



CABINET

10th October 2018

Subject Heading:

Bid to the GLA for a funding under the “Building Council Homes for Londoners” Programme

Cabinet Member:

Councillor Damian White, Leader of the Council

SLT Lead:

Neil Stubbings – Director of Regeneration Programme

Report Author and contact details:

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Policy context:

*Havering Housing Strategy 2014-2017
HRA Business Plan 2017-2047
National Planning Policy Framework 2018
Draft New London Plan 2017
Rainham and Beam Park Planning Framework, 2016
Romford Development Framework 2015
Havering Proposed Submission Local Plan 2017*

Financial summary:

Approval to submit bids is sought under the GLA Building Council Homes for Londoners programme. If successful, the bids will make available up to £122.6 million of capital funding and up to £65.1 million of HRA borrowing headroom to deliver 1,470 units of affordable housing

Is this a Key Decision?

External funding bid of £500,000 or more
and
Significantly affecting two wards or more

When should this matter be reviewed?

November 2019

Reviewing OSC:

Towns and Communities

The subject matter of this report deals with the following Council Objectives

Communities making Havering
Places making Havering
Opportunities making Havering

[x]

[x]

[x]

SUMMARY

- 1.1 It is requested that Cabinet grant approval for the Council to submit bids to the Greater London Authority (GLA) for additional funding to support the delivery of affordable housing in the borough, to meet requirements of Havering residents.
- 1.2 In May 2018, the Mayor of London published the 'Building Council Homes for Londoners' grant funding prospectus to encourage London Councils to develop new, affordable homes to respond to the London Housing shortage. All homes funded by this grant must achieve a start on site by March 2022.
- 1.3 In addition to this, in July 2018, the GLA published an addendum to this prospectus which granted London Councils with the opportunity to increase their Housing Revenue Account (HRA) headroom for the purposes of developing new homes. A total of £500m has been made available for London Councils.
- 1.4 Both funding regimes present an opportunity for the Council to fund its housing aspiration of 11,700 new homes by 2025, as presented in the Draft Local Plan 2017 and set by the London Plan.
- 1.5 A bid for up to £122.6m of Affordable Housing Grant has been prepared, together with a strategy to use Right to Buy receipts to fund the delivery of affordable housing around the Borough. In addition to this, the Council has also prepared a bid to increase the HRA headroom by up to £155m in order to accelerate its housing development aspirations and increase housing supply to better respond to housing demand. This would contribute to responding to the General Fund pressures associated with increased homelessness demand.
- 1.6 Based on current forecasts and value for money parameters, success of these bids could unlock the development of over 4000 new homes for local people, with an aspiration to achieve at least 40% affordable housing where viability permits. On Council-owned sites in particular, the funding enable 63% affordable housing, above the Mayor of London's 50% target, although subject to viability assessments on a project by project basis.
- 1.7 The deadline for the bids is end of September 2018. Draft bids have been submitted to the GLA and the GLA has confirmed that the GLA will accept the Bids subject to the approval of this Cabinet. The outcome of the bidding process is expected in Autumn 2018

RECOMMENDATIONS

2. Recommendations

2.1 For the reasons set out in this report, Cabinet is recommended to agree to approve the submission of the following bids to the GLA “Building Council Homes for Londoners” programme of : -

- Up to £122.6 million Affordable Housing Grant in line with the draft bid set out at Appendix 1.
- Up to £65.1 million HRA headroom in line with the draft bid set out at Appendix 2.

2.2. Cabinet is asked to note if successful in the bid(s):

2.2.1 The Council will need to sign funding agreements with the GLA for which further Cabinet approval will be sought. A report seeking these approvals is likely to be submitted Spring/Summer 2019.

2.2.1 The Council will develop a housing delivery programme relating to the bid programme

2.2.1 In addition the Council will continue to explore other external funding opportunities to complement the above programmes.

2.3 Delegate authority to Section 151 Officer, after consultation with the Director of Neighbourhoods to enter into the Right to Buy ring-fence agreement with the GLA.

REPORT DETAIL

3. Background

3.1 In 2016 a Strategic Housing Market Assessment was carried out across the borough to assess the current and future housing need. The assessment recommended that a total of 30,052 new homes were required over the period, from 2011 – 2033 to meet the borough’s housing need. Since then, the London Plan has set the Borough a minimum housing target of 11,700 new homes over a 10 year period from 2015 – 2025.

3.2 Affordability was a key factor of the assessment and in the 2017 Draft Local Plan it was identified that at least 35% of the new homes should be available on an affordable tenure.

- 3.3 The Council's own housing stock has significantly depleted as a result of the Right to Buy which has reduced the number of homes available for social rent to local people.
- 3.4 Legislative changes in recent years such as the Welfare Reform 2016 and Homeless Reduction Act 2017 have increased the demand for affordable housing and the obligations on Councils to provide housing solutions, particularly in London and the South East, where local rents tend to be higher than the Local Housing Allowance.
- 3.5 In order to help to manage the demand on Housing Stock the Council has revised its Allocation Policy in order to ensure that local homes are allocated to Havering residents. As it stands, there are 2000 residents on the Council's Housing Register and c.900 homeless households in the Councils' managed Private Sector Leasing scheme.
- 3.6 In 2018, following Cabinet approvals in November and December 2017 and January 2018, the Council established three Joint Venture Vehicles for the delivery of affordable housing in the borough. In January 2018 it was reported to Cabinet that these entities would deliver over 4,700 new homes, including 1,790 affordable homes.
- 3.7 The approval to submit the bid under the Mayor of London's Building Council Homes for Londoners funding Programme complements other strategic priorities for the Council with the aim of accelerating the delivery of additional new homes in the borough and the Council will aim to work with its JV partners and wholly owned companies as well as other delivery vehicles in order to support the delivery of the programme. Those decisions will be subject to further appropriate decisions Legal and financial due diligence.

Building Council Homes for Londoners

- 3.8 In May 2018, the Mayor of London launched his Building Council Homes for Londoners funding Programme (Appendix 3) where he set out his aspirations for London Councils to build more social rented, genuinely affordable homes. This Programme includes:
- Increasing the affordable housing grant available to councils to £100,000 per home for Social and London Affordable Rented homes started by March 2022; £38,000 per new home delivered on an Intermediate Tenure started by March 2020; and £28,000 per new home delivered on an Intermediate Tenure started by March 2022. Intermediate tenures included the London Living Rent and Low Cost Home Ownership.
 - Ring-fencing Right to Buy receipts to allow for greater flexibility in how they are spent; and
 - Developing in-house skills and expertise within councils, to expand their homebuilding capacity.

Additional Housing Revenue Account Headroom

- 3.9 At the Autumn Budget 2017, the Chancellor announced that the Government would make up to £1 billion additional HRA headroom or borrowing available in areas of high affordability pressure for councils that are ready to start building new homes.
- 3.10 In July 2018, the GLA published an addendum to the Building Council Homes for Londoners prospectus (Appendix 4) which set out the opportunity for Councils to bid for a share of the £500m additional HRA headroom.
- 3.11 In addition to the opportunity to extend HRA headroom, flexibilities have been introduced to allow Councils to combine either affordable housing grant or retained capital receipts (RTB) with the additional headroom to fund new build housing programmes.

The Proposal

- 3.12 The Council is in a fitting position to maximise the opportunities posed by these funding options and spearhead the development potential of the borough to take a leading position in the delivery of affordable housing across all wards with the assistance of its delivery partners. The announcements offer a unique opportunity to unlock the required capital to accelerate and expand the Council's aspirations for delivering affordable housing to local people.
- 3.13 The key objective of the Building Council Homes for Londoners Programme is to build at least 10,000 new Council and Right To Buy replacement homes, starting by 2022. As such the London Mayor has encouraged councils to put forward ambitious bids which maximise their housebuilding potential.
- 3.14 Due to timescales, on behalf of the Council, officers have submitted a bid for GLA grant of up to £122.6m to help fund the delivery of 1,470 affordable housing units. The Council's submission to the GLA for September 2018 comprised of a range of indicative opportunities that form a development programme which efficiently utilises GLA grant opportunities, Right to Buy Receipts and the HRA headroom.
- 3.15 The Council will adopt phasing methodologies to achieve a start on site across the portfolio of sites. Each of the works packages to be assembled must demonstrate site viability which will be reflected in a release schedule for each works package. In accordance with agreements with the GLA, the Council will aim to achieve the desired annual output of affordable housing product.
- 3.16 Included within the total bid amount is £22.9m to facilitate the delivery of affordable housing on the Bridge Close Regeneration Site. As previously reported to Cabinet, the site sits within the Romford Housing Zone and has previously been allocated £12.4m of Housing Zone funding. In the event that

Cabinet approve the submission of this bid, any funding agreement with GLA under the Building Council Homes for Londoners Programme will supersede the Housing Zone Borough Intervention Agreement in relation to Bridge Close Regeneration although this is subject to contract to vary the current terms and appropriate decisions.

- 3.17 The Affordable Housing Grant is offered on the condition that rented accommodation is offered at rents up to the London Affordable Rent level (LAR) which is set by the GLA. LAR for a 2-bed home is currently £158.84 per week and £167.67 for a 3-bed home, which is below the national affordable rent level and local housing allowance, proving to be a genuinely affordable product for local people. LAR is above social rent levels so where viability permits Councils may elect to let these properties at social rent levels. For the purposes of this bid LAR has been assumed.
- 3.18 The GLA has stated that the additional HRA headroom available for the three years from 2019/20 to 2021/22 will be subject to the conditions of the Building Council Homes for Londoners programme. Key terms include a start on site by March 2022, that homes are let by a Housing Association or the HRA, and rents are set as explained above although the draft agreement for the programme has not yet been circulated.
- 3.19 The additional borrowing headroom would improve the HRA's limited investment capacity to unlock the development pipeline, and build new affordable homes to be retained within the HRA. Appendix 2 demonstrates the £65.1million additional headroom required.
- 3.20 Thus far, the Council has engaged positively with residents in regards to its regeneration aspirations and its priority to deliver affordable housing for local people. Once proven viable and approved by Cabinet, all developments will proceed with the commitment to continue resident and stakeholder engagement and deliver housing products that meet the requirements and aspirations of local people.
- 3.21 Indicative sites have been selected from a range of existing regeneration schemes and HRA development pipeline opportunities that have been identified through past land reviews. Sites were selected for potential inclusion in the programme based on delivery timescales and affordable housing provision. Many of the sites have been considered for development for some time. Several are in a state of dereliction with the Council paying ongoing holding costs including security, rates and management costs. Some sites have become magnets for anti-social behaviour and fly-tipping.
- 3.22 A portfolio approach will be adopted to manage the delivery of housing development funded by the Building Council Homes for Londoners Programme. This gives the Council flexibility to promote new schemes for development if other opportunities are no longer deliverable. The appropriate approvals will be sought before embarking on each development opportunity.

REASONS AND OPTIONS

Reasons for the decision:

- 4.1 Until the recent GLA and government announcements regarding additional funding and the potential for increased HRA headroom, the Council has been limited in the number of affordable homes deliverable through the HRA. Enhanced development of affordable housing via regeneration has required cross-subsidy from open market sales. The delivery of significantly increased numbers of genuinely affordable homes will require additional direct or indirect subsidy and sources of funding to be deliverable. At present, other than the current funding sources, there are no other known sources of significant levels of subsidy.
- 4.2 The current approach assumes maximising the provision of homes at social rents. Should viability challenges remain as the programme develops, alternative, genuinely affordable rent levels or home ownership options may need to be considered.

Other options considered:

- 4.3 There is a demonstrable housing need within the Borough, and the funding opportunities presented by recent GLA and government announcements give the Council the opportunity to take a leading role in the development of new homes for local people. The alternative option to not submit a bid for the Affordable Housing Grant or the additional HRA Headroom would unnecessarily limit and decelerate the delivery of new, affordable homes.

IMPLICATIONS AND RISKS

5. Financial implications and risks:

- 5.1 This report recommends approval to submit a bid under the GLA Building Council Homes programme. The bid encompasses the following components: -
- A bid of up to £122.6million affordable housing grant to fund the schemes specified under Appendix 1
 - A bid of £65.1million additional Housing Revenue Account borrowing headroom.
 - GLA ring-fence of Havering Right to Buy (RTB) receipts, which in effect safeguards the Council from potential loss of 1-4-1 RTB receipts.

- 5.2 With the exception of Bridge Close, the funding will exclude any pipeline sites which fall within the 2016-21 Affordable Housing programme. The bid will therefore exclude Phase 1 of the 12 Estates programme.

5.3 Affordable Housing Grant

Under the terms of the prospectus, the Council are required to submit sites (Appendix 1) which are likely to start on site by the end of March 2022.

Under the bid, the GLA are offering the following enhanced grant rates: -

- £100,000 – affordable homes for rent
- £38,000 – shared ownership (started before 1st April 2020)
- £28,000 – shared ownership (started on or after 1st April 2020)

The enhanced grant rates will be applied to infill and acquired sites. The intention is to submit a bid of up to £122.6million to subsidise the development of 1,470 new affordable homes.

Each scheme in the bid will be subject to due diligence in terms of funding and deliverability.

5.4 Additional HRA Headroom

The Council is bidding for to an additional £65.1million of HRA headroom. This will provide additional investment capacity over the long term to the HRA. The additional headroom will not be time limited.

This will require the Council to borrow up to its existing headroom cap of £209 million in advance in 2019/20 with the additional borrowing to be drawn down in accordance with the bid profile. The Council will need to demonstrate that the existing headroom is committed to existing capital schemes.

As a result the HRA will incur additional financing costs, and in advance of grant acceptance officers will conduct a review of HRA 30 year model to ensure the Council can deliver the bid commitments within the requested funding envelope.

The guidance strongly encourages bids which drawdown additional borrowing in 2019/20. If the Council fails to drawdown in accordance with the approved bid, the GLA reserve the right to withdraw the additional borrowing headroom.

Schemes will be formally assigned against the additional headroom and the GLA will monitor progress on a quarterly basis.

5.5 RTB Ring-fence Offer

The GLA are also offering to safeguard receipts paid back to the Government under the terms of the RTB 1-4-1 agreement. The GLA will undertake to hold the receipts and the associated interest for an additional

three years, which in effect extends the limit to use the receipts from three to six years.

Officers are currently reviewing the HRA Business plan, with a view to going to Cabinet in November which will incorporate the outputs of a successful bid including a strategy for use of RTB receipts.

- 5.6 Appendix 6 details the changes to the bid which were made to the bid subsequent to the submission date. The change reflects the withdrawal of the bid to secure additional funding for the Bridge Close scheme. At the request of the GLA, the Bridge Close submission has been replaced with the alternatives listed under Appendix 6. The changes have reduced the total grant request from up to £122.6 million to £122.1 million.
- 5.7 If successful, the bid will have significant financial and treasury implications for the HRA. A review of the 30 year HRA model will be undertaken prior to acceptance of the grant.
- 5.8 An assessment of the risk associated with the bid is provided at Appendix 5.

6. Legal implications and risks:

- 6.1 The Council is a local housing authority and has a statutory duty under Section 8 of the Housing Act 1985 to consider housing conditions in its district and the needs of the district with respect to the provision of further housing accommodation. These duties can be coupled with the Council's general power of competence under Section 1 of the Localism Act 2011, which gives the power to do anything an individual can do, subject to any statutory constraints on the Council's powers. The recommendations in this report are in keeping with this power.
- 6.2 In line with the Council's constitution, approval is sought from Cabinet for the submission of the affordable housing grant and HRA headroom bids, and approval is sought to ring fence RTB receipts.
- 6.3 Should the bids be successful, a further report will be submitted to Cabinet seeking approval to enter into the funding agreement(s) and that report will outline any further legal implications. Members should note that acceptance of funding from the GLA will be subject to a number of conditions which are likely to include clawback and withdrawal of funding in certain circumstances. The substance of these conditions is not presently known while the Council awaits the issue of the GLA funding contracts. The Council is not contractually binding itself in making the bid(s) in line with the recommendations in this report.
- 6.4 There will be a number of financial and legal implications arising from any decision to proceed with the programmes outlined in the bids.

7. Human Resources implications and risks:

7.1 None specific to this report

8. Equalities implications and risks:

- 8.1 The public sector equality duty under section 149 of the Equality Act 2010 (“PSED”) requires the Council when exercising its functions to have due regard to: (i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010; and (ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and to foster good relations between those who have protected characteristics and those who do not. ‘Protected characteristics’ include: gender, race and disability, sexual orientation, age, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment. The Council is committed to improving the quality of life for all, and supports wider social and economic growth through social and physical regeneration.
- 8.2 GLA funding under the Building Council Homes for Londoners prospectus will enable the Council to accelerate the delivery of affordable housing within the borough. Residents eligible for these properties, as determined by the Council’s Allocation Policy, will be amongst some of the most vulnerable people in society.
- 8.3 The equality implications of each development project or programme will be assessed individually and disadvantages mitigated where possible. The wider implications of new-build development have been assessed in previous Cabinet Reports where it has been concluded that the development new homes will have an overall positive impact for local people.

BACKGROUND PAPERS