

<b>Mayor and Cabinet</b>			
<b>Title</b>	Building Council Homes for Londoners: Lewisham funding bid		
<b>Key decision</b>	Yes	<b>Item no</b>	
<b>Wards</b>	All		
<b>Contributors</b>	Executive Director for Customer Services, Executive Director for Resources & Regeneration, Head of Law		
<b>Class</b>	Part 1	20 September 2018	

## 1. Purpose of report

1.1 The purpose of this report is to set out the parameters of the grant funding and additional HRA (housing revenue account) borrowing bids which the Council intends to submit to the Greater London Authority (GLA) in order to deliver a total of 782 new homes to significantly contribute to the Council commitment of building 1,000 new Council homes.

## 2 Summary

2.1 London faces one of the most significant housing shortages since the end of the Second World War. Over the last ten years, social housing lets have halved and the numbers of households in Temporary accommodation has increased significantly in both London and Lewisham. Lewisham Council acknowledges the challenges faced by our residents and is committed to tackling those with the greatest housing need.

2.2 In July 2012 the Council embarked on a programme to build 500 new Council homes in response to a series of on-going housing policy and delivery challenges, most notably an enduring under-supply of new affordable homes available to the Council to meet housing demand.

2.3 The commitment to build an additional 1,000 Council homes is challenging given the significant lack of investment in social housing by central government in recent years. Many local Councils have long been emphasising the need for investment in the sector and the removal of arbitrary HRA borrowing restrictions to enable them to build much needed Council homes again.

2.4 There has recently been a step change in housing policy and mechanisms have now been put in place to enable Councils to build. The Government has recently facilitated £1bn of additional HRA borrowing headroom for England. Half of this allocation has been ring-fenced to London.

2.5 In addition, the Mayor of London has secured funding for the provision of new Council homes in London. He published his grant funding prospectus 'Building Council Homes for Londoners' in May 2018. Due to our reputation as an ambitious Council, officers at

Lewisham were heavily involved with the GLA in setting up the bid programme and drafting the prospectus. Lewisham's Mayor joined the Mayor of London to launch the programme in May and in doing so confirmed Lewisham's intention to partner with the GLA to build new Council homes in the borough.

- 2.6 Councils are encouraged to bid for Affordable Housing Grant funding to build new Council homes, with rents set at social rent levels, or London Affordable Rent. The programme intends to support delivery of 10,000 new Council housing starts in London by March 2022, with an emphasis on early delivery.
- 2.7 The bid deadline for both the additional HRA borrowing and the grant funding programme is 30<sup>th</sup> September 2018. The detail of the HRA programme was launched in July 2018, which has meant a very short lead in time to prepare the bids and reports for approval.
- 2.8 Given the short lead in time to prepare these papers in order to obtain Mayor and Cabinet approval in advance of submitting the bid, it is possible that changes to those presented here may be identified in the intervening period, either in the form of the amount of funding and borrowing requested, or changes to the details of specific schemes or the total number of units to be delivered. Given this, delegated authority is therefore requested for the Executive Director for Customer Services, subject to the approval of the Executive Director for Resources and Regeneration, to agree the final bid submission to enable a comprehensive and fully accurate bid to be submitted in advance of the bid deadline of 30<sup>th</sup> September.
- 2.9 The Council intends to bid for in the region of £108.9m, comprising £57.5m grant funding and £51.4m of additional HRA borrowing.

### **3 Recommendations**

It is recommended that Mayor and Cabinet:

- 3.1 approve the Council's intention to bid for in the region of £51.4m additional HRA borrowing;
- 3.2 approve the Council's intention to bid for in the region of £57.5m grant funding from the GLA;
- 3.3 delegate authority to the Executive Director for Customer Services to sign off the final bid submission, subject to the approval of the Executive Director for Resources and Regeneration; and
- 3.4 agree that the Council is willing in principle to participate in the GLA ring fencing offer for Right to Buy receipts, subject to further details of the arrangements being provided by the GLA and note that this will be the subject of a separate report to Mayor and Cabinet once those details are available

### **4 Policy context**

- 4.1 The contents of this report are consistent with the Council's policy framework. It supports the achievements of the Sustainable Community Strategy policy objectives:

- **Ambitious and achieving:** where people are inspired and supported to fulfil their potential.
- **Empowered and responsible:** where people can be actively involved in their local area and contribute to tolerant, caring and supportive local communities.
- **Healthy, active and enjoyable:** where people can actively participate in maintaining and improving their health and well-being, supported by high quality health and care services, leisure, culture and recreational activities.

4.2 The proposed recommendations are also in line with the Council policy priorities:

- **Strengthening the local economy:** gaining resources to regenerate key localities, strengthen employment skills and promote public transport.
- **Clean, green and liveable:** improving environmental management, the cleanliness and care for roads and pavements and promoting a sustainable environment.

4.3 It will also help meet the Council's Housing Strategy 2015-2020 in which the Council commits to the following key 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 health and wellbeing by improving our residents' homes

## 5 Lewisham's programme

5.1 Lewisham has a strong track record of building Council homes. In recent years, the Council has:

- Met the requirements of the 500 Council home programme, which will provide 500 new council homes, the first to be built in a generation. 91 homes have been built, 112 are on site and 298 are awaiting start on site
- Worked in partnership with L&Q, who are investing over £50, to replace 178 prefabricated bungalows on the Excalibur estate with 152 new homes of all tenures, including 73 at rents very near to social rent
- Worked in partnership with Family Mosaic, who are investing over £350m to replace 565 (including 111 leasehold) homes at Heathside and Lethbridge estate with 1,225 homes of all tenures, including 469 at rents very near to social rent
- Developed PLACE/Ladywell, an innovative award winning development using Modern Methods of Construction, to improve the temporary accommodation offer, providing 24 two-bedroom properties for homeless families

5.2 The Council intends to bid for in the region of £57.5m grant funding and £51m of additional HRA borrowing.

5.3 Both the grant funding and additional HRA borrowing bids must be submitted on the GLA's Open Project System (OPS). The GLA will take decisions on allocation of Affordable Homes Grant, and will administer the HRA bids on behalf of the Government.

5.4 The Building Council Homes for Londoners (BCHfL) programme is designed to enable Councils to build more homes directly without the need for private sector partners. This, it is hoped, will lead to a significant increase in affordable homes.

5.5 BCHfL will significantly increase the amount of grant available to local authorities. The grant rate is £100,000 per unit for social rent properties with rents set below or at London Affordable Rent levels.

5.6 For shared ownership or London Living Rent homes, £38,000 per home is available for homes that start in 2018-19 or 2019-20. If homes start in 2020-21 or 2021-22, they will only receive £28,000 per home.

5.7 Under the Programme Approach, councils will need to commit to delivering a headline number of affordable homes broken down by tenure across a portfolio of sites in exchange for an allocation of affordable housing grant. However, for the HRA bid to government, more project level information will be required. Councils must also confirm:

- projects are not expected to receive other Government subsidy aside from affordable housing grant
- The Council's Chief Finance Officer has signed off and certified the bid, and the additional borrowing is affordable and will not displace other sources of available funding
- The HRA borrowing headroom (using the most recent data that is available) has been set out and the extent to which any such headroom is earmarked for other projects is included in the 30-year Business Plan.

5.8 Councils will have flexibility to manage the delivery profile of homes across this portfolio and additional discretion to substitute sites into, and out of, their portfolio.

5.9 The GLA will pay 50 per cent of grant for projects at start on site stage and 50 per cent on completion. They will also require councils to make returns about the actual costs incurred for both public accountability and State Aid compliance and will be subject to audit.

5.10 The pipeline for Lewisham's delivery programme comprises:

- the known sites within the 'New Homes, Better Places' portfolio and
- a list of unconfirmed development opportunities following close collaboration with Lewisham Homes with potential to deliver homes towards the 1,000 target.

5.11 The programme of units to be built using the BCHfL funding has been split into these two sources above. The overall approach is to have a "programme mobilisation phase" until spring 2019. The objective is to formally launch the full programme with confident delivery dates and reliable budget estimates, alongside a fully functioning governance and oversight structure to support delivery by March 2019. At this point the programme will be presented to Mayor and Cabinet for approval.

### **Known sites**

5.12 The proposed bid, based on known sites to date is made up of 25 sites and 343 units to be built primarily on HRA land, with some General Fund sites. Funding for these units would normally have come forward from the GLA via their Affordable Homes Programme or, in the case of our modular schemes (Mayfield, Kenton Court, Home Park and Edward Street) via an Innovation Fund bid. All of these schemes are now included in the BCHfL bid.

5.13 The majority of these sites have planning permission and procurement of contractors is due to commence this month with the Council's delivery partner, Lewisham Homes taking the lead. Therefore, we can provide detailed project information to support these bids. This is essential to demonstrate that the Council is a credible provider of new council homes.

### **Unconfirmed opportunities**

5.14 It is noteworthy that the bid to the GLA covers a 4 year period and whilst certainty and deliverability is essential, some flexibility around the pipeline of sites is anticipated by the bids. At present, 439 new homes will be included in this bid. These opportunities have to be subject to initial feasibility and financial viability but in many cases, are not *live* sites as they are programmed to start much later in the 4 year delivery window. Due to the number of variables, this figure might increase or decrease and officers are working to ensure the pipeline provides a sufficient level of contingency to ensure that the 439 units is the minimum number of new units to come forward.

5.15 As noted in paragraph 5.11 above, full details of the programme of sites will be finalised in March 2019 and will be shared with Mayor and Cabinet around this time for approval.

5.16 The flexibility around the programme does present both operational and financial risk to the programme. Whilst we are only targeting sites similar to those that have been utilised before (old garages and drying yards, infills, underused car parks), we need to consider looking at larger transformational opportunities such as Achilles Street.

5.17 GLA policy requires ballots on estate regeneration schemes. This was also a commitment given by Lewisham's Mayor in his Manifesto. This is welcomed as it gives residents and tenants a greater voice in how they shape their communities. However, it presents external risk to the programme and thus, funding that is sought for sites requiring a ballot may not be utilised if a ballot fails.

### **Right to Buy receipts**

5.18 The final part of the BCHfL prospectus covers the use of Right to Buy Receipts. These funds come into the council following the sale of homes in the borough to tenants through the Right to Buy. Per government guidance, Right to Buy receipts can only contribute towards 30% of the total cost of the additional affordable rent units (as the rest are grant funded by other means).

5.19 The Council receives around £8m per year in RTB receipts for Replacement Homes (known as 1-4-1 receipts) for investment in new units. The "receipts pooling return" is used by government to estimate the amount of receipts that can be retained, as well as the total expenditure that should have been incurred in delivering new supply at the date of the return. If not enough total expenditure is incurred within three years of retaining the said receipt, the receipt(s) becomes repayable to central government with interest charged at 4%.

5.20 Measuring total expenditure to date in this way does not provide any flexibility and does not take into account delays that may incur in delivering new build schemes. In the past, the Council has been close to repaying funds to government. This will occur if total

expenditure at the date of the return is not enough. Repayment of the receipts to government will then be required, even if the total estimated costs of delivery exceeds the total spend requirement overall. The opportunity for a third party to ringfence these funds on behalf of the Council would be extremely beneficial.

5.21 As well as eliminating the risk of surrendering receipts, the GLA ring fencing offer extinguishes some of the restrictions around the percentages that can be used to fund construction and also allows RTB receipts to be pooled with additional funding sources. This would not be possible if funded directly by the Council due to restrictions linked to the status of the local authority which do not apply to the GLA.

5.22 On this basis, it is thought that participating in the ring-fence offer is a sensible approach, however, full details of how the proposals will work are not available at this time. It would be sensible to indicate a willingness to participate in the offer at the point of bidding, however, it is proposed that any final arrangements will not be made until further detail is available from the GLA. At that time, a further Mayor and Cabinet report will be presented, setting out the exact arrangements for approval.

5.23 Prior to the launch of the Building Council Homes for Londoners programme and the availability to return RTB receipts to the GLA, the Council had intended to use RTB receipts equivalent to 30% of the project value as the subsidy. If this funding bid is successful and the terms of the RTB ring fence offer are agreeable, then we will replace the RTB receipts with £100,000 of GLA grant for each unit, as the two subsidy sources cannot be combined. The RTB receipts will then be passported to the GLA for the Council to use at a later point in line with its priorities.

#### **Assumptions used in the model**

5.24 The outputs from the modelling are underpinned by the following assumptions (TABLE 1)

**TABLE1 – GLA GRANT BID ASSUMPTIONS**

<b>Category</b>	<b>Assumption</b>	<b>Value</b>
Investment	Payback	40 Years
Investment	Interest rate	2.74%
Economic	Inflation : CPI	2.00%
Economic	Rent Inflation	3.0% (10 years)
Construction	Build Costs (estimate)	£3,000 per M2 + 13% oncosts
Construction	Build Costs (actual)	Tendered Costs
Operating	Rents : HRA	London Affordable Rents
Operating	Rents : General Fund	Local Housing Allowance
Operating	Rent Loss	3.00%
Operating	Management Allowance (per unit)	£510
Operating	Maintenance Allowance (per unit)	£500
Operating	Capital Works	£1,250 (from year 5)

5.25 In order to ensure the maximum possible number of Council homes are delivered, the Council's proposals do not include building homes for private sale. This approach significantly reduces the risk to the Council, by avoiding the need to achieve a specific

amount of cross subsidy from the sales receipts. Instead, it is estimated, the Council will require £142.825 million of cross subsidy (HRA and General Fund) to augment the GLA grant and RTB funding.

5.26 This bid puts the Council in a position to fund the social housing elements of its programme. However on large sites and estate redevelopment projects it is assumed that the non-social housing elements will be both commercial viable in their own accord and that a funding and delivery strategy is put in place to deliver them. This work needs to take place as soon as possible as part of the programme mobilisation phase.

## 6 Financial implications

6.1 The Council's current 30 year financial model for the Housing Revenue Account (HRA) already includes provision for the original 500 new homes target, for social rent purposes.

6.2 The new social homes and temporary accommodation units which form part of the new 1,000 homes target will be funded from a combination of HRA and General Fund capital programme budgets, which will require a commitment to significant borrowing.

6.3 Financial models have been developed to assess the viability of each individual scheme within the proposed programme. The financial model indicates that overall the schemes are viable, if grant funding from the GLA at £57.5m (£100k per unit) and additional HRA headroom of £51.4m can be secured as outlined in paragraph 5.2 above. The HRA 30 year financial model has also been updated to incorporate the HRA elements of these schemes and shows that they can be accommodated if additional headroom approval can be secured.

6.4 Overall scheme costs to deliver the council funded units are estimated to be in the region of £217m. The table below shows how it is currently proposed that this £217m cost will be funded.

The following table outlines the overall costs of the schemes and expected funding sources to deliver the council elements of the 1,000 new homes target:

Total scheme costs	£217m
<b>Funded by:</b>	
GLA grant funding application	£57.5m
Retained RTB receipts	£10.0m
Existing HRA borrowing headroom	£69.4m
Additional HRA borrowing headroom	£51.4m
GF borrowing	£28.7m
	<b>£217m total</b>

6.5 The total borrowing requirement is £149.5m of which £120.7m is HRA and £28.8m General Fund. The HRA has existing borrowing headroom of £69.4m which will be utilised along with the £51.4m headroom bid. This will have implications for the authority's treasury management which will require updating and an assessment of the overall council prudential borrowing requirement undertaken.

6.6 While the recommendations in this report undoubtedly provide an opportunity to direct additional resources to the development of needed new and increased social housing, as the report identifies, there are a number of risks with financial implications. In particular the scale and timing for completing the preparations for these developments in line with the GLA terms that load the Council's balance sheet through the necessary treasury borrowing of £149.5m. In particular, some of the £40m of general fund schemes are still in the pipeline so not yet committed in the capital strategy or plans. In turn this puts potential constraints on the level of investment the Council can make towards other schemes and priorities that may require borrowing going forward. For example; these schemes maximise the level of HRA borrowing through in-fill schemes, which without additional funding or headroom, puts a constraint in the short to medium term on resources available for estate regeneration.

6.7 The conditions of the agreement with the GLA require the borrowing to be drawn within the four years of the scheme to access the headroom and grant. This may mean, if the programme is delayed, the full amount of benefit may not be drawn down and certain schemes stopped. Or if not stopped the Council having to commit additional finance from its own resources and at its own risk to cover for the lost benefits from the GLA. It may also be necessary to borrow to meet the terms for the grant before the HRA reserves are fully committed, adding additional years of interest costs to the model at the start of the scheme.

6.8 As with any financial model, a number of assumptions are used to assess the viability of the schemes to be developed. The main ones that impact the model are: 1) site preparation timeline and building costs, 2) interest rates on the debt, and 3) future rent levels. The financial modelling has used the current best understanding for these factors however, as the schemes develop and through their life these assumptions may change favourably or unfavourably with significant impact on the costs to the Council. The point about alignment and timing of the schemes matched to the GLA funding terms is noted at 6.8. In addition, with the focus on the level of housing supply to be delivered in London in the coming years there may be constraints on the skills and resources to deliver which will adversely impact costs. The interest rates used are those in 2018, however the borrowing will not be fully drawn until the fourth year of the scheme when rates may be different and we are currently in a rising interest rate environment. Any rise in interest rates will add to the costs and impact the affordability of schemes. The model assumes future rents will rise at 1% above CPI, reflecting the current government housing assumptions. However, as seen in recent years, the government has changed this assumption impacting rental income levels on a compound basis in the HRA business plan and therefore the timeframes in which debt can be repaid.

6.9 For these risks the Council has certain mitigations that can be applied and these are considered below. These may have the impact of requiring schemes to be altered or even stopped where assumptions change significantly and the business case for each scheme is revised as more detailed preparations advance and economic circumstances change over time. In terms of mitigations some of the options to flex and minimise the financial risks include:

- Adjusting schemes in and out of the programme and their order for delivery;
- Considering the Treasury requirements, individually and in aggregate to develop the most effective plan consistent with the CIPFA prudential code and Council's capital strategy;



- Looking to alternative sources of finance than the PWLB to reduce financing costs, for example issuing a bond via the Municipal Bond Agency;
- Within the HRA redefining the debt repayment timelines, consistent with the wider options for managing the housing stock portfolio in the business plan (which includes rental income and maintenance costs);
- Bearing down on site preparation and building costs through effective planning, procurement and contract management; and
- Of course, not proceeding and withdrawing certain schemes from the plan if they should no longer prove viable.

6.10 As outlined in this report, work continues on the identification and financial impacts of the individual sites associated to the delivery of the new 1,000 additional homes target. The financial implications of the schemes associated with this programme will be reported on individually as and when they are sufficiently developed and brought forward for approval by Mayor and Cabinet.

## **7 Legal implications**

7.1 The Council is considering making applications for Affordable Homes Grant funding and for additional HRA borrowing on the terms set out in the application documents; and indicating willingness to participate in RTB ringfencing proposals. The report sets out the reasons for and implications of the proposal and notes that further reports will be brought in the future.

7.2 It is within the Council's powers to take those actions. The Council has a wide general power of competence to do anything that individuals generally may do (Section 1 of the Localism Act 2011). The Council can rely on this power to carry out housing development, to act in an "enabling" manner in relation to the provision of new affordable housing. Further, the Council can undertake activities that are either economically, socially or environmentally beneficial for the authority and residents (Local Government Act 2000). Finally, the Council has a duty to obtain best value in the procurement of works, services and supplies and to secure continuous improvement in the way functions are carried out, having regard to a combination of economy, efficiency and effectiveness (Local Government Act 2003).

7.3 General decision making principles require consideration of all relevant matters, including financial impacts.

7.4 Some of the proposals set out in this report are at an early stage of development. Detailed specific legal implications will be set out in subsequent reports to Mayor and Cabinet as appropriate where further decisions are required. Such implications would, if any proposals were to affect existing secure tenants who were likely to be substantially affected, include comment on the possibility of requirements for consultation (section 105 of the Housing Act 1985).

7.5 The Council must comply with the public sector equality duty (the equality duty or the duty, see Equality Act 2010 - the Act). It covers the following protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

7.6 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.

7.7 It is not an absolute requirement to eliminate unlawful discrimination, harassment, victimisation or other prohibited conduct, or to promote equality of opportunity or foster good relations between persons who share a protected characteristic and those who do not. It is a duty to have due regard to the need to achieve the goals listed at 7.6 above. The weight to be attached to the duty will be dependent on the nature of the decision and the circumstances in which it is made. This is a matter for the Mayor, bearing in mind the issues of relevance and proportionality. The Mayor must understand the impact or likely impact of the decision on those with protected characteristics who are potentially affected by the decision. It is not an absolute requirement to eliminate unlawful discrimination, advance equality of opportunity or foster good relations. The extent of the duty will necessarily vary from case to case and due regard is such regard as is appropriate in all the circumstances.

7.8 Guidance from the Equality and Human Rights Commission (to which the Council must have regard) includes information which deals particularly with the equality duty, and 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.

## **8 Crime and disorder implications**

8.1 There are no direct crime and disorder implications arising from this report

8.2 All individual projects included in the bids will be submitted for Mayor and Cabinet approval before proceeding to start on site, and the report will clearly set out any specific crime and disorder implications.

## **9 Equalities implications**

9.1 The proposals will increase the number of social rent homes in the borough to enable more households on low incomes to access secure and safe accommodation.

9.2 All individual projects included in the bids will be submitted for Mayor and Cabinet approval before proceeding to start on site, and the report will clearly set out any equalities implications.

## **10 Environmental implications**

10.1 There are no direct environmental implications arising from this report.

10.2 All projects included in the bids will be submitted for Mayor and Cabinet approval before proceeding to start on site, and the report will clearly set out any specific environmental implications.

## 11 Background Documents and Report Originator

<b>Title</b>	<b>Date</b>	<b>File Location</b>	<b>Contact Officer</b>
List of sites – 500 homes programme	3 September 2018		Jeff Endean 020 8314 6213

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