



Development Strategy

Board Approved: 24th January 2024
Next Review: January 2027

1.0 VISION AND STRATEGIC OBJECTIVES

Homes for Life is committed to assisting with delivery of future Strategic Housing Investment Programmes and have re-engaged with ELC to discuss new build development opportunities and take forward participation by HfL in future supply of affordable housing in East Lothian. HfL's Business Plan 2023-26 includes a commitment to identify and assess development opportunities and be in a position to progress development activity when the financial environment is right. This includes new development and exploring new service models, including Mid-Market Rent.

HfL's Development Strategy is focused on the delivery of affordable housing, aiming to equip HfL to be more flexible and to take opportunities for development as they arise, and supporting a steady growth in assets. It will carefully consider development opportunities and how best to prioritise and maximise the return on investment.

With the aim of achieving:
100 completions in next 5 years:
5 Land bank units/pipeline at year 5

2.0 OPERATING ENVIRONMENT

We continue to face an extremely uncertain operating environment. High inflation, a tight labour market, and the residual impact of the pandemic on supply chains have increased costs. We are also facing higher borrowing costs. High inflation is impacting on RSL's operating costs at the same time as increased cost of living pressures on tenants. We are operating under a rent cap below inflation, and in a weakening housing market.

This is against a backdrop of a requirement for significant investment in RSL's existing stock to deliver against quality, building safety, and decarbonisation commitments. Current high inflation, skills shortages, and supply chain disruption have also had an impact on and continue to increase costs of development. To maintain financial resilience, HfL will continually review its strategic priorities to respond to changing economic conditions; robustly plan and; stress test the assumptions that underpin this Development Strategy.

The environment for building new homes is positive, with the ending of the Right to Buy in Scotland providing greater certainty on future income and the Scottish Government extending its target of 53,000 new homes by 2026 to 110,000 affordable homes by 2031/32 with at least 70% of these for social rent. In Housing to 2040 the Scottish Government recognises the central importance of good, safe, secure and warm homes for people's wellbeing. It also includes a public and private investment package of £16 billion to deliver that supply of new homes. An increase in social housing is supported by the SFHA, the CIH and Shelter Scotland. Housing Associations

will continue to make the case for funding for affordable housing, including a review of Grant levels.

The East Lothian Local Housing Strategy (LHS) notes that East Lothian is the second fastest growing population in Scotland with high house prices 38% higher than the national average. This, combined with high private rents is resulting in demand for mid-market and affordable housing.

The Development Strategy will operate over the next 5 years, which are likely to still be uncertain as global and national economies are coming to terms with the after effects of a global pandemic, Brexit, and war culminating in a cost of living crisis. In 2019 the Scottish Government declared a global climate emergency and the Climate Change emissions Reductions Targets setting a new net zero emissions target for all greenhouse gasses by 2045. A Climate Change Plan is in is under review

2.1 **Local Housing Strategy (LHS)**

East Lothian Council's draft Local Housing Strategy covers the period 2024-2029 and the new LHS is due to be adopted in April 2024. It provides a strategic direction to tackle housing need and demand and this document informs decisions on investment in housing. The LHS identifies a target of 1,470 affordable homes to be delivered between 2024 and 2029 as well as increasing the supply of mid-market housing. A key commitment is to increase the accessibility of affordable housing with at least 10% of the total supply being wheelchair friendly.

HfL will take the steps required to be accepted with "ELC" as a committed developer of New social housing and included in the SHIP.

2.2 **Local Planning Framework**

East Lothian Council's Local Development Plan 2018 sets out policies on development land use within the East Lothian during period 2018-2023.

The emerging East Lothian Local Development Plan 2 (LDP2) 2323/24 will replace the current LDP and will guide development within the East Lothian. A draft was issued in December 2023 with adoption expected in Q1 of 2026.

Understanding and operating within the LDP (and soon LDP2) is essential to winning support for proposed development projects, both in planning and funding terms.

2.3 **Need and Demand**

The Board will consider the customer and housing needs that any proposed development will fulfil. Prior to appraising any potential site for acquisition or development, the whole team will discuss housing need and demand encompassing asset and community colleagues. This will also include an assessment of what impact new housing might have on existing stock in the area.

2.4 Strategic Housing Investment Plan (SHIP)

East Lothian Council's SHIP document is a key document for identifying housing projects which was prepared in accordance with revised Scottish Government Guidance to achieve the objectives of the Local Housing Strategy. The SHIP is a 5-year plan but is submitted to Scottish Government annually. The current SHIP covers period 2023-2028.

In the East Lothian there was a grant allocation of £60m for the period 2021-2026 averaging just under £12m per annum. The SHIP projects that £73.529m of Scottish Government subsidy is needed to allow 880 site starts with 1,471 completions during the period.

Any project which HfL will seek grant funding for, must first be identified in the SHIP and will undergo assessment. But does not preclude identification of opportunities currently outwith the SHIP

3.0 DELIVERY OF NEW SUPPLY (APPROACH)

HfL plans to secure borrowing opportunities of up to £10m, which will be used to support a new Development Programme for sites/land which are not currently in the ownership of HfL. The loan will be matched with appropriate levels of Housing Association Grant (HAG) for each development. It is expected that this loan facility could sustain a Development Programme in the region of 100 homes over the next 5 years, depending on market conditions.

HfL will develop new homes primarily in East Lothian, but will consider affordable development opportunities on the periphery of East Lothian, in Midlothian and South East Edinburgh. The Development Programme will align with local housing needs and demand data and the Local Housing Strategy. The Development Programme will be led by demand and development activity will only take place where demand can be evidenced.

The only exception to this is for regeneration projects where other factors might take precedence, such as altering the housing mix in an area or to improve the environment significantly to effect a change in perceptions and demand for an area.

Proposed new developments will also be assessed in terms of their impact on HfL's Asset Management Strategy. The proposals must fit with the Asset Management Strategy. Internal Teams will look at potential impact on other HFL stock in the areas, management and maintenance requirements, service charges, and valuation of new assets.

HfL will explore both Traditional and Design & Build style procurement models. The prevailing model will very much be driven by the land status. If the land is available on the open market then a Traditional model of land purchase, tender and construction

is likely to be the delivery route albeit as long as VFM can be demonstrated: Turnkey/bulk purchase/forward purchase Contacts will also be considered.

If a landowner or developer brings land to HfL, they may well expect to construct the new homes, either under a Design & Build contract or a Development Agreement. The advantages and disadvantages of the development model will be assessed on a project-by-project basis, and the risks identified in the project risk assessment. Where a developer approaches HfL with a s75 opportunity, it will be considered using the same appraisal and methodology.

HfL will appoint Consultants where required to include a Principal Designer with responsibility for ensuring HfL meets its Health and Safety obligations, committed to continuous professional development through whom innovative and appropriate technical solutions, sensitive design and tight contract control can be achieved.

4.0 GOVERNANCE

HfL's development activities will be carried out under authority from HfL's Board. This section aligns with HfL's Standing Orders and it will be updated automatically as the Standing Orders are amended.

The following matters are reserved to the Board for decision:

- Approval of the Development Strategy and Development Policy
- Approval of the Development Programme and any subsequently recommended new projects
- Approval of SHIP submissions
- Approval of any new development or investment, including the acquisition of any sites, alongside the budgets for this, having reviewed the viability assessment
- Approval of all land sales and asset disposals which require the consent of the SHR
- Tender acceptance sanctions for projects that are contained within the approved Development Programme
- Set the policy and budget for small scale acquisitions, including buybacks and small areas of land

The Board will:

- Receive progress reports and monitor performance overall against targeted milestones and budget and spend targets through the management accounts
- Receive updates by highlight and exception on current development activity and provide direction on appropriate action to be taken
- Monitor project outcomes after completion to ensure that the objectives within the Development Strategy are being achieved.

- Oversee the customer aspect of any development project, including HFL's development standard

The following matters are delegated to the Chief Executive for decision:

- Participation in the SHIP process and implementation of its outcomes
- Sanction the design of building projects and associated environmental works, based on the viability assessment approved by the Board, with input on customer and housing needs and HFL's development standard
- Where appropriate, make recommendations to the Board on the proposed acquisition of sites or particular properties to maintain a healthy and sustainable land bank. This will take account of the availability of loan or grant finance, and the housing or business needs which the site will address
- Approve any small acquisitions including individual properties or Technical appraisals in line with the Board approved policy, referring any that are over the delegated limit to the Board
- Approve Heads of Terms and/or Expressions of Interest before submission to private landowners and prior to a formal land acquisition offer.
- The granting of wayleaves, standard securities and other rights and obligations
- The execution of construction contracts following board approval
- Formally accepting Offers of Grant

The Chief Executive will:

- Report to the Board regularly on performance and progress against milestones, budgets and spend targets and take delegated decisions in line with the approved budget
- Consider the role of a DM in support
- Update the Board on any issues arising in current developments
- Monitor the effectiveness of the Development Strategy and report on any recommended changes
- Review the project-specific risk registers and act upon risks which are identified as having a high likelihood or impact by including in the Risk Management Framework which is presented to Board and/or the Audit & Compliance Committee
- Report to the Board on project outcomes after completion.

5.0 STANDARDS

HfL is committed to providing high quality new homes which are accessible and will meet a range of needs. Each development will respond to available information relating to locational need and where specific needs are identified these will be integrated within the wider development proposal.

When considering housing mix and type all options will be considered; housing for young people, housing for older people, family housing, cluster accommodation, tenure (social rent or mid-market rent) and form (flats or houses).

HfL will develop a specific Design Guide which sets our standard specifications for new homes. This document will be kept under review as standards and products change. HfL will endeavour to meet any local authority targets for wheelchair housing.

New housing will meet the following standards as far as is reasonably practicable :

Mandatory (set by funding body, Scottish Government)

- Housing for Varying Needs
- Secured by Design
- Current Building Regulations
- HfL Standards
- Quality design, homes that HfL and its Tenants can be proud of
- Good space standards, meeting all Housing for Varying Needs Essential Criteria
- Energy efficient, decarbonised homes, with a fabric first approach, with a view to minimising fuel poverty
- Barrier free access and ability to adapt homes to meet needs in the future
- Responding to “place” by designing high quality external and communal spaces
- To meet the specific requirements of individuals or group of clients, where the need is identified or Planning Permission Dictates
- To consider future maintenance requirements and whole-life cost

6.0 LAND

HfL operates in a restricted geographic area so availability of land and cost of land will both have an influence on opportunities available.

HfL does not currently have a land bank of existing sites which have been identified as potential development sites.

In future a report will be provided to the Board and Maintain a list of Potential site/opportunities.

East Lothian Council is not a large landowner but it is in HfL’s interest to ensure that they are aware of ELC’s disposal strategy and that ELC considers HfL as a viable partner.

Much of the remaining developable land in the East Lothian is in private ownership. HfL should ensure that the private landowners and land agents are aware of their requirement for land opportunities and continue to forge relationships with the landowners/agents and raise the profile of the Association as a developer. In many cases landowners or developers will be looking for a route to deliver their Section 75 (Affordable Housing) obligations. This is a potential source of land supply from the private sector in the future.

The procurement of land will dictate the procurement route for the main works. Construction of homes on land which is available on the open market is likely to be tendered, where HfL will appoint the design team and tender the works competitively. Construction of homes on land which is owned or promoted by a developer is more likely to be procured via a Design and Build Contract or a Development Agreement. HfL may look to appoint designers and contractors for a period of time rather than for individual projects in accordance with recognised good practice. HfL recognises that existing frameworks can reduce the administrative burden of procurement.

Whilst the preference would always be to only purchase land that has a planning status of either Planning in Principle or Full Planning Permission, purchase of land with no planning status should be only in exceptional circumstances and when significant risk analysis has been completed and there are compelling strategic reasons to do so. Where the site does not benefit from planning consent, this must be reflected in the site valuation.

Whilst the preference is for land purchase should only be considered where the site has been or is likely to be included in East Lothian Council's SHIP and where grant funding from the Scottish Government is attainable, exceptions can be made for land bank acquisition purposes

7.0 PROJECT APPRAISAL

When considering development opportunities there are several factors that need to be considered before a decision can be made:

- Site Location – would it help to create a sustainable community? Does it complement its neighbouring community? What impact would it have on HfL's existing stock? Would the homes be desirable in the long-term? Does it improve the environment?
- Planning Status – does the site have full or in-principle planning permission? Is the site zoned in the local plan? What discussions have been had with the planning officers about the likelihood of a successful application? What are the required timescales to obtain planning permission? What reports are likely to be required to support a planning application?
- Programme – is the project supported in the current SHIP? If not, is it likely that it could be supported within a SHIP in the near future? Is the project supported by the Local Authority? Is the project supported by the Scottish Government?
- Scale – is it a manageable sized development? Procurement procedures? How long will it take to deliver on site?
- Site Constraints

- Housing Need – does the scheme respond to an identified housing need? Will the form of building be accessible? Is there infrastructure in the area that will ensure the homes are desirable long-term? What is the right tenure mix?
- Land Value – is the purchase price good value for money? Has the purchase price been verified by an independent valuer?
- Cost Plan – has a surveyor provided a cost plan to complete the development? Do these costs work within current grant and private finance parameters? Is the overall cost value for money?

8.0 PROJECT APPRAISAL

The financial strategy which enables the delivery of the Development Programme is set out in HfL's Business Plan.

HfL will receive Grant from Scottish Government. The current benchmark grant for East Lothian is £93,520 per unit (social rent) and £64,880 per unit (mid rent) based on the three-person equivalent and meeting Scottish Government's Greener Standard.

HfL will carefully model development projects to establish their viability. Firstly, based on a stand-alone development appraisal based on an agreed set of assumptions; and secondly based on a 30-year Cashflow.

The following assumptions will be used for financial modelling of each project:

- Annual rent increases CPI+0.5%
- Management Costs £150 - £350 per unit per year (uplifted re rent increases)
- Maintenance Costs £450 per unit per year (uplifted re rent increases)
- Major Repairs Sinking Fund 0.8% of works (After 2 year post completion)
- Empty Homes and Bad Debt 1.5% of gross rental income

HfL will regularly meet with funders and Scottish Housing Regulator to ensure that funding covenants are met at all times.

During cost plan stage of each project, the CEO will examine the indicative development appraisal and run 30-year cashflow to confirm whether the project can be funded from existing loan facilities.

Prior to tender submission to Scottish Government, the Chief Executive will carry out a full financial assessment to ensure that the project meet the following criteria:

- Project is financially viable on a stand-alone basis based on the agreed assumptions.
- There is required cashflow available to meet the projected spend profile.

- There is funding in place to meet the long-term private finance requirements of the project for the sum that is not grant funded, or that legal arrangements are in place to mitigate this risk.
- Due diligence is carried out on relevant partnerships.

9.0 PROJECT APPRAISAL

The act of delivering new homes brings opportunity and the benefit of meeting strategic objectives. This must be weighed against the inherent risk that is involved in development activity.

A Development Programme Risk Management tool will be incorporated into HfL's corporate risk management strategy in order that risks can be identified and assessed. The Risk Management framework will be updated by the Maintenance and Asset Manager but will be reviewed regularly by the Chief Executive.

Project specific risk assessments should be prepared by the Maintenance and Asset Manager and presented to the Chief Executive. Risks which are identified as having either a high likelihood or impact should be reported to the Board as part of HfL's Risk Management Framework. Risk assessments should be reviewed and updated often throughout each project.

The Development Strategy will be included in the in the Internal Audit Plan for 2024-25 and reported to the Audit & Compliance Committee to provide comfort to the Board that the relevant procedures and controls are in place are effective and fit for purpose.

10.0 REVIEW

This Policy will be reviewed every 3 years or as required due to legislative, best practice or regulatory requirements.