



## Mayor and Cabinet

### Building for Lewisham

**Date:** 07 December 2022

**Key decision:** No

**Class:** Part 1

**Ward(s) affected:** All

**Contributors:** Executive Director, Housing, Regeneration and Public Realm; Executive Director of Corporate Resources and Director of Law, Governance and Elections.

### Outline and recommendations

*It is recommended that Mayor and Cabinet:*

- 1. Note the progress of the Building for Lewisham programme;*
- 2. Note the market challenges and budget pressure impacting affordable housing delivery;*
- 3. Approve the merging of the Lewisham Homes and Council development teams; and*
- 4. Delegate authority to the Executive Director, Housing, Regeneration and Public Realm in consultation with the Executive Director of Law, Governance & Elections, to make any amendments deemed reasonably necessary to the Lewisham Homes Management Agreement and any other documents, necessary to give effect to the above decisions.*

## **Timeline of engagement and decision-making**

Mayor and Cabinet, 11 July 2018 – New Homes Programme

Mayor and Cabinet, 15 January 2020 – Building for Lewisham Programme

Mayor and Cabinet, 9 July 2020 – Building for Lewisham Update

Mayor and Cabinet, 12 January 2022 – Building for Lewisham Update

### **1. Summary**

- 1.1. Officers have undertaken to provide regular updates to Mayor and Cabinet on the delivery of new housing and to seek approvals as required for the Building for Lewisham programme and wider housing delivery in the borough.
- 1.2. This report provides an update on progress in relation to housing delivery as well as setting out some of the challenges impacting the delivery of affordable housing at present.
- 1.3. This report also provides an update on work being done by Lewisham Homes and the Council to merge the two development teams across the two organisation into the Council's structure in order to drive efficiencies.
- 1.4. It is noted that this is separate to the work being carried out to review the ALMO.

### **2. Recommendations**

- 2.1. It is recommended that Mayor and Cabinet:
- 2.2. Note the progress of the Building for Lewisham programme;
- 2.3. Note the market challenges and budget pressure impacting affordable housing delivery;
- 2.4. Approve the merging of the Lewisham Homes and Council development teams; and
- 2.5. Delegate authority to the Director for Housing, Regeneration and Public Realm in consultation with the Director of Law, Governance & Elections, to make any amendments deemed reasonably necessary to the Lewisham Homes Management Agreement and any other documents, necessary to give effect to the above decisions.

### **3. Policy Context**

- 3.1. The Council's Corporate Strategy (2022-2026) explains our values, priorities and focus for the next four years, our learning from how the borough worked together in response to the pandemic, and how we plan to continue improving our services for residents, businesses and partners in an ever more challenging environment.
- 3.2. Above all, the strategy outlines the principles that showcase who we are as an organisation; our focus on equality, putting our residents at the centre of everything we do and ensuring transparency and sound financial management are embedded within all key decisions the council makes.

- 3.3. Delivering this strategy includes the following priority outcomes that relate to the provision of new affordable homes:
- Cleaner and Greener – working to tackle the climate crisis through our development policies.
  - A Strong Local Economy – continue to expand our apprenticeship programme and invest in our high streets, doing what we can to be the best place in London for new businesses.
  - Quality Housing and Safer Communities – we will deliver more social homes for Lewisham residents, providing as many people as possible with safe, comfortable accommodation that they can be proud of and happy to live in.
  - Open Lewisham – we will co-design services and ensure strong consultation processes that reach out to people whose voices are seldom heard.
- 3.4. Lewisham’s Housing Strategy (2020-2026), includes the following themes that relate to the provision of new affordable homes:
1. delivering the homes that Lewisham needs.
  2. preventing homelessness and meeting housing need.
  3. improving the quality, standard and safety of housing.
  4. supporting our residents to live safe, independent and active lives.
  5. strengthening communities and embracing diversity.

## **4. Background**

- 4.1. In January 2020 the Building for Lewisham (BfL) programme was officially launched. The programme is to provide much needed genuinely affordable new homes through a partnership with the Council’s Arm’s Length Management Organisation, Lewisham Homes, and partner Registered Providers.
- 4.2. The BfL programme highlighted a number of Council owned sites held within the Housing Revenue Account (HRA) which were underused in their current form and therefore presented opportunities to deliver new housing.
- 4.3. The BfL programme is not only providing the much needed genuinely affordable homes that our residents need, but is also delivering wider social value benefits for residents through training and employment opportunities as well as improvements to existing estates, thereby making the best use of Council assets.
- 4.4. Through a variation to the Council’s management agreement with Lewisham Homes they have taken on a programme of building new homes on sites identified by the Council. This has been financed using General Fund and HRA lending capacity to build on Council owned land to deliver affordable housing and further enabled by the use of grant, most notably Affordable Housing Grant.
- 4.5. Recent stock surveys indicate that significant investment will be required to bring existing stock up to the safety and quality levels now required. It may be more viable to redevelop some existing stock as part of a wider regeneration programme. Going forward, Council housing delivery will need to be less reliant on General Fund and HRA borrowing.
- 4.6. The Council and Lewisham Homes are actively managing the development programme to ensure it remains within agreed cost envelopes. This will require consideration of ways to improve the efficiency of the delivery and content of the overall programme.
- 4.7. It should be noted that development is not considered to be a landlord function, meaning that any changes made to the delivery of this function would not require

engagement with tenants and leaseholders, but would instead be decisions to be made by the Council and Lewisham Homes. Where it offers opportunities for efficiencies or improvements, moving development functions can be authorised by agreement of the senior management of the two organisations. Where staff are transferred, the TUPE process and consultation would be used but no wider consultation is required. These decisions and the timing of their implementation is not dependent on the timing of any potential change to the landlord management services.

- 4.8. In September, the Lewisham Homes Board agreed in principle to vary the management agreement to enable the Council to take on the management of development services.

## 5. Building for Lewisham - Progress

- 5.1. We are currently monitoring against the new Mayoral target for 22-26 which is for 800 new social homes to be delivered. This target will include 'start on sites' and completions for schemes during that period and include delivery directly enabled by the Council or that which is secured via completions on consents from the Local Planning Authority. Key progress over the last period includes:

- The Council's first Shared ownership scheme (Creekside) has received over 480 enquires, 62 viewings and 13 reservations
- The Right to buyback programme has been successful in purchasing 45 properties to date, with a further 36 going through the conveyancing process currently.
- There are currently 13 schemes at practical completion, 21 schemes on site, 25 at planning, with 6 schemes in the pipeline unapproved and 3 approved.

- 5.2. Schemes in the Building for Lewisham programme recently completed:

- In partnership with Lewisham Homes, six new 4 bedroom Council houses were completed earlier this year on a former under used garage site on Marnock Road in Brockley. These new homes have been provided with the support of the GLA and are let at a genuinely affordable rent. They have been let to families on the Housing Register.
- Also in partnership with Lewisham Homes, seventeen new Council homes have been delivered on the Forest Estate in Forest Hill. The new homes are a mixture of 2 and 3 bedrooms flats and houses which have also received the support of the GLA and are let at a genuinely affordable rent. As part of the development, a new children's play area has been provided for both the new and existing residents of the estate. The properties are being let to families on the Housing Register.

- 5.3. Schemes in the Building for Lewisham programme in construction:

- The Council is working in partnership with Peabody on developments on the former Heathside and Lethbridge Estate in Lewisham and linked sites in Deptford at Amersham Vale and Frankham Street/former Tidemill school.
- The development of the former Heathside and Lethbridge Estate is a major estate regeneration scheme over 6 phases. Phases 1-4 have been completed and are occupied with the final phases (5 and 6) currently in construction and due to be completed in 2023. The final phases will be providing a mixture of homes including 171 new social rented homes to be available to residents on the Housing Register. As well as delivering 544 new social rented homes across all phases, the scheme will also provide 159 new homes for shared ownership, a new public park, community centre, nursery and play spaces.
- The linked sites at Amersham Vale and Frankham Street/former Tidemill school (known collectively as the Deptford Southern Housing sites) are also phased. The

Amersham Vale site has been completed, delivering 24 new social rented homes and 15 homes available to low income earners through shared ownership. Phases 1 and 2 of the Frankham Street, former Tidemill school site, are currently in construction and will deliver 79 new social rented homes and 14 shared ownership homes. The new homes in Phases 1 and 2 will be available in 2023. The final phase of the Frankham Street/former Tidemill school site has planning permission and is due to deliver a further 38 social rented homes and 27 homes available for shared ownership. Construction is expected to commence in 2023. All of the social rented homes will be available to residents on the Housing Register.

- Working in partnership with Lewisham Homes, 23 new Council homes are being delivered with the support of the GLA on the Somerville Estate in New Cross. There are fourteen 2 bedroom homes and nine 3 bedroom homes being delivered which are expected to be available for rent by the end of this year.
- The development of the Excalibur Estate in Catford is a major estate regeneration in partnership with L&Q. It is being delivered across 5 phases, with Phases 1 and 2 now complete and occupied. Phase 3 is currently in construction and will deliver a mixture of bungalows, houses and flats, 36 of which will be for social rent. The new homes are expected to be available for letting in late 2023/early 2024.

#### 5.4. Schemes in the Building for Lewisham programme in planning:

- A planning application has been submitted to develop the first phase of new homes on the site of the former Ladywell Leisure Centre. The application is for 102 new affordable homes which includes 47 for social rent. A decision on the application is expected in 2023.
- Planning consent for new homes on the Valentine Court estate was obtained on 29 September 2022. The consent is for 41 new residential properties, and includes new play spaces, provision of car parking spaces, cycle parking spaces, refuse/recycling stores, new public realm and associated landscaping works to be built on locations across the estate and a new crossing for Perry Vale road. Lewisham Homes are now preparing to procure a main contractor.

#### 5.5. Schemes in the Building for Lewisham programme in pre-planning:

- In late 2019, residents of the Achilles Estate in New Cross were balloted on the option to regenerate the estate to provide new homes. The majority of residents voted in favour of the proposals. Lewisham Homes have worked with local residents on the selection of the architects for the proposed scheme and the Council have been working with the GLA to provide grant funding. Work will continue with the design and phasing plan for the regeneration of the estate with the view to a planning application being submitted in early 2024.

## 6. Market challenges and budget pressures

- 6.1. Work that the Council and LH have been undertaking around the investment needs of our stock indicate that significant investment is required in existing homes to ensure they continue to meet the Decent Homes standard and to enable us to meet future enhancements to this. Build cost inflation is having significant impacts on new build scheme viability, making it harder for schemes within the Building for Lewisham programme to remain viable.
- 6.2. The challenging delivery context means that Lewisham Council and Lewisham Homes are having to review and prioritise our existing development programme and look for opportunities to realise efficiencies so that the Housing Revenue Account is able to fund both investment in existing homes and delivery of new homes. As part of looking at ways to ensure schemes remain viable, the Council and Lewisham Homes are exploring whether having a single development function, located within the Council,

could provide a more efficient way to deliver our housing programme

- 6.3. The Council and Lewisham Homes are committed to ensuring that where viable, schemes continue to progress to provide the homes that residents need.
- 6.4. The Housing market is experiencing a period of serious uncertainty due to many factors. High interest rates not seen in decades, rising build costs and a period of political uncertainty all have impacted the housing sector.
- 6.5. These challenges alongside several global factors exacerbating the situation, including: supply-chain pressures, demand, labour and materials shortages driven by the COVID-19 pandemic; transport, storage, delivery and tariff challenges caused by the UK's exit from the EU; and rising inflation and the war in Ukraine. In the past 12 months we have seen works cost rise c25-30% across the new build sector. Increases are comprised of both labour and materials.
- 6.6. As a result and due to these unprecedented pressures we have seen works, materials and labour costs increase significantly across the sector. Much uncertainty as to the medium term impact on borrowing rates also remains.
- 6.7. Councils are experiencing a period of significant financial pressure applied by rising works costs to new build home programmes, uncertainty on revenue with rents capped to a lower than inflation level of 7% for 2023/24, alongside a major works programme on existing stock totalling £328m over 5 years. In addition to the current repairs and major works programmes, the HRA is facing increased budget pressures to comply with new fire safety measures, building safety, damp and mould, LPS block strengthening, sustainability improvements on existing stock and new consumer regulations. This is against a backdrop of committed spend to BFL schemes in contract and on site totalling £105m.
- 6.8.
- 6.9. Our current Affordable homes programme requires bids to be presented on negotiated grant rates required and are project specific. Grant rates must remain high enough to bridge the gap between HRA affordability, rental revenue and other subsidy to ensure programme viability. At the present time grant is being secured at a higher rate than seen in several years previously.

## **7. Implications of staffing transfer**

- 7.1. The need for a review of how development is structured is driven by the challenges facing the Building for Lewisham Programme. Whilst it coincides with the review of the ALMO, it would have been needed anyway. A single development function, located within the Council, will reduce the need for 'double handling' of schemes and will provide a more agile and efficient way to deliver our current and future housing programme, noting the challenging market context set out in section 6 above.
- 7.2. Immediate pressures are arising from staff resignations and so the Council and Lewisham Homes are preparing to merge the LH development function and create a new single team as soon as measures have been put in place to ensure that the Council can manage the development programme.
- 7.3. The Lewisham Homes Board received a paper in September, recommending that development functions move back to the Council, in recognition of the changing economic environment and challenging viability of the programme. The LH Board is of the view that the Council's ability to maximise the delivery of new homes is best served going forward by a single function that can operate in an agile way. In principle approval was given to take forward work to amend the management agreement, as it relates to development services, to allow the transfer of the service to take place.
- 7.4. A range of opportunities will be secured through the merging of the Lewisham Homes

and Council's development capacities, including:

- Removing the duplication of approvals and governance across both organisations, enabling more effective and streamlined governance and reporting systems.
- The use of the same systems for development appraisals, management and reporting.
- Creating a coherent single team which draws on the knowledge, expertise and commitment across both organisations.
- Integrating development and delivery capacity with the investigation of pipeline sites and opportunities to deliver new housing in the Borough
- Bring the combined expertise together to pursue different models of housing delivery, working closely with commercial partners.

7.5. To enable the transfer of the development function, there are a range of measures that will need to be in place to enable the continued delivery of the service:

- Agreement is needed between the Council and LH Board to vary the Management Agreement for the transfer of the Development Service. The Management Agreement specifies the development service that Lewisham Homes provides for the Council and this will need amending, alongside a service transfer agreement that specifies the responsibilities that are passing to the Council.
- Contract novation and/or assignments are needed to ensure that the Council has the appropriate rights to manage ongoing and past contractual relationships.
- Maximising the ability to deliver new homes in the borough in a more agile way will help the Council pursue opportunities for different forms of housing delivery, working closely with Housing Associations and other commercial partners.
- The transfer of the service to Lewisham Council and on the on the basis that TUPE applies, will require Lewisham Homes to formally consult with recognised trade unions and staff in scope in line with their change management policy. The Council will require full employee liability information of the staff who will transfer.

## **8. Financial implications**

- 8.1. This report asks Mayor & Cabinet to note the progress of the Building for Lewisham programme, market challenges and budget pressure due to cost increases impacting affordable housing delivery.
- 8.2. It seeks further approval for the proposal to merge the Lewisham Homes and Lewisham Council development teams to enable efficiencies, delegating the required amendments to the Lewisham Homes Management Agreement, as they relate to development services, to the Director for Housing, Regeneration and Public Realm.
- 8.3. Transferring the development services back to the Council offers opportunities for some efficiencies and greater control of costs. These would come from integrating the development services and bringing staff together under one leadership and governance structure.
- 8.4. The TUPE process will be followed when staff are transferred from Lewisham Homes to the Council. Early and continuing communications will be key to minimising disruption. The Council has established processes for consultation with staff and unions.
- 8.5. It should be noted that even after accounting for sales and grants, significant amounts of borrowing will need to be undertaken to deliver the development schemes for both the General Fund and the HRA. The current market conditions will put further pressure

on schemes being able to meet the financial hurdles set for affordability. The Council will need to ensure that its treasury strategy is aligned to the programme and borrowing timescales to ensure that funding decisions can be taken to ensure borrowing approvals are obtained in advance of requirements and profiled annually.

- 8.6. Mitigation actions against cost increases or unviable projects could include developing cross-subsidy into the schemes by using a mixed approach to delivery such as reducing the overall social element, introducing shared ownership and/or private sales, securing additional sources of funding, the sale of sites for development by others, generating capital receipts for reinvestment, or pausing/removing future schemes from the programme.
- 8.7. All known BfL schemes are consolidated into a financial model to forecast the long-term impact on the Council's spending, as well as assessing the financial performance of each individual scheme as currently presented. The outcome of the September modelling showed that the HRA schemes could be delivered within an overall tolerance of -£20m NPV based on the financial assumptions that were agreed last year. However borrowing costs and inflation increases have necessitated a review of the financial assumptions and this will adversely impact the NPV of the BFL schemes. Therefore schemes will need to be prioritised to meet the HRA -£20m NPV target.
- 8.8. The HRA financial model is being regularly updated to assess the financial viability of the overall programme to ensure resources are available to complete the proposed developments within the specified financial hurdles and £20m headroom. This would include the need to update cash-flow forecasts and assess the availability of resources to deliver the developments as currently planned, when scheme estimates change.
- 8.9. The financial implications of the schemes associated with the BfL programme will be reported on individually as and when they are sufficiently developed and brought forward for approval by Mayor and Cabinet.

## **9. Legal implications**

- 9.1. Any changes made to the delivery of this function can be made by the Council and Lewisham Homes. Where it offers opportunities for efficiencies or improvements, moving development functions can be authorised by agreement of the senior management of the two organisations. Where staff are transferred, the TUPE process and consultation would be used but no wider consultation is required. These decisions and the timing of their implementation is not dependent on the timing of any potential change to the landlord management services.

## **10. Equalities implications**

- 10.1. The Council's Comprehensive Equality Scheme for 2016-20 provides an overarching framework and focus for the Council's work on equalities and helps ensure compliance with the Equality Act 2010.
- 10.2. The programme to transfer the development service back to the Council will be developed to ensure it complies with the Council's policies.

## **11. Climate change and environmental implications**

- 11.1. There are no direct environmental impacts arising from this report, although improving the efficiency, including improved skills and training of the development team will provide greater opportunity to help us strive towards being a net zero borough by 2030.

## **12. Crime and disorder implications**

12.1. There are no direct implications relating to crime and disorder issues.

## **13. Health and wellbeing implications**

13.1. There are no direct implications relating to health and wellbeing issues

## **14. Social Value Implications**

14.1. The Building for Lewisham programme is not only providing the much needed genuinely affordable homes that our residents need, but is also delivering wider social value benefits for residents through training and employment opportunities as well as improvements to existing estates, thereby making the best use of Council assets.

## **15. Report author and contact**

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