In addition to potentially costing more, some of the unforeseen events will also impact on the programme time which will also have a potential knock on effect with other schemes.
- 9.5 **Partnership Risks:** As set out in the option appraisal, schemes developed in partnership with others offer considerable advantages in terms of tenure mix, expertise and shared risk and rewards. However, it also means a reliance on the chosen partner to deliver, who may be subject to other constraints not least the other schemes they may have elsewhere. Safeguards will need to be built into the contractual arrangements. However, partners will be more immediately exposed to changes in the market not least any changes in the wider economy.
- 9.6 **Other Funding Risks:** If the scheme relies on additional external funding then dialogue with funders may be needed which might impact on the time frame. Given that the time between initial concept to detailed design and planning is lengthy anyway, commitment from any additional funding partners poses an additional risk to progress and overall viability.
- 9.7 **Capacity Risks:** A considerable time has elapsed since the last time the Council directly provided new Housing and it will take time for the organisation to reacquire the skills and capacity to support a full scale programme. New skills in relation to the development function will also need to be developed. This will inevitably impact on the programme but investment in the short term will yield results in the longer term. A key objective of the pilot schemes is to identify and grow capacity in the organisation.
- 9.8 **Commercial Risk:** Whilst individual schemes will reflect all the available evidence of need and demand, there is an element of speculative risk inherent in any new build development. Schemes can take years from initial concept through to completion and handover in which time, markets can change. This is particularly

relevant to the size mix of the properties where developments will need to take into account potential future demand and demographic changes if the scheme is to be sustainable over the longer term. The impact of the Council house development programme itself on the wider market will also need to be factored in.

10. Resources and Governance

- 10.1 The development of new housing for affordable rent will be a new and challenging role for the Council. However, the benefits in terms of directly influencing the supply of good quality and affordable homes are significant. The contribution such a programme will eventually make to other corporate priorities and the wider community and economic benefits are also significant.
- 10.2 The amount of additional resources that are likely to be generated by the HRA from the financial reforms, the ongoing sound management of services and completion of the WHQS programme are also considerable.
- 10.3 The challenge of enabling and maximising the delivery of the development programme are equally significant and although the emphasis in this strategy has been on the immediate 5 years, the direct development of new housing will be a long term venture for the Council requiring new and different resources as well as a fresh approach to Governance,
- 10.4 In terms of resources, additional measures will be needed on a permanent basis to help support the 'Client' side part of the operation. This function includes defining the type and size of housing to be developed on the specific site taking into account the Local Housing Strategy, Local Housing Market Assessment, the Housing Waiting List and other data relating to demand. The function also includes feasibility and viability assessments for development, option appraisals, development and management of partnership arrangements, procurement of specialist services, budget management, oversight of the Business Plan and liaison with related services and wider stakeholders.
- 10.5 In terms of governance, the assessment of the partnership approaches may include the establishment of 'arm's length' arrangements in order to maximise and stretch the available resources and this will inevitably impact on the way in which the programme is managed.
- 10.6 There are also some functions within the Council where there will be conflicting interests which need to be taken into account. The Council directs the provision of Social Housing Grant and / or Housing Finance Grant to schemes by RSL's that are in keeping with the Council's priorities. In future, this may be at odds with the Council's development role as the possible receiver of such public subsidy. There are also conflicts with the role of planning and highways having direct involvement in scheme design prior to the formal planning decision if those officers will then have to make a recommendation on that scheme.
- 10.7 As a Planning Authority, the Council has very clear obligations to ensure the supply of new housing is in areas that meet strategic objectives. However, as a developer, these may conflict with the locations that are more suited to the viability of the HRA Business Plan.

- 10.8 The development function also includes risk. For example, the development of new housing can take years from concept to final delivery and in that time, there may be changes in terms of public policy and the availability of funding. This is not without its cost especially as funds may need to be spent on site investigations, planning briefs, design, partnership arrangements and funding contracts.
- 10.9 Therefore, the forward plan needs to include an appraisal of the governance arrangements for the development of new Council housing to ensure that the programme (in addition to meeting housing need) best meets the corporate priorities of the Council and also, maximise and makes best use of the available resources in the most effective and efficient way.
- 10.10 An essential component of the next steps will be the development of a detailed and manageable action plan to support and underpin the delivery of the recommendations set out in this strategy.

11. Recommendations

- 11.1 That in order to make best use of the resources available within the Housing Revenue Account Business Plan to support the provision of more affordable homes in Swansea, the Council adopts a strategy that includes:
- a) The acquisition of properties by the Council as a result of Section 106 planning obligations or via the market and subsequent letting of homes subject to detailed viability and cost appraisals on a case by case basis.
 - b) The acquisition of non HRA land for development where scheme viability can be established
 - c) The undertaking of small scale developments funded solely by the HRA to test new specifications on sites where a partnership option is non-viable due to the size of the site
 - d) The procurement of development partners to develop a package of larger sites for mixed tenure developments including an element of cross subsidy to maximise the number of units that can be provided
 - e) The further investigation into the possibility of introducing arrangements for the Council to undertake the developer partner role
 - f) Provision for any contribution from the HRA as part of the City Centre Regeneration plan.
 - g) Provision to address sites linked to WHQS priorities if the option appraisal determines that refurbishment is not viable.
- 11.2 That a review is undertaken of the governance and resource arrangements needed to support the new build programme.

11.3 That authority to oversee the strategy and action plan and to determine the detailed programme of development is delegated to the More Homes Officer / Member Steering Group.

DRAFT