

Public Document Pack

Housing Select Committee Supplementary Agenda

Tuesday, 1 December 2015
7.30 pm, Committee Room 1
Civic Suite
Lewisham Town Hall
London SE6 4RU

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Part 1

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HOUSING SELECT COMMITTEE			
Title	Housing Led Regeneration Opportunities: Besson Street Re-development and Private Rented Sector Housing		
Key decision	Yes	Item no	5
Wards	Telegraph Hill		
Contributors			
Class	Part 1	1 December 2015	

Reasons for Lateness and Urgency

This report was not available for the original dispatch because of the need to compile extensive legal and technical advice to support the proposals that are being made. The report is urgent and cannot wait until the next meeting of Housing Select Committee on January 26 2016 as the same matter is scheduled for consideration at Mayor and Cabinet on December 9 2015, and as such there would not otherwise be an opportunity for Committee to scrutinise these proposals in advance.

1 Purpose

- 1.1 This report sets out for Housing Select Committee the rationale for an intervention by the Council into the private rented sector (PRS), by creating a Joint Venture vehicle in order to develop new PRS homes at a range of rents. The report will be accompanied by an officer presentation on the night, which will take place during a closed session, setting out the legal, financial and technical basis for the specific approach that is being proposed.
- 1.2 This report and the presentation that will be made on the night are intended to enable Committee to undertake its scrutiny role in advance of Mayor and Cabinet decisions on the same issue scheduled for 9 December. The reports for the Mayor and Cabinet meeting will be despatched on the same day that Committee will meet which means that it will not be possible to include the views of Committee in the report to Mayor and Cabinet, and instead the views of Committee can be included in a representation made on the night of the meeting.

2 Summary

- 2.1 It is widely acknowledged that London is experiencing a housing crisis, with a chronic lack of supply of new homes driving higher prices and decreasing levels of affordability. This crisis affects all tenures, ranging from the

introduction of affordable rents in the social housing sector, through rapidly growing rents in the private rented sector, to median house prices in Lewisham that are more than ten times the median income.

- 2.2 Earlier this year the Council approved its five year housing strategy, Homes for Lewisham, which committed the Council to taking action across all housing tenures to drive up supply and improve conditions. This includes a commitment to working in partnership to secure 2,000 new affordable homes in the borough by 2018, of which at least 500 will be new Council homes, in a programme which includes a range of innovative and community-led developments to provide the type and quality of homes that Lewisham needs. The strategy also includes a new landlord licensing scheme to drive up quality in the private rented sector. The Council will work in partnership across the private and public sectors to meet the overall housing target of 1,200 new homes every year.
- 2.3 Homes for Lewisham also committed to supporting the development of new models of private renting which offer a more stable, higher quality PRS offer by professional landlords, potentially including the Council itself. In this way, the Council can contribute to creating a more sustainable private rented sector in the borough, and design interventions which mean that council-led PRS schemes achieve the following aims:
- Provide high quality new homes
 - Provide an additional form of stable and affordable housing to support low income households in the PRS, who would neither qualify for social housing nor be able to access home ownership, by developing a “Living Rent” product to provide sub-market PRS tenancies with rents linked to incomes;
 - Provide longer-term tenancies to give greater stability to renters
 - Create new places, including community facilities, open spaces and retail/leisure
 - Provide a high quality property management and maintenance service
 - Attract institutional investment into the borough at a time of financial challenges
 - Seek to structure projects so that they deliver best value to the council depending on the scheme, including the potential to generate an ongoing income for the Council
- 2.4 Whilst there are many good landlords, the PRS as a sector is not highly regulated which means that renters have very little security of tenure and often receive a poor service in terms of repairs. Typically tenancies in the PRS are for a period of one year and tenants face high up-front costs at the start of a tenancy, including a deposit, rent in advance and agents’ fees. Recent research by the Joseph Rowntree Foundation has found that high rents and instability are causing increasingly high levels of poverty in the private rented sector, and that for the first time poverty is more prevalent among working people in the PRS than it is among social tenants.

- 2.5 The current structure of the PRS contributes to some of the disadvantages of the sector. 89 per cent of landlords are private individuals whilst currently only one per cent of private rented properties are owned by larger companies or institutions. This means that many new builds are currently designed and marketed to potential buy-to-let landlords as investments, rather than as homes. This is starting to change, with some 'build to rent' schemes being explored by developers, and the proposal set out here is for the Council to take an active role in enabling such a scheme in Lewisham.
- 2.6 This report proposes that the Council undertakes a pilot project, at Besson Street in New Cross, in which the Council would handle public land in a new manner in order to enable the site to be developed for high quality, secure PRS homes let at a range of rents. This pilot project would see the Council participating in a Joint Venture vehicle specifically for the purpose of developing PRS homes and the regeneration of the Besson Street area. The Joint Venture vehicle would be between the Council and an experienced organisation which would bring expertise, housing management and development funding. In order to create this Joint Venture vehicle the Council would select an investment partner with an excellent track record of developing high quality places, with a PRS offer to tenants that can set the standard for the PRS in the borough, and with sound financial backing from institutional funders.
- 2.7 This policy intervention is designed to introduce a new type of housing development into the Council's development programme, beyond the 500 Council homes on which progress is well underway. It is designed to create around 250 homes. 65 per cent of these homes will be let at an initial market rent, but with rent increases capped in line with inflation. This will provide renters with more certainty about their rent at a time when market rents can increase by 10 per cent a year. A further 35 per cent of homes will be affordable homes based on a new "Living Rent" product, which would be let at a range of sub-market rents linked to local incomes.
- 2.8 All of these homes would provide much more certainty for renters, with the removal of lettings fees and provision of clarity about future rent increases. They would provide a higher quality rented home, as well as on-site community uses and facilities that reflect the rents that are paid. A key difference between PRS build to rent and other rented options is that there are no service charges, and all costs are contained within the rent, further improving the offer to tenants.
- 2.9 Overall this proposal would enable the Council to make an innovative intervention into the Private Rented Sector in order to provide a better deal for renters. It would set a high standard for the quality of PRS that other developments and landlords can be judged against. It would introduce a new affordable housing product, "Living Rent", aimed at households who struggle to sustain themselves in the PRS but who, given the nature of the housing crisis, will not be able to access social housing. At the same time, the programme of Council house building will continue, on other sites, in order to achieve the 500 home target.

2.10 This report sets out the policy basis and high level summary of the proposal, and officer presentation which will be made on the night will set out the commercial, technical and financial information which underpins this proposed approach.

3 Recommendations

- 3.1 It is recommended that Committee:
- 3.2 Notes the progress in developing an outline proposal for new homes, health and community provision on the development site at Besson Street;
- 3.3 Notes the options for developing the site, including the commercial and legal advice, and the views of participants in a soft market testing exercise, which will be presented at the meeting;
- 3.4 Provides comments on the proposals set out in this report, and on the technical detail that will be presented at the time of the meeting, so that those comments can inform the decisions scheduled to be taken by Mayor and Cabinet on 9 December.

4 Policy Context

- 4.1 Lewisham's Housing Strategy was approved at Full Council on [date]. This strategy sets out the Council's ambition to address the challenges in the borough through the following objectives:
 - Helping residents at times of severe and urgent housing need
 - Building the homes our residents need
 - Greater security and quality for private renters
 - Promoting greater quality in the social and private rented sectors
- 4.2 Lewisham's Core Strategy has the objective to make provision for the completion of an additional 18,165 net new dwellings from all sources between 2009/10 and 2025/26, to meet local housing need and accommodate the borough's share of London's housing needs. This aims to exceed the London Plan target for the borough. The Core Strategy also has the objective to make provision to meet the housing needs of Lewisham's new and existing population, which will include:
 - provision of affordable housing
 - a mix of dwelling sizes and types, including family housing
 - lifetime homes, and specific accommodation to meet the needs of an ageing population and those with special housing needs
 - bringing vacant dwellings back into use
- 4.3 In response to this, the Council has started to deliver homes directly itself for the first time in a generation, and will deliver 500 new Council homes by 2018. In addition, the Council is working with partners to deliver an additional

1,500 new affordable homes in the same time period.

- 4.4 Despite this, there remains an undersupply of housing in the borough and the Council remains ambitious to do more to address this directly, as well as continuing to work with partners to maximise the number of new homes they deliver.
- 4.5 A number of recent policy announcements by the government have made the delivery of new homes by the Council more challenging, and require the Council to explore new ways of delivering homes. The reduction of social rents by one per cent, contained in the Welfare Reform and Work Bill which is currently before Parliament, will reduce the financial capacity of the Council's Housing Revenue Account by approximately £25 million over the next four years. This means that the capacity to deliver new homes funded within the Housing Revenue Account beyond the current programme is limited.
- 4.6 This context requires the Council to explore new ways of developing new homes. The 2011 Localism Act gave local authorities a general power of competence. This creates new opportunities in terms of the Council's strategy for delivering new homes.
- 4.7 Homes for Lewisham, the Council's Housing Strategy for 2015 to 2020, committed to supporting the development of new models of private renting which offers a more stable, higher quality PRS offer by professional landlords, potentially including the Council itself. In this way, the Council can contribute to creating a more sustainable private rented sector in the borough, and design interventions which mean that council-led PRS schemes achieve the following aims:
- Provide high quality new homes
 - Create new places, including community facilities, open spaces and retail/leisure
 - Provide longer-term tenancies to give greater stability to renters
 - Provide a high quality property management and maintenance service
 - Cap rent increases in line with inflation to provide certainty for renters
 - Provide properties which are let at a Living Rent linked to local incomes.
 - Attract institutional investment into the borough at a time of financial challenges
 - Seek to structure projects so that they deliver best value to the council depending on the scheme, including the potential to generate an ongoing income for the Council

5 Background

- 5.1 It is widely acknowledged that London is experiencing a housing crisis, with a chronic lack of supply of new homes driving higher prices and decreasing levels of affordability. This crisis affects all tenures, ranging from the introduction of affordable rents in the social housing sector, through rapidly growing rents in the private rented sector, to median house prices in

Lewisham that are more than ten times the median income.

- 5.2 Lewisham has seen a 77 per cent increase in the number of households in temporary accommodation over the previous five years - there are currently just under 1,800 homeless households in temporary accommodation; the number of affordable properties to let has decreased by 44 per cent in this time. The Council has just over 9,000 individuals and families on the Housing Register and the average wait for a four bedroom property is four years.
- 5.3 The Council has taken a number of steps to address this challenge, principally by committing to build 500 new Council homes – the first Council homes built in Lewisham in a generation. The Council has also taken innovative steps to increase the supply of more stable temporary accommodation for homeless households, by purchasing new hostels and by enabling Lewisham Homes to acquire properties on the open market for the Council to use to prevent homelessness.
- 5.4 The Mayor recently received an update on the Council homes programme. The first scheme of six homes was completed in March 2015 at Mercator Road in Lee. Since then, there have been further completions of a conversion of the former community room into a residential flat, and the conversion of disused rooms above a shop on Deptford High Street into two homes to be used for temporary accommodation. Following recent approvals by the Mayor, there is now a total of 186 homes completed or on site and under construction. Beyond these, there are 209 homes which have previously been approved by Mayor and Cabinet for development, which are at various stages in the planning process.
- 5.5 In total then, there are 395 homes under development, of which 315 (80 per cent) are Council homes. The overall programme currently contains 762 homes, of which 621 are Council homes with a tenure split of precisely 80/20. Officers will continue to progress options as quickly as reasonably possible to meet the Council's objectives for new house building.
- 5.6 The interventions outlined above are having a positive impact, for example the staff in the Housing Options Team are achieving five times as many homeless preventions now compared to the rate in April. However the situation remains challenging and the Council recognises the need to continue to do more to make interventions which benefit the residents of Lewisham.
- 5.7 In addition to these issues in the social housing sector, the Private Rented Sector in Lewisham also has a particular set of challenges principally in relation to security of tenure, cost of access and lettings fees, the quality of the homes that are available to rent, and the rapidly increasing rents that PRS tenants often experience.
- 5.8 Around 25 per cent of Lewisham's population now lives in the Private Rented Sector, which has doubled in size in the past ten years. Population growth,

the limited supply of new homes and the resulting increase in house prices have caused profound shifts in patterns of tenure across London and Lewisham. Analysis by PwC projects that by 2025, an additional 1.8 million households nationally will live in the Private Rented Sector.

- 5.9 Over half of residents who live in the Private Rented Sector in Lewisham are under the age of 34, whilst a further 35 per cent are aged 35 to 49. A third of PRS households in Lewisham are families with children whilst a quarter are occupied by single adults. Therefore the supply and quality of homes in the PRS is an issue which is particularly pertinent to younger people in the borough and young families.
- 5.10 Whilst there are many good landlords in the PRS, as a sector is not highly regulated which means that renters have very little security of tenure and often receive a poor service in terms of repairs. Typically tenancies in the Private Rented Sector are for a period of one year and tenants face high up-front costs at the start of a tenancy, including a deposit, rent in advance and agents' fees.
- 5.11 In 2014 the Council commissioned research into the PRS in Lewisham. This found that 28 per cent of private sector tenants in Lewisham are dissatisfied with the quality and condition of their home and 22 per cent were considering moving because the cost is too high. 51 per cent of people renting privately in Lewisham expect their next home to be another private sector rent, whilst 16 per cent hope to buy their own home.
- 5.12 Tenants in the PRS are susceptible to large increases in the rents they have to pay. In the SE14 post code where Besson Street is located, rents have increased by ten per cent in the last six months, and by 34.6 per cent over the past two years.
- 5.13 The current structure of the PRS contributes to some of the disadvantages of the sector. 89 per cent of landlords are private individuals whilst currently only one per cent of private rented properties are owned by larger companies or institutions. This means that many new builds are currently designed and marketed to potential buy-to-let landlords as investments, rather than as homes. This is starting to change, with some 'build to rent' schemes being explored by developers. Build to rent is discussed in more detail in the section below.
- 5.14 A report by the Joseph Rowntree Foundation published in 2013 highlighted the growing issue of poverty in the Private Rented Sector. In particular the report noted the rise of 'housing costs induced poverty', where the high rents and costs of the PRS – including the costs associated with needing to move more frequently due to short-term tenancies – reduced a households discretionary income to the point where it was in poverty. The JRF research found that an extra 3.1 million people in the UK are in poverty after their housing costs have been paid, a third of which are in London. In the PRS specifically, 18 per cent of private tenants are in poverty before housing costs are taken into account but this rises to 38 per cent after housing costs

are paid.

- 5.15 In a subsequent report published in November 2015, the JRF's research showed that the PRS now contains a third of all people in poverty, increasing from around 2 million people in 1999 to 4.3 million people today. Of these, 1.3 million are children, and the trend suggests that within the next few years there will be more children in poverty living in the PRS than in social housing. In the last decade, the number of people in poverty in a working private renting family has increased by 1.4 million.

6 Build to Rent

- 6.1 Build to Rent homes are those which are designed and built specifically to be rented. Built to Rent is currently much more common in countries such as the United States and Germany than it is in the UK. In these countries specialist organisations backed by institutional finance, such as pension funds, develop purpose built blocks of rented homes and offer renters a professional and high quality landlord service. In these countries, the sector is marked out by the high quality of the service offered, which is much more proactive to meet the needs of tenants, as opposed to the more reactive and passive style of housing management which has typically been seen in the UK.
- 6.2 In the United States the sector, sometimes referred to as 'multifamily schemes', serves an established community of committed renters who prefer the freedom and flexibility of well-managed apartments in city centres close to good transport links. Similarly in the UK, demographics, a lack of housing supply and lifestyle choices are all creating a need for more rented homes
- 6.3 For investors in PRS schemes, their incentive is to keep their buildings fully-occupied and tenants satisfied. Typically this means offering longer tenancies, high quality homes and good transport links for easy commuting. Typically in the UK, blocks of flats in private ownership suffer from patchwork management arrangements. With Build to Rent, there is one manager for the whole building. Ultimately, many investors are seeking to invest at scale and offer consistent standards across different locations so that they can develop into brands that their customers trust and stick with.
- 6.4 Long-term investors also have an interest in the wider environment in which the scheme sits. They have a financial incentive to ensure that not only their developments work well, but also the neighbourhood and places that surround them. As a consequence many PRS developments being built in London at the moment have a focus on the provision of services such as a concierge, dining and cinema / party spaces for hire to fit with modern lifestyles and attract occupants. They therefore provide a specific lifestyle offer for residents within those blocks.
- 6.5 A key difference between PRS build to rent and other rented options is that there are no service charges, and all costs are contained within the rent. This adds to the need for developers to optimise their design to reduce

additional costs. It also means that costs are more straightforward for renters.

- 6.6 One investment fund which has entered the Built to Rent Market is Legal & General. Their Director of Investments Laura Mason, said at the time:

"The UK has a chronic shortage of housing. Today's investment and our future plans for the PRS sector should help address the structural issues which have contributed to the shortage. We view investments over 30 or more years and are using our long term capital to change the way the UK housing market is financed."

- 6.7 For these reasons, officers believe that Built to Rent offers the potential to attract institutional investment into the borough at a time of financial pressures on the Council, whilst ensuring that the homes built are of high quality and fit into the Council's role as a place-maker.

7 Background to Besson Street Project, and proposed development

- 7.1 The Besson Street site is a 2.5 acre plot of land within the 'Kender triangle' in New Cross. The land was previously assembled using New Cross New Deal for Communities (NDC), although is wholly owned by the Council. The site has been vacant since 2007, as the previous planning permission for the site developed by the NDC was not built due to financial constraints.

- 7.2 The New Cross NDC subsequently became the New Cross Gate Trust and Officers from the Council worked up a brief with the Trust to retain some of the key original concepts from the NDC initiative of healthy living, including:

- A replacement Doctors surgery for the Queens Road practice.
- Community and office space to be managed and operated by the Trust
- An outdoor gym

- 7.3 Officers have worked with the New Cross Gate Trust to develop a broader brief for the site which included:

- Maximising the quantum of development while creating a high quality new 'place' in New Cross
- Pedestrian access through the site towards New Cross Road in line with requirements from Planners
- Some commercial elements to the site as the site faces onto New Cross Road

- 7.4 This site is particularly suitable for private rented housing because of its location in Zone 2, the proximity to two train stations, the fact that it's a vacant site that is ready to build on and because there is a recent PRS development by Hyde in New Cross (Spark at Kender Triangle) which has been successfully delivered.

- 7.5 Officers have worked alongside specialist PRS consultants to determine the

options for progressing the scheme and ensure best value for money. Assael Architecture was appointed in June 2015 following a procurement exercise restricted to architects with a specialism in PRS and Build to Rent housing design. Arcadis is the recognised market-leader for cost and financial consultancy, and is a specialist in the field of PRS housing. The company also has a longstanding relationship with Assael and has worked with many of the leading PRS providers. They therefore bring experience and credibility, which will be crucial in negotiating the best value for the Council from potential development partners.

- 7.6 To date, officers have worked up several strands of the potential development including: the design, which has formed the basis of some initial consultation; development of the financial model; and have carried out soft market testing with a range of developers and PRS providers to test the scheme with the market. The latter aspects are covered in the Part 2 report.
- 7.7 Assael architects have worked up a number of design options for the site. An internal project group was formed to monitor the progress of the scheme, which included close working with Planners. The designs are all based on a similar layout, with access through the site and a central amenity space. Some of the differences are:
- Heights; whether there would be a tall element or heights distributed around the development
 - The location of the health centre; the surgery themselves prefer a location on Besson Street however it may be that in terms of siting of the residential and outdoor gym, there may be alternative locations that fit better with other needs
 - The size and location of amenity space and whether a large space should be split up
- 7.8 Officers expected there would be a need to sell a proportion of the homes to help the overall viability however the financial modelling and discussions with market show this is not the case. The introduction of “Living Rent” rent units means that households on a range of incomes have access to the same services, that properties are pepper potted fully within the development rather than in separate blocks and that there is one unified management in place. The development of the scheme has also highlighted that there are benefits to having a higher quantum of PRS development in order to maximise the place making aspects of the scheme, ensure a cohesive design and allow all residents to have access to the same services. The final proposal removes the sale element and envisages that the 35 per cent affordable housing will be delivered as Living Rents linked to local incomes.
- 7.9 The site fronts onto New Cross Road and so there will need to be a retail aspect to the scheme in that area. The proposal envisages that there would be other services provided within the development including a reception/ concierge for the PRS. Roof gardens are popular and there could be additional spaces for hire e.g. for children’s parties. These amenities would only be accessible to those within the PRS. However the proposal envisages

that any ground floor retail such as a café would be open to the public to ensure the development is accessible to the existing surrounding community.

- 7.10 Many development sites in London are now being used on a temporary basis while longer term developments are underway. The Authority already has a “meanwhile” project being developed in PLACE/ Ladywell where the site will be used for housing. Many other projects in London, such as POP Brixton, The Artworks at Elephant Park and Box Park at Shoreditch use shipping containers to bring in new retail and amenity opportunities, creating new interest in an area which is undergoing change and bringing in new footfall.
- 7.11 The Besson Street site is large and empty, it has already proved attractive to travellers and the costs of securing the site are high. Officers have had initial discussions with ward Councillors and some local community groups about the potential to use the site while the long terms plans are being developed. There is an interest in the potential benefits of this and some local community groups have expressed an interest in being involved. The key message though is the need to develop a project that is truly Lewisham, has a focus on and is supported by local community groups and retailers and is not about importing a ready-made scheme into the borough. It is also essential that the overall scheme leads the way and any meanwhile use does not detract from or delay it. Officers would like to be able to consider different options and so delegated authority is sought to proceed with an option that sits within these objectives, if it is identified and is financial viable.
- 7.12 To summarise, the expected outputs of this project, which will be delivered once the commercial structure is put into place and a funding and development partner has been identified, will be:
- 230 to 250 homes for rent
 - Approximately 35 per cent, or 80 to 90 of these, to be affordable homes with Living Rents linked to local incomes, distributed throughout the entire development rather than in a separate block
 - A replacement health centre for the Queens Road Surgery
 - New office space for the New Cross Gate Trust
 - High quality amenity spaces, public realm and an outdoor gym
 - New commercial provision, fronting New Cross Road, in the medium term, and
 - In the short term a new “meanwhile” development in that space that supports small local businesses to grow and drives up interest and footfall ahead of longer term development.

8 Consultation

- 8.1 Officers have carried out some initial consultation including several meetings

with the New Cross Gate Trust. Officers and the architects met with the Queens Road practice twice to discuss the siting and work up the internal layout for the Doctors surgery.

- 8.2 Officers worked with Assael and communications consultancy Four to hold a focus group workshop in October 2015, where key members of the local community were invited to see a presentation on and discuss the options that had been developed to that point. The event was attended by most of the groups who were invited and included representatives from the New Cross Gate Trust, Kender TRA, 170 Centre, JOY, Queens Road surgery, The Field and Councillors from Telegraph Hill and New Cross wards. The group were generally supportive of the scheme and discussed a number of key issues such as the role and need for PRS; parking; heights of buildings; open space and meanwhile uses.
- 8.3 Officers attended the Telegraph Hill Local Assembly to introduce and discuss the proposal. The key aspects raised were the type of affordable housing to be provided, the ownership of the land, the consultation strategy and the Council's approach to businesses and employment for the development and in any temporary site use.
- 8.4 There is an open drop in event planned for the evening of the 3rd December for local residents and community groups where there will be detailed information about the proposals and designs and the opportunity for discussion with Council Officers and the architects. The event was promoted at the Kender TRA and Local Assembly and flyers are to be hand delivered to around 400 properties.
- 8.5 Officers will develop a comprehensive consultation strategy, this will be delivered together with the delivery partner ahead of and throughout the statutory Planning process.

9 Proposed approach to delivery

- 9.1 Officers will make a presentation on the night that sets out the specifics of the commercial and delivery structure that is proposed to enabling a PRS development on Besson Street, and the rationale for that approach. This section sets out approaches being taken by other local authorities that officers have reviewed as part of considering what approach to recommend, alongside the expert advice received from consultants engaged by the Council, and summarises at a high level how the proposed approach for Lewisham would work.
- 9.2 Although all local authorities have their own specific demands to meet and priorities to achieve, most boroughs, and those in London especially, are in a similar position to Lewisham in that they are looking at ways to increase supply in their boroughs through all possible means, including the formation of housing companies where relevant.
- 9.3 Like Lewisham, many boroughs are looking at the possibility of establishing

housing companies using the powers given to them in the Localism Act 2011 in order to increase the delivery of new homes. The table below summarises the approaches being taken in a number of boroughs:

Local Authority	Approach and Objectives
Lambeth	Looking to use a special purpose vehicle to purchase developments from the Council to own the asset long-term and use receipts for council regeneration objectives
Barking and Dagenham	<p>Council-owned company purchased properties to let as PRS. Properties are restricted to those earning less than £66,000 or £80,000 for families.</p> <p>LBBDD has also developed a scheme where the Council grants a lease over its land to a private joint venture. This JV then funds the construction and maintenance of the scheme, deriving an income from rental receipts. The council retains the freehold of the land, and can nominate households to the properties.</p>
Southwark	Use of a wholly owned company to deliver a long-term programme of new homes, avoiding the limitations set by the HRA borrowing cap.
Ealing	Use of a wholly owned company to directly deliver housing, maintaining control over delivery and avoiding the limitations set by the HRA borrowing cap.
Enfield	A vehicle to invest in PRS housing in the borough, and to enable the delivery of new housing across tenures.

- 9.4 Each authority will make its own decisions over its preferred approach based on its own circumstances. The key parameters that will drive decision making will include the specific intervention into the private rented sector that is planned, the size of the proposed development(s) itself, attitudes to risk management and mitigation, the availability of capital funding, the value of the sites in question, and the capacity of the organisation to take on and manage large development projects.
- 9.5 Based on the work done to date by officers alongside specialist consultants, officers recommend that the Council pursue the creation of a new Joint Venture vehicle to develop the homes at Besson Street, which would take the form of an Investment Partnership between the Council and a private sector developer and funder.
- 9.6 The principle behind this approach is that it recognises the strengths that the Council has and can bring to bear on the development, alongside an awareness of the gaps that would need to be filled. Delivering a high quality and genuinely place making scheme of 250 homes, with a development

value in the region of £100m, is a significant step up in terms of complexity and risk from the current build programme, which is formed of smaller infill sites. In order for the Council to make that step, but to do so in a manner that mitigates the level of risk to the Council and the general fund, it is proposed that significant and expert private sector assistance and funding will be required.

- 9.7 The proposed approach, which would be a pilot for Besson Street but which, if successful, could then be replicated elsewhere, would see the Council in effect “investing” the land into a new Joint Venture vehicle created specifically for the purpose of developing high quality homes, and finding a high quality investment partner to invest the cost of developing the site. Under this model the partner would also provide the PRS management service to a high specification and in a manner that has been shown to work elsewhere.
- 9.8 The detail of the rationale for this proposal will be set out in the officer presentation that will be made on the night, and in the Part 2 report that will accompany the decision making paper to Mayor and Cabinet.

10 Rents, affordability and nominations

- 10.1 As part of the financial modelling, officers have considered the way in which rents should be set in order to ensure that it meets the Council’s aims in terms of affordability.
- 10.2 The rental market in the area in which Besson Street is situated is typified by a large rental market with a relatively low turnover and a wide range of property sizes and types. The current monthly median rent is £1,040 for a one bed and £1,400 for a two bed. The area has seen large increases in the market rent recently, with rents increasing 10 per cent in the last six months and 35 per cent over the past 2 years.
- 10.3 All of the homes would provide much more certainty for renters, with the removal of lettings fees and provision of clarity about future rent increases linked to the conditions of longer-term tenancies.
- 10.4 It is currently proposed that one third of the properties will be affordable homes, let at Living Rents linked to local incomes. These homes will be let at a range of sub- market rent, which will be set in line with the Council’s policy that an affordable rent costs renters no more than 35 per cent of their net household income. As an example based on modelling at current prices, this approach would mean that for instance a one bed Living Rent property would be affordable for a couple or for two sharers who are both earning the London Living Wage.
- 10.5 As a pair of local low income workers, these theoretical tenants would be unlikely to qualify for social housing, and were they to do so they would be very likely to face a very long wait to be housed, because the current pressures on social housing mean that any new vacancies are being

prioritised to those in the most critical housing need, most notably the 560 households living in nightly paid bed and breakfast accommodation.

- 10.6 If this development proposal is pursued then officers expect it to be able to deliver in the region of 35 per cent of the development as affordable housing. This would be a different form of affordable housing to social housing. For instance, applicants for the Living Rent homes would apply to the landlord for those homes, in the same way that prospective tenants of the full-rent homes would, rather than the Council's Choice Based Lettings System. The level of rents for the Living Rent units have yet to be set, and there will be options for balancing the on-going rental stream against the level and volume of Living Rents, but the rents will be linked to local incomes.
- 10.7 Although this form of affordable housing might not be nominated to directly through the Choice Based Lettings System, there would be no reason why the homes might not be used to full effect to meet the Council's objectives. This could be achieved, for instance, by signposting clients attending the Housing Options Centre (HOC) to the development, particularly as half of the people seen by HOC are currently resident in the PRS. Additionally the development could be advertised to particular potential target markets, including by advertising their availability in Lewisham Life, local schools to key worker groups.

11 Timetable and next steps

11.1 Officers are seeking approval to select a development partner and set up a Joint Venture vehicle, the detailed basis for which will be set out in the decision making paper to Mayor & Cabinet. Discussions with the market have emphasised that those involved in the delivery and operation of PRS prefer to have early involvement in the design of the scheme. The design work has been frozen and once the delivery partner is in place there would then be further design work and consultation.

11.2 The indicative programme is set out below.

December 2015	Consultation event Mayor and Cabinet
Spring 2016	Developer partner on board Design development and consultation
Summer 2016	Submit Planning application
Late 2015/ early 2016	Start on site

11.3 Officers are mindful of timescales and the need to deliver the site as quickly as possible while ensuring that proper processes are in place to select the right partner, to ensure effective consultation and design development processes. This means that while officers will seek to deliver the scheme as quickly as possible it may be that certain aspects are required to take more time than envisaged.

11.4 It should also be noted that the proposed timing could impact on the NHS

funding set aside for the new health centre. The Council is committed to the replacement of the Queens Road surgery, it is fundamental for the New Cross Gate Trust and it is central to the proposals set out here, with the cost of providing it included in the financial modelling and the necessity of its inclusion made clear during discussions with the market. As part of this next stage of the project, officers will need to work with the surgery, its consultants, as well as NHS England and the local Clinical Commissioning Group and the New Cross Gate Trust to ensure the timescales work within NHS funding requirements in order to successfully deliver the new provision.

12 Financial Implications

12.1 The purpose of this report is to update members and invite comments on the proposed development in Besson Street. As such there are no direct financial implications in agreeing the recommendation.

12.2 11.2 The financial model for the proposal is still being developed, the details of which will be included in future reports to members.

13 Legal Implications

13.1 The Council has a wide general power of competence under Section 1 of the Localism Act 2011 to do anything that individuals generally may do. The existence of the general power is not limited by the existence of any other power of the Council which (to any extent) overlaps the general power. The Council can therefore rely on this power to establish and participate in a Joint Venture vehicle as proposed. There are different types of Joint Venture vehicle which it may be appropriate to use. The Council has taken initial legal and procurement advice on the options in this respect and detailed legal implications will be set out in the decision report to Mayor & Cabinet.

13.2 There are a number of advantages for the Council with using a Joint Venture approach, whilst still enabling the Council to exercise the necessary controls as an equity investor in the Joint Venture vehicle and through the governance arrangements and structure that will be put in place.

14 Crime and disorder implications

14.1 The design for any new homes will incorporate recommendations from the police via the Secured by Design principles.

15 Equalities implications

15.1 An Equalities Analysis Assessment will be undertaken as part of the further work in order to assess the impacts of the proposals and this will be presented to Mayor and Cabinet for consideration.

15.2 The Equality Act 2010 (the Act) introduced a new public sector equality duty (the equality duty or the duty). It covers the following nine protected characteristics: age, disability, gender reassignment, marriage and civil

partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

15.3 In summary, the Council must, in the exercise of its functions, have due regard to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- advance equality of opportunity between people who share a protected characteristic and those who do not.
- foster good relations between people who share a protected characteristic and those who do not.

15.4 The duty continues to be a “have regard duty”, and the weight to be attached to it is a matter for the Mayor, bearing in mind the issues of relevance and proportionality. It is not an absolute requirement to eliminate unlawful discrimination, advance equality of opportunity or foster good relations.

15.5 The Equality and Human Rights Commission has recently issued Technical Guidance on the Public Sector Equality Duty and statutory guidance entitled “Equality Act 2010 Services, Public Functions & Associations Statutory Code of Practice”. The Council must have regard to the statutory code in so far as it relates to the duty and attention is drawn to Chapter 11 which deals particularly with the equality duty. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code and the technical guidance can be found at: <http://www.equalityhumanrights.com/legaland-policy/equality-act/equality-act-codes-of-practice-and-technical-guidance/>

15.6 The Equality and Human Rights Commission (EHRC) has previously issued five guides for public authorities in England giving advice on the equality duty:

1. The essential guide to the public sector equality duty
2. Meeting the equality duty in policy and decision-making
3. Engagement and the equality duty
4. Equality objectives and the equality duty
5. Equality information and the equality duty

15.7 The essential guide provides an overview of the equality duty requirement including the general equality duty, the specific duties and who they apply to. It covers what public authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more detailed guidance on key areas and advice on good practice. Further information and resources are available at:

<http://www.equalityhumanrights.com/advice-and-guidance/public-sector-equalityduty/guidance-on-the-equality-duty/>

16 Environmental implications

16.1 There are no environmental implications arising directly from the recommendations set out in this report. The design stages will address environmental issues through the procurement of design partners and the planning process.

17 Background Documents and Report Originator

17.1 There are no background documents to this report.

17.2 If you have any queries relating to this report please contact Jeff Endean on 020 8314 6213.

Agenda Item 7

Housing Select Committee			
Title	Private Rented Sector Licensing Scheme	Item No	7
Contributors	Scrutiny Manager		
Class	Part 1	Date	1 December 2015

1. Recommendation

- 1.1. The Select Committee is asked to note the content of the report.

2. Background

- 2.1. The Select Committee is asked to note that a presentation on the Private Rented Sector Licensing Scheme consultation results will be given at the meeting.
- 2.2. As the consultation for the Private Rented Sector Licensing Scheme concluded on 24 November 2015, the responses will be analysed, and the results presented at the meeting.

3. Further implications

- 3.1. At this stage there are no specific financial, legal, environmental, equalities or crime and disorder implications to consider.

If you have any questions about this report, please contact Roger Raymond, Scrutiny Manager (ext. 020-814-9976).

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HOUSING SELECT COMMITTEE		
Report Title	Housing Revenue Account (HRA) – Rent Setting Consultation	
Key Decision	Yes	Item: 8
Ward	All	
Contributors	Executive Director for Customer Services & Executive Director for Resources & Regeneration	
Class	Part 1	Date: 1 December 2015

Reasons for Lateness and Urgency

This report was not available for the original dispatch because of the need to ensure that the latest information on service charges was available. The report is urgent and cannot wait until the next meeting of Housing Select Committee on January 26 2016, and would give little time to feed comments into the response to the Mayor.

1 Purpose of the Report

To outline the forecast rent, service charge, garage and heating and hot water charge changes for Lewisham Council Dwellings in 2016/17 prior to residents consultations taking place in December

2 Executive summary

2.1 The Government’s current rent policy, as announced in the July 2015 budget statement, is for a 1% reduction in rents each year for the next 4 years. This is expected to be passed within legislation within the next few months. This will result in an average decrease in rent for 2016/17 of 1.0% or £0.99 over a 52 week period. This will reduce the full year average dwelling rent for the London Borough of Lewisham from £98.42 to £97.43pw. The proposed decrease will result in a loss of £0.743m of rental income to the HRA.

2.2 The potential average service and heating and hot water charge changes are contained in the Lewisham Homes Service charge report 2016/17, which is considered elsewhere on the agenda. The proposal is for an increase of £0.81pw or 11.20%, moving the average charge from £7.26pw to £8.08pw for existing services, and the introduction of two new charges for lumber disposal and enhanced housing management for sheltered housing units at a pooled average of £0.60pw and £0.88pw respectively.

- 2.3 Efficiencies/Savings are current being considered for 2016/17 and beyond. These savings would be available to off-set any rental loss due to a constrained uplift to protect investment in stock or services.
- 2.4 Proposals have been received to reduce the current levy for Tenants' Fund from £0.13pw to £0.10pw.
- 2.5 Garage rents are proposed to rise in line with RPI inflation @ September 2015 which is 0.80%. This represents an increase of £0.09pw and would raise the average basic charge from £11.56pw to £11.65pw. The proposed increase will raise an additional £9k of revenue income.

3 Policy Context

- 3.1 The proposals in this report support the priorities of 'Shaping our Future' – Lewisham's Sustainable Community Strategy (2008 -20), specifically 'Clean, green and liveable - where people live in high quality housing and can care for and enjoy their environment' and supports the Council's corporate priority regarding 'Decent Homes for all'.

4. Background

- 4.1 Following the introduction of the self-financing system for the housing revenue account (HRA) in 2012, the Council is responsible for ensuring that the costs of managing, maintaining, improving and developing its social housing stock can be met from rents collected and other income.
- 4.2 The self-financing system allows the Council to develop plans over a longer term, unlike the previous annual housing subsidy system. This has enabled the Council to consider longer term options of how its stock is managed and developed.
- 4.3 In October 2013, Government consulted with Local Authorities on the implementation of a new social rent policy, proposing to move from annual increases of RPI + 0.5% to CPI + 1%. This policy was confirmed by Government in May 2014 as its preferred method for rent increases for a 10 year period and was implemented in 2015/16.
- 4.4 In the July 2015 budget statement, Government announced that it intends to legislate for a 1% reduction in social rents to be applied each year for the next 4 years from 2016/17. This is expected to be passed within legislation within the next few months.
- 4.5 The impact of the change in policy is a total reduction of forecast rental income within the business plan is £1.90m. The expected rent reduction over the next 4 years is £25.0m, with £374.0m being lost over the life of the 30 year business plan.
- 4.6 As the Government's proposals are to be enacted by legislation, the authority has no choice other than to implement the rent reduction. In order to protect

the business plan to provide the same level of investment and services, the reduction in income will need to be off-set through increased efficiencies and reprioritisation of investment requirements.

5. Proposal for rent increases

- 5.1 Due to the requirements to comply with Government legislation, rents are expected to reduce by 1% each year for the next 4 years.
- 5.2 A 1% reduction in average rents for 2016/17 will equate to an average decrease of £0.99 over a 52 week period. This will reduce the full year average dwelling rent for the London Borough of Lewisham from £98.42 to £97.43pw. The proposed decrease will result in a loss of £0.743m of rental income to the HRA against 2015/16 income levels.
- 5.3 The decrease was not anticipated within the HRA financial modelling, which assumed an increase in line with estimated September CPI + 1.0% (forecast CPI @ 2.0%). Therefore the total reduction of forecast rental income within the business plan for 2016/17 is £1.90m. The expected rent loss due to this initiative over the next 4 years is £25.0m, with £374.0m being lost over the life of the 30 year business plan. The table below illustrates the impact the 4 year rent reduction has on the HRA account.

	2015/16	2016/17	2017/18	2018/19	2019/20
*Original Business Plan Forecast Rental Income	£73.3m	£73.4m	£74.6m	£76.0m	£77.4m
Revised Business Plan Forecast Rental Income	£73.3m	£71.5m	£69.8m	£68.3m	£66.8m
Change	-	-£1.9m	-£4.8m	-£7.7m	-£10.6m
Revised Forecast Average rent	£98.42	£97.43	£96.46	£95.50	£94.55
Change in average Rent	-	-£0.99	-£0.97	-£0.96	-£0.95

* The original business plan forecast for rental increases was based on CPI @ 2.0% + 1.0% as per government guidelines issued in May 2014.

- 5.4 It is not yet clear what rent regime will be in place once the rental contraction requirements have been completed. However, for the purposes of business

and financial planning, it is assumed that rental charges will be increased in line with prior Government guidance of CPI + 1%. Any variation to this could put additional pressure on the financial forecasts for the HRA.

- 5.5 Tenants are to be asked to provide any comments and feedback for inclusion in the Mayor & Cabinet budget report to be presented in January/February 2016

6 Efficiencies & Savings Proposals for 2016/17

- 6.1 The HRA strategy and self-financing assessments are continually updated and developed with the view to ensuring resources are available to meet costs and investment needs and are funded for 2016/17 and future years.
- 6.2 Savings and efficiencies delivered in the 2016/17 budget can be re-invested to off-set constrained rent rises or to help bridge any investment gap identified. As a prudent measure the original financial model was developed with no savings identified. Subsequently, discussions have taken place regarding appropriate savings and 'target' management and maintenance costs per unit. For example, there is already an assumed reduction in the Lewisham Homes fee in 2016/17 to reflect stock losses through Right to Buy Sales. The savings and growth below are part of the process to reduce costs to enable reinvestment in priority areas. The package of savings proposed by way of this report can mostly be delivered through efficiencies in back office services.
- 6.3 Officers, together with Lewisham Homes, have already identified an saving of £1m arising from a reduction in Repairs and Maintenance allocations. This budget has under spent by at least this amount in the last financial year and is expected to do so again in the current year. This is as a result of the Decent Homes improvements carried out over the last four years.
- 6.4 Further savings are expected once a review of other asset investment priorities is completed in January 2016.
- 6.5 An update of the HRA Strategy, Savings Proposals, proposed rent & service charge increases and comments from consultation with tenant representatives will be reported to Mayor & Cabinet as part of the HRA Rents and budget strategy report. Mayor & Cabinet will make the final budget decisions in the new year.

7 Service Charges & Garage Rents

- 7.1 The agreed policy on Service Charges are that charges should reflect full cost recovery for the type of service undertaken. Heating and hot water costs are also recovered by a charge to tenants and leaseholders. Lewisham Homes have provided a separate consultation report to panels regarding the increase to be applied for 2016/17. The overall tenant in/decrease being proposed is 11.20% or £0.81pw. This will move the overall charges from £7.26pw to

£8.08pw for existing services, and the introduction of two new charges for lumber disposal and enhanced housing management for sheltered housing units at a polled average of £0.60pw and £0.88pw respectively.

- 7.2 RB3 are expected to raise service charges by approximately 1.8%, although the details have not yet been published. A report will be presented to tenants and leaseholders in mid December as a part of the consultation process, and comments fed back to the Mayor as a part of the budget report.

Garage Rents

- 7.3 Garage rents are proposed to rise in line with RPI inflation @ September 2015 which is 0.80%. This represents an increase of £0.09pw and would raise the average charge from £11.56pw to £11.65pw. The proposed increase would raise an additional £9k of revenue income.
- 7.4 The authority will be commissioning a review into rental values across the garage stock, with a view to reporting to Mayor & Cabinet sometime in the next year recommending rental values to take forward in the longer term. Any changes are likely to be consulted on and implemented for financial year 2017/18 onwards.

8 Tenants' Levy

- 8.1 As part of the budget and rent setting proposals for 2005/6 a sum of £0.13p per week was 'unpooled' from rent as a tenants service charge in respect of the Lewisham Tenants' Fund. There has been no increase in this levy since its introduction, following consultation with Housing Panels.
- 8.2 Proposals have been put forward by the tenants fund committee to reduce the amount of the 2016/17 Levy from £0.13pw to £0.10pw.
- 8.3 The tenants' fund has provided the panels with a consultation report regarding the accounts of the fund and budget proposals for 2016/17.

9 Consultation

9.1 Consultation under tenants' compact

Consultation will take place in line with the tenants' compact arrangements. Since these arrangements provide an opportunity to engage tenants in a discussion on rent rises, it is proposed to continue to involve tenant representatives through the Housing Panels in December/January and feed back any views to Mayor & Cabinet.

9.2 Housing Select Committee

It is proposed that Housing Select Committee will consider the proposals on 10 December 2015 prior to the report to Mayor & Cabinet on XX January 2016

10 Financial Implications

- 10.1 The estimated financial implications are contained in each section of the report. In summary these are:
- rents are to reduce by 1.0% or an average of £0.99pw, resulting in a rent loss of £0.755m in comparison to 2015/16 rental income, and £1.90m against financial forecasts.
 - Tenant service charges are proposed to in/decrease by 11.20%, which is an average in/decrease of £0.81pw.
 - Garage charges are proposed to increase by 0.80% which is an average of £0.09pw.
 - the tenants fund levy is proposed to reduce from £0.13pw to £0.10pw.
- 10.2 The Council is currently undertaking a full assessment of both long and short-term requirements against resources available, including assumptions on future liabilities, programmes, savings and other requirements in-order to confirm the resource need and identify potential gaps in funding.

11 Legal Implications

- 11.1 Section 24 of the Housing Act 1985 provides that a local housing authority may make such reasonable charges as they determine for the tenancy or occupation of their houses. The Authority must review rents from time to time and make such changes as circumstances require. Within this there is discretion to look at any reasonable option. The consequences of each option must be fully explained so that Members are fully informed of the implications.
- 11.2 Section 76 of the Local Government and Housing Act 1989 provides that local housing authorities are under a duty to prevent a debit balance in the HRA. Rents must therefore be set to avoid such a debit.
- 11.3 Section 103 of the Housing Act 1985 sets out the terms under which secure tenancies may be varied. This requires –
- the Council to serve a Notice of Variation at least 4 weeks before the effective date;
 - the provision of sufficient information to explain the variation;
 - an opportunity for the tenant to serve a Notice to Quit terminating their tenancy.
- 11.4 The timetable for the consideration of the 2014/15 rent levels provides an adequate period to ensure that legislative requirements are met.

- 11.5 Part III of Schedule 4 of the Local Government and Housing Act 1989 provides that where benefits or amenities arising out of the exercise of a Housing Authority's functions, are provided for persons housed by the authority, but are shared by the community as a whole, the authority shall make such contribution to their HRA from their other revenue accounts to properly reflect the community's share of the benefits or amenities.
- 11.6 Where as an outcome of the rent setting process, there are to be significant changes in housing management practice or policy, further consultation may be required with the tenants affected in accordance with section 105 of the Housing Act 1985.
- 11.7 The Equality Act 2010 (the Act) introduced a new public sector equality duty (the equality duty or the duty). It covers the following nine protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
- 11.8 In summary, the Council must, in the exercise of its functions, have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the act.
 - advance equality of opportunity between people who share a protected characteristic and those who do not.
 - foster good relations between people who share a protected characteristic and those who do not.
- 11.9 The duty continues to be a "have regard duty", and the weight to be attached to it is a matter for the Mayor, bearing in mind the issues of relevance and proportionality. It is not an absolute requirement to eliminate unlawful discrimination, advance equality of opportunity or foster good relations.
- 11.10 The Equality and Human Rights Commission has recently issued Technical Guidance on the Public Sector Equality Duty and statutory guidance entitled "Equality Act 2010 Services, Public Functions & Associations Statutory Code of Practice". The Council must have regard to the statutory code in so far as it relates to the duty and attention is drawn to Chapter 11 which deals particularly with the equality duty. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code and the technical guidance can be found at:
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11.12 The essential guide provides an overview of the equality duty requirements including the general equality duty, the specific duties and who they apply to. It covers what public authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more detailed guidance on key areas and advice on good practice. Further information and resources are available at:
<http://www.equalityhumanrights.com/advice-and-guidance/public-sector-equality-duty/guidance-on-the-equality-duty/>

12 Crime and Disorder

There are no specific implications.

13 Environmental Implications

There are no specific implications.

14 Equality Implications

14.1 Council tenants include a higher than average proportion of elderly people and black and ethnic minorities. Many tenants are unemployed or on low income. The service has specific provision for more vulnerable groups within the community. A significant proportion of new allocations are made to families and women with young children.

14.2 In undertaking consultation and examining potential options, the equalities impact for different groups of people will be considered, particularly black and ethnic minorities, women, disabled people and young people.

15 Conclusion

15.1 Whilst the HRA budget model assumes rent rises in accordance with the Government rent restructuring formula, all four options set out above are still under consideration.

15.2 The Council's budget setting timetable enables tenants comments to be included in the budget report being presented to Mayor and Cabinet on 14 January 2015.

If you require any more information about this report please contact Mark Humphreys on 0208 314 8379 (e-mail mark.humphreys@lewisham.gov.uk)