

**BRENTWOOD BOROUGH COUNCIL  
7-YEAR AFFORDABLE HOMES  
DEVELOPMENT STRATEGY  
2021-28**

# BRENTWOOD BOROUGH COUNCIL

## AFFORDABLE HOMES DEVELOPMENT STRATEGY 2021/28

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## **1.0 GENERAL AIMS, SCOPE AND CAPACITY**

- 01.01 Brentwood Borough Council (BBC) is committed to growing its managed portfolio of homes and new home supply through its Strategic Housing Development Plan (SHDP). The Council's Housing Strategy 2021-2026 approved by Environment, Enforcement and Housing Committee on 16<sup>th</sup> March 2021 commits the Council to "use the resources of the Housing Revenue Account (HRA) land and business plan to deliver new affordable housing, as well as using General Fund land to support the provision of market housing and affordable housing."
- 01.02 When directly developing new homes, the aim remains to provide a range of high-quality and energy efficient buildings to meet the needs and circumstances of BBC residents both now and in the future. This strategy addresses growth through new homes directly developed by the Council over a 7-year programme, commencing 2021, and sets out what the Council expects to build, for whom and how it will ensure delivery of high-quality affordable homes in a cost-effective way. This strategy will evolve as new sites emerge and site investigation is delivered. Viability assumptions will be formally reviewed on an annual basis when budgets are set.
- 01.03 The Council's primary development focus under this strategy will be the provision of new homes for letting at affordable rent or for low-cost home ownership. Where possible these will be subsidised through Government Grant and Right to Buy receipts and where appropriate new homes will also be delivered through S106 Planning Agreements. Homes England Grant funding, s106 contributions and other subsidies available from time to time, are essential to maintaining increased capacity in future programmes. New sources of such grant will be constantly sought both directly and through the development partner. To support this, Environment, Enforcement and Housing Committee have approved the Council applying for Investment Partner (IP) status with Homes England.
- 01.04 In determining BBC priorities for the provision of new housing, due regard will be given to housing demand and need. Joint consultation and co-operation will take place with development partners, other public authorities, registered provider organisations and individuals to ensure a co-ordinated approach to meeting that need.
- 01.05 BBC is aware that housing demand and supply is not static and can change periodically due to a range of factors. Therefore, development priorities will be reviewed and updated as required as Government Policy or market conditions change or as the emerging Strategic Housing Market Assessment (SHMA) demands.
- 01.06 Construction of new homes will be administrated by the Council's appointed development partners. These partners, appointed through open procurement processes, will manage development activity, from design, through planning,

construction and handover and will be expected to meet objectives, priorities and value for money targets set out within the Council's Development Brief.

## **2.0 NEED AND LOCATION**

- 02.01 BBC will, wherever possible, create new homes that are suited to those with particular needs which are not currently being met by existing stock or through other new provision. By this more specific targeting of housing need the Council aims not only to provide housing which might not otherwise be available but also to 'free up' housing suitable for people with no specific requirement other than affordability.
- 02.02 To build houses the Council needs planning permission and, where possible, the support of the local community. Obtaining planning permission requires site investigation, community consultation and engagement, design work and cost appraisal. Delivery requires a strong development partner, a team of investment and commercial delivery staff, supported by specialist consultants.
- 02.03 The Council will identify a pipeline of sites looking forward on at least a three-year rolling basis. This will include undertaking strategic reviews of areas where there are significant Council land holdings, including areas of Council housing. The Council has a responsibility to ensure that it is making best use of its own assets. General Fund and HRA Asset reviews identify which sites, already in ownership, might be used in a more beneficial way.
- 02.04 In considering a new development of affordable rented homes, regard will be given to the long-term housing management implications. This might include the accessibility of the development and its proximity to existing stock.
- 02.05 BBC recognises that there remains considerable housing need in rural areas particularly where the number of council or privately rented homes available for letting is low. These homes can also be difficult to deliver on the grounds of site availability, local lobbying against such housing, the planning process and cost. BBC is committed to the delivery of rural housing schemes as part of this programme and accepts that in planning a pipeline of such schemes allowance will need to be made for the additional cost and time likely to be accrued.
- 02.06 In identifying potential development opportunities the Council will also have due regard to regional and national housing priorities, employment, the need for a mix of rural and urban housing as well as meeting ongoing identified and specific housing needs.

## **3.0 SITE SELECTION**

- 03.01 Development will almost always provide better value for money if it takes place on underused land already in Council ownership. Although it is possible that many of the opportunities will be on land which is already held for housing purposes, it will be important to also explore the potential of other land to

contribute towards improving supply. The Council has already, and will consider further, acquiring land on the open market or by negotiation in order to ensure that homes can be provided where they are needed.

- 03.02 Further housing stock has already been added via the purchase of existing properties for use as Council homes. Any further 'street purchases' will only be considered where the properties can meet the Council's standards and it can be demonstrated that acquisition would be financially viable. Under some circumstances this might include the acquisition of existing stock currently owned by housing associations who are disposing of homes under their own asset management plans.
- 03.03 Whilst this will not add to the total supply of homes it will increase the Council's own stock and generate a rental income aiming to make the HRA more sustainable. In considering whether to purchase open market properties the Council will be mindful of the impact that this may have on the availability of lower value homes to prospective purchasers, for instance first time buyers, and of the potentially distorting effect on local markets.
- 03.04 The Council will also consider the disposal of homes which are of very high value, are too costly to maintain or are no longer suitable for housing purposes. This will generate capital receipts which could be invested in the provision of more new homes. This judgement will be informed through 'active asset management' and ongoing assessment of the contribution that each home makes financially to the HRA and the quality that it offers to residents. (See Section 8 of this strategy)
- 03.05 In Summary, the development programme will be met by the provision of homes:
- Built on vacant sites.
  - Created from the refurbishment/conversion of existing buildings.
  - Through the redevelopment of sites currently in use
  - Acquired from developers "off the shelf".
  - In partnership with other Councils and Registered Providers
  - Through the acquisition of land, either by agreement or compulsorily, held by third parties.
- 03.06 The location of any proposed development will be expected to be appropriate to any potential occupiers with particular regard to such matters as walkability, and sustainability through access to public transport, community facilities, shops, schools, and healthcare facilities.
- 03.07 There must be clear evidence from housing needs or housing survey data that there is a current demand for the proposed development and the mix and that as far as can reasonably be established this demand will be sustained in the long term.

#### **4.0 LAND/BUILDING ACQUISITION AND 'LAND BANKING'**

- 04.01 BBC will consider the acquisition of land or buildings where this is deemed to be strategically important and provide a pipeline for future delivery. Full relevant details of the site or buildings including a site development appraisal and viability assessment will be required to enable approval of the scheme.
- 04.02 BBC will consider "land banking" opportunities but only where there is a burden of proof in favour of this being a strong use of capital or some alternative non-financial strategic reasoning.

#### **5.0 DESIGN, SPECIFICATION AND 'ZERO CARBON IN USE' HOMES**

- 05.01 BBC will endeavour to design to the highest possible standards in every respect. Such standards inevitably lead to additional cost, so regard has to be given to the balance between the standard adopted and the viability of such schemes. New homes design will comply with:
- The Council's adopted Technical and Design Standards
  - National Technical Housing Standards
  - Homes England Development Standards where appropriate to ensure capital grant aid.
  - Zero carbon 'in use' homes or homes with a lower carbon impact than 'Building Regulations Compliance' will be prioritised where viable. The expectation is that such homes will make up a minimum of 50% of new homes developed within the life of this Strategy.
  - Digital and 'Smart' homes. Working with residents to develop homes that might be connected to the internet and allow the Council as landlord to predict failures in buildings through data analysis before residents are aware. All subject to the appropriate data governance.
- 05.02 Full regard will be given to all relevant sustainable development policies and environmental considerations in the design process and the scheme design will be expected to complement the locality.
- 05.03 The design and specification will consider the need to minimise ongoing utility and fuel costs to the occupier. Consideration will be given, where viability allows, for specialist environmental standards for homes or design that is targeted to reduce the impact on the environment.
- 05.04 The Council will consider the long-term sustainability of new developments and particularly any additional features of a non-housing nature which can be provided to supplement housing facilities and enhance the scheme or environment for the benefit of prospective tenants and wider community.
- 05.05 There may be occasions where BBC will be prepared to waive some or all of the specific design and specification requirements to ensure deliverability.

## **6.0 DELIVERY PARTNERSHIP AND PROCUREMENT**

06.01 The Council's Development Partners (DP) will act as developers on behalf of the Council. They will act in all development matters from site identification where necessary through to handover of completed projects. The DP will carry out its activity in line with a BBC 'Development Manual' which will develop over time and contain all policies and protocols required to complete a successful BBC development. The manual will also lay out the most appropriate procurement methods and in particular:

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

## **7.0 BUILDING GUARANTEES/WARRANTIES**

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

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

## **8.0 LINK WITH ASSET AND INVESTMENT STRATEGY**

08.01 This strategy will link with the Council's strategy for the management of its assets. Where opportunities can be found from the wider Council estate for new homes, General Fund land appropriation to the HRA (or vice versa) then the Council will work across departments to achieve this.

08.02 The Housing team will undertake asset reviews of its stock to ensure the very best use of land and property. The first of these will focus on the Sheltered Housing portfolio and particularly on the appropriate number and quality of homes available, releasing land for new homes where possible.

## **9.0 FINANCE, VIABILITY AND RISK**

09.01 Council and Committee will set the strategic direction of the development programme through the approval of this strategy and future capital budgets and individual schemes.

09.02 The finance for development will be provided through the Housing Revenue Account (HRA) resources. In addition to the development of new affordable

rented and low-cost home ownership homes under this strategy, the Council will also consider providing other housing products. This could include development of homes for market sale and market rent where these cross subsidise the cost of developing affordable homes or contribute to balanced communities.

- 09.03 The pipeline for new homes over the life of the programme will always consider deliverability. Factors included in developing the pipeline, include site availability, operational capacity of the delivery team, and risk. The Council has access to a site assessment toolkit, and this will be used to determine the likelihood that new homes can be delivered over the life of the programme and what mitigation individual sites might need to bring their development forward.
- 09.04 This strategy acknowledges that the Council must demonstrate that it is prudent for it to undertake the borrowing required and its Treasury Management parameters will determine borrowing capacity.
- 09.05 The HRA business plan, reviewed as part of the preparation for this programme demonstrates that there is financial capacity to build 235 homes over the 7 years life of this strategy a number equivalent to 10% of existing council stock. There will be losses in homes over the same period, but the aim is to have a net increase in total stock at the end of the 7 years.
- 09.06 Each project will need to be assessed to ensure it meets the aims of this Development Strategy. That its financial viability is fully assessed and that the basis on which it can proceed is properly understood and consistent with the development hurdles set from time to time. The development hurdles are.

Output Performance Criteria	Hurdle	Explanation
HRA Loan payback period maximum	30 Years	This is the year at which any borrowing for the scheme has been repaid.
Net Present Value (positive year)	Year 30	Where an NPV is positive at or before the target year, this shows that the value of cash coming in is greater than that going out over chosen investment period.
Costs as a % of market value	Positive and greater than the appraisal interest rate	Any opportunity where an IRR exceeds the cost of capital is deemed to be a profitable investment opportunity. The cost of capital for appraisal purposes in the HRA Business Plan is 2%.

- 09.07 The assumptions for determining viability are set out in Appendix 2 and reviewed each year. Each scheme will be considered on its own merit and it may be the case that a desirable scheme meets strategic aims but is not viable

within the criteria set. In such circumstances a case will be made for 'coupling' the scheme with another that exceeds the viability standard and when 'combined' are viable. Such 'coupling' will only be considered for capital costs of a project and in no circumstances to cross subsidise on-going revenue costs where the scheme is for example a supported housing or other specialist scheme.

09.08 The viability criteria have been determined to closely match the constraints and risks identified and used within the HRA Business Plans for BBC. It is imperative that projects can finance themselves without the need to rely on revenue from principally the HRA, to support them. Projects that are too costly will drain resources from the Business Plan or other sources and reduce the Council's ability to develop more homes. This will be a key consideration when deciding whether to pursue a project. These criteria will be reviewed annually.

09.09 For each proposed scheme BBC will ensure that:

- It has (or can) obtain adequate funding to cover all costs during the development period.
- Overall viability will be secure in relation to any long-term financial commitments.
- There is a market or identified long-term demand for the proposed scheme.

09.10 It is recognised that all development involves short- and long-term financial risk. As such, the Council's development partners will be expected to adopt and agree policies and practices that minimise the likelihood of contractual cost overruns and long-term risk of loss to BBC.

09.11 The provision of shared equity/ownership schemes involves greater short-term financial risk in the marketing and sales of properties. To minimise its exposure to these risks BBC will:

- Adopt and implement clear marketing procedures.
- Wherever possible ensure that no more Shared Ownership/Equity or market sale development is undertaken than is necessary to secure the viability of the scheme.
- Consider options for "converting" shared equity/ownership homes to affordable rented homes where sales difficulties are encountered.
- Not embark on the acquisition or development of new shared ownership or market sale homes where market conditions are likely to result in protracted sales periods and excessive void losses.

- BBC allows 'staircasing' of shared ownership to 100% ownership.

09.12 A development risk register will be maintained and updated by the Director Housing and Enforcement specifically for the development function. This will feed into the corporate risk register through the normal risk reporting mechanisms.

## **10. PARTNERSHIP WORKING AND SECTION 106 OPPORTUNITIES**

10.01 BBC will look to establish stronger links with housing associations and private developers that make a significant contribution to housing supply in the Borough. It is important to the delivery of total new home 'starts' that this continues.

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

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

## **11.0 GOVERNANCE**

11.01 The Director, Housing and Enforcement, is responsible for ensuring that this strategy is implemented, and the delivery team will report, at least quarterly, to an Officer Programme Board whose membership includes representation from across the Council. The project team will be responsible for briefing the Chair of E, E and H Committee on Programme Board progress. The Terms of Reference for the Programme Board are defined in Appendix 4.

## **12.0 RESIDENT CONSULTATION**

12.01 In addition to its obligations to consult through the planning process the Council is required to consult in a manner that supports its Sec 149, Equality Act 2010, Public Sector Equality Duty, its obligations to consult as a landlord under Sec 105, The Housing Act 1985, and its wider general consultation obligations. The process will be different based upon circumstances and especially where resident decanting might be required, buy back or land assembly or where residents may be impacted temporarily or permanently.

**13.0 STRATEGY REVIEW**

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

FIRST APPROVED – E, E & H Committee – XX/XX/21

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## **APPENDIX 1 - 2021-2028 DEVELOPMENT PRIORITIES & TARGETS**

### **UNIT NUMBERS**

Over the life of the strategy indicative programme of 235 new homes is considered deliverable within the context of need and demand, land and finance availability. A 'Pipeline Programme' will be maintained and updated as new schemes become live.

### **TYPE AND SIZE**

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

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

Market rent (to cross subsidise affordable homes) – to be agreed on a site-by-site basis and subject to viability/profitability test of target minimum 5.0% yield on CAPEX.

### **CLIENT GROUPS**

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

Shared ownership/equity – non-specific.

Others – to be agreed on a site-specific basis.

### **LOCATION**

Homes will only be developed within the Brentwood Borough Council administrative area.

## APPENDIX 2 - CONFIDENTIAL DEVELOPMENT ASSUMPTIONS

Financial assumptions			
Input	Assumption	Comment	Source
<b>General Assumptions</b>			
Borrowing Cost (interest rate) %	3.74%		HRA
Inflation CPI	2%		HRA
Inflation RPI	1% above CPI		HRA
Discount Rate % (rented homes)	3.74%	Representing low risk of social rented housing discount rent same as borrowing cost. Suggested approach based on ARK benchmarking	Taken from cost of finance HRA.
Appraisal period	30		HRA
<b>Rented accommodation</b>			
<b>Rents</b>			
Rent inflation pa %	CPI +1% until 24/25 CPI only from 25/26		HRA
Rent period per annum	52.18		HRA
<b>Management</b>			
Management cost pu/pa	£290 per unit per annum		Suggested based on consultancy benchmarking
Management cost inflation pa % rented units.	CPI +0.5%		HRA
<b>Maintenance</b>			

Maintenance costs pu/pa	£400 per unit per annum		Suggested based on consultancy benchmarking
Maintenance cost inflation pa %	CPI + 1%	This is RPI in line with HRA. RPI tracks at 1% above CPI	HRA
Major repairs profile	Year 1 – 5 no allowance		Suggested based on consultancy benchmarking
	Year 6 onwards £700 per unit per annum		
Major repairs cost inflation per annum	CPI + 1%	This is RPI in line with HRA. RPI tracks at 1% above CPI	HRA
<b>Voids and bad debts rented units</b>			
Voids % - rented units	1.50%		Suggested based on consultancy benchmarking
Bad debts % - rented units	1%		Suggested based on consultancy benchmarking
<b>Service charge</b>			
Per week flats	£7		Estimated based on reviewing BBC actuals average for 6 unit block plus an amount for repairs.
Per annum flats	£350		
<b>Public sector Grant</b>			
Profile of grant received	50% Start on site		Most recent Homes England Affordable Housing Programme.
	50% Practical completion		
<b>Output performance</b>			
Loan payback	30		
NPV (year positive)	30		
Costs as a % of market value	Not to exceed 100%		

<b>Brentwood policy affordable rents</b>				
<b>Bedroom Size</b>	<b>PRS £ pcm</b>	<b>Policy %</b>	<b>Affordable Rent (Monthly)</b>	<b>Affordable Rent (Weekly)</b>
1	914	75	686	158
2	1110	70	777	179
3	1410	65	917	212
4	1920	50	960	222

<b>House prices based on achieved (Indicative prices based upon prices for CM15)</b>						
<b>1 bed flat</b>	<b>2 bed flat 3p</b>	<b>2 bed flat 4P</b>	<b>3 bed flat</b>	<b>2 bed house</b>	<b>3 bed house</b>	<b>4 bed house</b>
188,000	280,000	295,000	310,000	320,000	344,000	410,000

<b>Other Inputs</b>		
<b>Land</b>		
Cost of land	Nil	
<b>Planning</b>		
Planning obligations	£4000 per unit	To cover Essex County/Brentwood Developer contributions - policy has a long list of possible contributions.
CIL	£0	Affordable housing exempt as per Brentwood CIL Preliminary Draft Charging Schedule. 2016 p8
<b>Construction and fees</b>		

Construction costs	£2000 sqm	Same rate across flats and housing.
Construction cost inflation	CPI + 2%	Inflating from 20/21 to start on site. From HRA
Professional fees as a % of build costs	13%	VAT added to 13% @20% Inflating from 20/21 to start on site.
Internal allowance	£2500 per unit	To cover client PM
Contingency	5%	Of works costs
Additional contingency	£7000 per unit	To cover non-development costs, such as boundaries/any compensation to surrounding dwellings for loss of access etc
Build period	Varies between 10 and 18 months	Depending on site size.

### **APPENDIX 3 - ADDITIONAL ASSUMPTIONS FOR SHARED EQUITY/OWNERSHIP SCHEMES**

## **Key Factors for Consideration**

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

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

Sale initial tranche rate 30%

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

\* Subject to RPI increases to estimated scheme completion date

## **APPENDIX 4 – TERMS OF REFERENCE – AFFORDABLE HOMES PROGRAMME BOARD**

## **Purpose**

The Affordable Homes Programme Board (AHPB) is formed to enable the Council's stated aim of delivering new affordable to happen at pace and ensure all relevant disciplines within the Council are both aware of, and can contribute to, the programme. The Board's guiding principles are defined within the Affordable Homes Development Strategy 2021-28.

This programme has initially identified sites with the potential to deliver over 150 new homes funded by HRA borrowing, Homes England grant, market sales and closer working with other landowners in the Borough.

## **Programme Board Terms of Reference**

The Board will be supported and briefed by the Affordable Homes Project Team. The Project Team will, in turn, brief the Chair of E, E &H after each Programme Board and report to E, E & H Committee, or other committee as required, for decisions and direction. The key terms under which the Programme Board operates are.

- To provide a strategic forum to review and monitor new affordable homes development proposals, programmes, and projects.
- To oversee and advise on strategy and project delivery of new homes programme and support them at Senior Leadership Team, E, E&H Committee and Council.
- To oversee delivery of new homes and related community facilities on BBC and relevant third-party land and work with the Communities Team on delivery of mutual interest projects.
- To align with the wider delivery of affordable homes by private developers through section 106 obligations and draw together oversight of the wider delivery of affordable homes in the Borough. This includes oversight of housing related commuted sums and how and where their use is recommended.
- The Board has no formal decision-making powers on the Council's behalf but will make recommendations for approval through relevant governance process.

## **Meetings and Chairing**

The New Homes Delivery Board will meet as a minimum on a two-monthly basis and be chaired by the Director of Housing and Community Safety.