# LONDON BOROUGH OF NEWHAM

## CABINET

<table>
<thead>
<tr>
<th>Report title</th>
<th>Establishing the Affordable Homes for Newham Programme and securing GLA funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of Meeting</td>
<td>Tuesday 5(^{th}) February 2019</td>
</tr>
</tbody>
</table>
| Lead Officer and contact details | Robin Cooper, Head of Regeneration  
Tel: 020 3373 4796  
robin.cooper@newham.gov.uk |
| Director, Job title | Elaine Elkington, Interim Director of Regeneration and Planning  
Tel: 020 3373 3796  
elaine.elkington@newham.gov.uk |
| Lead Member | Rokhsana Fiaz OBE (Mayor) |
| Key Decision? | Yes |
| Reasons: | Has a financial impact of £500,000 or more and/or affects two or more wards. |
| Exempt information & Grounds | Yes |
| Appendix 4: Affordable Homes for Newham Programme Details and Financial Information |
| Grounds: Paragraph 3: Information relating to the financial or business affairs of any particular person (including the authority holding that information) of the Access to Information Procedure Rules set out in the Constitution pursuant to Schedule 12A Local Government Act 1972, as amended. |
| It is in the public interest to withhold the information as the public interest in maintaining the exemption outweighs the public interest in disclosing the information, as disclosing the information could prejudice the Council’s commercial position in future dealings and this is not in the public interest. |
| Wards Affected | All Council Wards |
| Appendices | Appendix 1: Affordable Homes for Newham Programme Site List  
Appendix 2: Equalities Impact Assessment  
Appendix 3: Summary of GLA Programme Agreement  
Exempt Appendix 4: Affordable Homes for Newham Programme Details and Financial Information |
1. Executive Summary

A key mayoral priority is the provision of over 1,000 new council-owned social rented homes in the first term to support Newham’s residents. Achieving this will require a different approach to housing delivery that allows for scaling up and integration of current initiatives and resources. This paper sets the foundations for successful delivery of new homes by requesting that the Mayor, in consultation with Cabinet, endorses the:

- Securing of additional investment for new homes including grant from the GLA that was allocated in September 2018 alongside additional flexibility in the use of Right-to-Buy (RTB) receipts,
- Establishment of a single, well-resourced team within the Council to build, acquire and secure the new homes in an integrated programme as part of the Strategic Housing Delivery Initiative, and
- Setting up of the appropriate governance and delegations to allow the Council to proceed at pace while managing risk.

This paper builds on recent reports that have approved the bid for the GLA grant (4th September 2018 and the delegated approval of 27th September 2019), described the revised approach to Red Door Ventures tenure mix and approval of initial schemes (15th October 2018), established a new direction in Newham’s housing delivery (15th November 2018) and a refreshed Housing Revenue Account (HRA) business plan (4th December 2018). Subsequent papers will establish the financial approvals for each component of the housing delivery programme.

2. Recommendations

2.1. For the reasons set out in the report the Cabinet, is recommended to agree:

2.1.1. for the Council to enter into the programme agreement with the GLA under the Building Council Homes for Londoners programme for the provision of grant funding in respect of the sites as shown in Appendix 1 and 4.

2.1.2. to delegate to the Director of Regeneration and Planning in consultation with the Director of Communities, Environment and Housing and Director of Legal and Governance and Executive Director of Financial Sustainability authority to enter into any appropriate contractual variations (excluding OPS) of the agreement referred to above as necessary.

2.1.3. to include the sites listed in Appendix 1 within the Affordable Homes for Newham programme.

2.1.4. to delegate authority to the Director of Regeneration and Planning in consultation with the Lead Member for Housing Delivery and Executive Director for Financial Sustainability to submit any further bids for grant and loan funding for which the Affordable Homes for Newham programme and regeneration projects may be eligible and which supports the Council’s Housing Delivery Statement.

Cabinet is asked to note that:
2.1.5. The Council is establishing a single housing and regeneration delivery team of permanent staff and appointing necessary expertise in the short term to support the development and delivery of the Affordable Homes for Newham programme and associated projects.

2.1.6. The Council will be bringing forward reports to seek approval for individual or grouped housing delivery projects following further development of the HRA business plan, site due diligence and feasibility, financial viability and other necessary work is completed.

2.1.7. The Director of Regeneration and Planning will manage the Affordable Homes for Newham Programme as set out in this report including in 9.2 and 9.3.

3. Background

3.1. Newham has been disproportionately affected by London’s housing crisis with 28,257 people on its waiting list as at October 2018 and 4,892 households in temporary accommodation as at March 2018. The cost of housing is a major factor meaning that 49% of households in the borough are living in poverty.

3.2. The delivery of 1,000 social rented homes (with 1,000 starts in the first term and 100 in the first year) is a key priority of the new Mayor. This will require a mix of funding including grant, HRA and General Fund borrowing, HRA reserves, S106, Right-to-Buy receipts and cross-subsidy from sales, market rents and Shared Ownership sales/rents.

3.3. Following Cabinet approval on 4th September 2018, the Council submitted its bids to the GLA for funding to support its delivery of affordable housing on 29th September 2018, as detailed below:

- A Building Council Homes for Londoners (BCHfL) bid of £107.476m.
- A HRA additional borrowing bid of up to £53m.
- Recycling of up to £62m of Right to Buy receipts.

3.4. The outcomes of the Building Council Homes for Londoners bids were announced by the GLA on the 23rd October 2018, and Newham was awarded its full bid amount of £107.476m. This was the highest award amongst all the London boroughs, and places a significant responsibility on the borough to deliver for residents and on behalf of the overall London programme.

3.5. A Cabinet Report on 15th October approved the repositioning of Red Door Ventures (RDV) - the Council’s wholly owned private rented sector company. This increased the proportion of homes at London Affordable Rents to 50% across its development programme requiring an update to the business plan and approved the first two schemes. Progressing both of these schemes are dependent on accessing the funding and contracts described in this Report. An update to the RDV programme is due to be presented to the Cabinet on 5th March 2019.

3.6. A Cabinet Report on the 15th November 2018 set out the Mayor’s Housing Delivery Statement. This described the scale of the housing challenge and
the new approach required to meet it. The Council would use its powers and increase allocated resources to build, acquire and secure social rented and other affordable homes. The grant and RTB receipts are recognised as a key funding source to make delivery more viable. This paper noted the need for a dedicated development team.

3.7. Cabinet on the 4th December 2018 approved the current HRA business plan noting that it would evolve over time. This report also approved an application to the GLA’s Homebuilding Fund to provide up to £750,000 of revenue funding for the housing development team and other related initiatives over a two year period starting 2019/20. This was submitted on the 26th January and the outcome is awaited.

4. The Affordable Homes for Newham Programme

4.1. The Affordable Homes for Newham Programme will build, acquire and secure homes as set out in the Housing Delivery Statement. This will represent the biggest growth in Council-owned homes in Newham since the 1970s. Not only will the programme be developed to meet Newham residents’ housing needs, achieve high levels of design quality and support improved neighbourhoods, it aims to:

- Start over 1,000 socially rented homes by May 2022
- Support solutions to the homelessness and temporary accommodation crisis
- Support the regeneration of the Council’s estate regeneration programme – including Canning Town and Custom House and Carpenters
- Make effective use of Council resources including right-to-buy receipts and affordable housing s106 funds

4.2. To support the ‘build’ element of the programme, the Council submitted a successful bid to the GLA comprising a range of Council owned sites, shown in Appendix 1 and 4, and summarised in Table 1. Those that are classified as ‘green’ were included within the Building Council Homes for Londoners bid.

Table 1 – ‘Affordable Homes for Newham Programme’ sites capacity and mix, as detailed in the bid submission.

<table>
<thead>
<tr>
<th></th>
<th>Total number of homes</th>
<th>Total number of homes at or below London Affordable Rent levels</th>
<th>Total number of affordable home ownership e.g. Shared Ownership</th>
<th>Total % affordable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green – high confidence of Start on Site by 2022 and included in Building Council Homes for Londoners Contract</td>
<td>2,100</td>
<td>1,056</td>
<td>67</td>
<td>53%</td>
</tr>
<tr>
<td>Amber – Possible Start on Site by 2022 but more work needed if to be included in Building Council Homes for</td>
<td>2,104</td>
<td>777</td>
<td>186</td>
<td>48%</td>
</tr>
</tbody>
</table>
4.3. Additional sites, currently rated ‘Amber’ have been assessed and a further review of the ‘Green’ sites has been undertaken. A list of ‘Red’ sites are maintained which are deemed to be unviable to meet the time constraints of being on site by March 2022. Both ‘Amber’ and ‘Red’ sites will be developed by the Council over time to provide a long term supply of new homes as well as provide for reserve projects.

4.4. Further work continues to be undertaken to refine and develop the Affordable Homes for Newham programme and sites will continue to change over time subject to the approval of the GLA.

4.5. The team undertakes regular reviews with each of the lead officers for the sites programme including an assessment of site progress. Most recently the Council has started to augment existing team members to create a larger Housing Delivery Team.

4.6. The Affordable Homes for Newham Programme is, and will continue to be, developed in order to make the best use of Council and external resources, government policy, market conditions while seeking to achieve the objectives set out above.

4.7. There has been a rapidly changing funding and legislative environment for affordable housing over the past few years. Therefore it makes sense to retain flexibility to allow for multiple routes to achieving new-build and acquisition of homes. Some of the main routes to delivery are set out below:

- **Within the Council’s Housing Revenue Account**: To acquire or build homes at social rents and potentially other tenures using funding from grant, HRA reserves, HRA prudential borrowing, Right to Buy receipts, s106 and cross-subsidy from other tenures.
- **Through Red Door Ventures**: The Council’s Wholly Owned Company would build, acquire and retain private-rented homes on a commercial basis with funding from the Council’s General Fund (debt and equity), RtB receipts and cross-subsidy from other tenures. They could also develop or construct homes on behalf of the Council which could then be transferred to the HRA or another entity. If RDV were to have a subsidiary that were a Registered Provider, this could retain ownership of affordable homes constructed by RDV as part of RDV meeting its planning obligations.
- **With a Registered Provider**: To build and/or acquire and retain homes to build and or acquire homes with funding from General Fund borrowing, right-to-buy receipts, s106, grant and cross-subsidy from other tenures.
- **Within the General Fund**: To build and hold homes using funding from General Fund Borrowing, Right to Buy receipts, s106 and cross-subsidy from other tenures.

4.8. The Council will bring forward Reports to seek approval for the new-build
and acquisition programmes at the earliest possible opportunity.

4.9. As sites and opportunities are identified, they will be assessed against the objectives above, financial hurdles and other Council objectives and be developed through the appropriate route subject to relevant approvals and the governance approaches set out in this Report.

5. Building Council Homes for Londoners (BCHfL) Contract

5.1. The GLA has provided two routes for the Council to benefit from affordable housing grant under the BCHfL programme:

- Programme Agreement, and
- Consortium Agreement.

5.2. Following internal discussions the preferred approach is for the Council to sign a single programme agreement with the GLA for the grant for all the eligible affordable units being delivered by itself (within the HRA) as well as through the RDV programme.

5.3. The programme agreement allows for the Council to create ‘indicative’ schemes which secure the grant allocation. Once these have been confirmed, the contract requires ‘named’ proposals forming the Council’s programme to be set out by the Council for each site defining the tenure mix, start year, development costs, delivery timetable and other scheme characteristics and for warranties to be made as set out in appendix 3. Indicative and Named schemes must be entered into the GLA’s online monitoring system (OPS). On this basis, the GLA has allocated funding as set out at Appendix 4. The Council must demonstrate it has achieved a number of conditions, including secure legal title, that a scheme has the relevant consents and is deliverable in accordance with agreed milestone dates, then funding associated with ‘start on site’ can be drawn down. In the period whilst the site is a named proposal but before start on site, the Council is able to determine the most appropriate delivery approach subject to contractual terms and fulfilling the warranties as set out in Appendix 3.

5.4. The agreement allows the Council to draw down the first tranche of grant funding from the GLA from the point at which a named project starts on site and a second tranche on completion. The Council must comply with the Good Practice Guide to Estate Regeneration where applicable. Other terms are described in more detail in Appendix 3.

5.5. Properties that are partially funded through the BCHfL programme must be owned by a Registered Provider – generally a Housing Association or a Council HRA. The Council is a Registered Provider, but cannot own affordable rented properties outside of the Housing Revenue Account (HRA). By entering into the Programme Agreement, the Council will be contractually bound to follow the route of the Council being registered provider unless agree otherwise subsequently with the GLA.

5.6. For RDV schemes included in the Building Council Homes for Londoners bid that include affordable homes receiving grant, the working assumption would be that the HRA would acquire the units. The current HRA business plan provides for 409 new build properties and 456 acquisitions with the
expectation that this might increase as more work is currently underway particularly because of recent government changes set out 13.1. Those funded through the programme agreement would be built by RDV on land licenced or under an agreement to lease from the Council. The Council will include any GLA grant conditions within the legal agreements with RDV.

5.7. It may be that the evolved HRA business plan may not be able to sustain the full Affordable Homes for Newham programme. The Council and RDV are starting to explore the timescales and potential implications of the establishment or acquisition of a Registered Provider (also known as a Housing Association), a partnership with another RPs as a delivery route. There are a number of advantages and disadvantages of this approach and any decision on the establishment of such an RP would need suitable approvals. The GLA has confirmed that should the Council decide to progress in that manner, it would in principle be willing to agree a deed of transfer with LB Newham to allow new grant-funded homes within the programme to be transferred to a new registered provider at a future date.

5.8. In the future, the Council may wish to sign a Consortium Agreement with the GLA and RDV and/or potentially other partners. This agreement would permit the landlord of the Affordable Housing to either be the Council or third party Registered Provider and allows Local Authority Wholly-owned Companies to be the direct recipient of the grant funding. Otherwise this contract has very similar terms to the ‘Programme Agreement’ described above including the need for RP status for the entity letting the homes. This has yet to be finalised by the GLA and due to the GLA requirements to enter into the funding agreements to secure the grant funding for 2018/19, it is not possible to progress this agreement in the required timescales.

5.9. Under any of the agreements the Council will be required to provide a quarterly review of the progress of all the projects and updates to the GLA OPS system, within the terms of the agreed Building Council Homes for Londoners Contract(s). This can include site substitution; tenure and unit mix changes and grant reallocations subject to mutual agreement. The GLA has accepted in principle current substitution proposals as set out in Appendices 1 and 4.

6. Housing Revenue Account (HRA) borrowing

6.1. Since 2012, when local authorities were given self-management of their Housing Revenue Accounts, there has been a cap imposed on the total amount they may borrow within the HRA. In June 2018, the government announced that a bidding process would take place, where Councils could apply for a share of additional permitted borrowing. Newham applied for £53m, as outlined in the September 2018 cabinet report referenced previously.

6.2. However, this additional borrowing scheme became redundant in October 2018, when the government removed the cap on HRA borrowing entirely. Future borrowing will be subject to the prudential rules, as existing Council borrowing – in short, that the borrowing is affordable. The current HRA Business Plan confirms that the £53m borrowing is affordable.
7. Right to Buy Receipts

7.1. The Council is developing a strategy to use its RTB receipts that will be complementary to the main new-build programme. Current government policies mean that local authorities can fund up to 30% of the development costs of new affordable rented homes through these receipts. The Council is exploring using the receipts for homelessness provision and temporary accommodation and also looking at an Acquisitions strategy to complement existing programme.

8. Resourcing the Affordable Homes for Newham Programme

8.1. Currently Council staff that are delivering housing are based in four different directorates. Based on research across London on other Council and Wholly-Owned Company delivery models, optimum delivery is achieved where all the housing delivery functions (including support functions such as legal, property, procurement and finance) are co-located into a single, well-resourced team within the organisation. This is justified because:

- The scale of potential housing growth on land within the Council’s control means that it has a long term (c.20 years +) pipeline of housing capacity
- The ability of such a team to consolidate the objectives from across the Council (e.g. supporting the provision of temporary accommodation, or rehousing households from regeneration areas)
- The desire by the Council to maintain control over the design quality and delivery pace of the homes within the programme
- The recent changes to the HRA borrowing restrictions mean that more homes could be delivered within the Council itself, subject to managing the risks around Right to Buy and viability. Government is currently consulting on relaxing RtB receipts use rules
- Evidence from other Councils demonstrates that if an in-house function is set up at scale, it can achieve development management costs of c.2% of build costs (as at LB Hackney). This is actually cheaper than industry standards which are at 2.5-3%
- The ability of the Council to access grant and borrowing in a way that is more complex or expensive for other delivery routes. Although there is no certainty, it is likely that grant for affordable homes will continue beyond 2022
- The softening of the private market is likely to be a feature of the outlook on an ongoing basis, with Councils making a key contribution to housing delivery.

8.2. RDV is a wholly owned private company with a focus on private rented schemes albeit being repurposed to deliver higher levels of social rented housing. RDV is updating its business plan. RDV needs to maintain its focus on delivering existing commitments approved by Cabinet in October 2018 with an update due in March 2019. Further approvals will be
forthcoming for future developments. RDV will need to maintain its independence and commercial focus to achieve the benefits of being free from some of the restrictions placed on public bodies.

8.3. Most other boroughs in London are taking a similar multi-pronged approach with development taking place in the entity that makes most sense in terms of funding, site characteristics and legislative environment as set out in section 4.5.

8.4. Other critical support functions (e.g. Legal, procurement, planning, finance) are currently fully utilised across current services and additional resources will need to be funded, co-located and dedicated to the Housing Delivery programme to provide suitable levels of service to deliver the Mayor’s housing objectives.

8.5. The Housing Delivery Team will be organised in the following way:

<table>
<thead>
<tr>
<th>Single Housing Delivery Function</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Red Door Ventures</strong></td>
</tr>
<tr>
<td>• Medium and larger PRS-led schemes (say up to 300 homes)</td>
</tr>
<tr>
<td>• Develop, build and manage</td>
</tr>
<tr>
<td>• Funding by LBN combined with grant, RTB receipts, X subsidy</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Regeneration &amp; Major Sites</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Large, long term mixed tenure and use projects (100s – 1000s of units)</td>
</tr>
<tr>
<td>• Mixed master developer models, direct, Dev Agmts and JVs</td>
</tr>
<tr>
<td>• Buy-backs, decants and infrastructure</td>
</tr>
<tr>
<td>• Highest levels of engagement</td>
</tr>
<tr>
<td>• Funded by LBN inc HRA, GF, grant, RTB receipts, X subsidy</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Small and Medium Sites</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Stand alone and infill sites of up to c.50 homes</td>
</tr>
<tr>
<td>• Develop, build and manage with some partnerships on larger schemes</td>
</tr>
<tr>
<td>• Overwhelmingly affordable rented homes</td>
</tr>
<tr>
<td>• Residential only</td>
</tr>
<tr>
<td>• Funded by LBN inc HRA, GF, grant, RTB receipts, X subsidy</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Acquisitions</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Purchase and manage affordable homes from 3rd parties</td>
</tr>
<tr>
<td>• Funded by LBN inc HRA, GF, grant, RTB receipts, X subsidy</td>
</tr>
<tr>
<td>• Could support temporary accommodation</td>
</tr>
</tbody>
</table>

8.6. In order to deliver the Building Council Homes for Londoners element of the programme to the required timescales (start on site by March 2022), the team will be established in two phases:

- **Phase 1:** From now to late 2019: Establish interim team and coordinate approaches across directorates, funded out of existing directorate budgets up to April 2019. This is underway.
- **Phase 2:** Build long term team and structure funded by a mix of s106 [estimated at £500k per annum], HRA resources, General Fund, GLA Homebuilding Fund (as described in the December 2018 Cabinet Report), charges to capital (where permissible) and other sources. Recruitment would commence as soon as possible, but may be subject to the wider Council re-design proposals under development by the Interim Chief Executive. This team would also have access to a feasibility and studies budget to progress projects prior to formal
scheme approvals.

8.7. Further implications are set out in the relevant sections below.

8.8. On the establishment of any new development programme, there are inevitably costs incurred at the outset prior to detailed approvals being in place. This includes costs for site due diligence (land searches etc.), early feasibility (e.g. early design work), financial planning, and legal advice. An estimated budget of c. £300,000 over the next two years will be identified to cover such costs where they are not already provided by other budgets.

9. Affordable Homes for Newham Programme Governance

9.1. The governance model adopted for the programme provides a suitably robust and resilient framework that is guided by strategic leadership and enables (within agreed thresholds) operational decision making required for a complex and rapidly changing development programme and the Council’s existing governance arrangements. Terms of reference are being developed for each element of the programme.

9.2. With regards to the Affordable Homes for Newham programme, the Director of Regeneration and Planning will include, substitute or remove properties or sites, change capacity, tenure, size and use mixes, timetables, costs, funding and determining the preferred approach for delivery and building or other changes to the Building Council Homes for Londoners Contract as necessary and with the GLA’s agreement as required. They would also be responsible for leading on and seeking any required approvals including for Cabinet or other Council entities.

9.3. The Director of Regeneration and Planning would therefore propose changes to the GLA OPS system for agreement by the GLA, within the terms of the agreed Building Council Homes for Londoners Contract(s) subject to mutual agreement.

9.4. Following detailed feasibility, the Housing Delivery team will bring forward reports seeking approval from the Mayor in consultation with Cabinet to
approve schemes at an individual site level or as a group of sites with an overall financial, size and tenure mix profile.

9.5. The governance model requires all projects to report on a quarterly basis. The reporting pack to the New Homes Board will include a summary dashboard to demonstrate progress of deliverables against forecast. It is supported by a detailed project plan, financial profile and risk register. Each plan would be interrogated by the Head of Service with the project lead. A gateway process will be established to ensure that projects progress in an orderly and controlled manner with required visibility and issues are flagged.

9.6. The quarterly project data is collated to produce a programme Dashboard report which summarises progress, future activities, financial status and benefits, again all supported by a detailed delivery plan, risk/issue register and financial model.

9.7. Cabinet approval will also be sought prior to entering into building contracts or major acquisitions in line with the scheme of delegation.

9.8. Common design standards, development protocols and financial appraisal assumptions will be adopted in order to achieve the highest quality outcomes, provide long term value, achieve economies of scale and support effective housing and asset management. Where new build schemes take place within or adjacent to existing Council-owned properties, asset investment will be integrated wherever possible.

10. Policy Implications & Corporate Priorities

10.1. Finding solutions to housing issues faced by many residents is one of the Mayor of Newham’s key priorities in light of over 24,000 people on Newham’s Housing List and 4,500 households being homeless. As part of a plan to tackle the housing crisis, the Mayor has pledged to start to build at least 1,000 new council owned homes at social rent levels by 2022 and start to build 100 homes by March 2019. The Mayor has pledged to increase the percentage of social rented homes built in Newham, including by Red Door Ventures, to 50 per cent.

10.2. The number of homeless households currently in temporary accommodation requires a complex set of solutions, including the provision of more permanent Council homes.

10.3. Accessing funding that will support the delivery of new homes is central to the Council’s ability to meet housing demand in the borough. The delivery of new homes at social rent is clearly aligned with the Mayor’s political aspirations that aim to address the housing crisis in Newham.

11. Alternatives considered

11.1. 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.

11.2. The current funding approach assumes maximising the provision of homes at social rents. Should viability challenges remain as the
programme develops alternative, additional homes at genuinely affordable rent levels or home ownership options may need to be considered.

11.3. The Council has explored alternative ways of resourcing the programme through working with other boroughs as part of the Future of London Council Building programme. Given its priorities, land, and market conditions, the approach of building an in-house team and growing internal capacity is considered to be the most effective.

12. Consultation

Name of Lead Member consulted: Mayor Rokhsana Fiaz
Position: Mayor of Newham
Date: A number of dates including 10th January.

13. Implications

13.1. Financial Implications

13.1.1 The Council will use a combination of prudential borrowing, capital receipts, S106 contributions and GLA grant to deliver the programme. To achieve the number of properties set out in the report will require both the GLA grant application and HRA programme to be delivered.

13.1.2 The Council will need to account for the properties within the Housing Revenue Account and General Fund on a different basis.

13.1.3 The programme, as shown in Table 1, has the potential to deliver 2,100 units of which 1,056 will affordable. The total build cost would be in the region of £600 million, of which up to £107m would be funded by GLA grant.

13.1.4 The Council will need to ensure that the cost of borrowing to fund the affordable units can be met from the anticipated rent stream. In order to achieve this, it may be necessary to provide additional subsidy to the units via capital receipts, Section 106 contributions or other grant funding should this be available.

13.1.5 Funding for the non-HRA elements of the Affordable Homes programme will need to be included within the investment strategy and Medium-Term Financial Strategy to be agreed by Council in February 2019. This will be a combination of further prudential borrowing, S106 Contributions, capital receipts and other GLA affordable housing grants.

13.1.6 The current Medium-Term Financial Strategy agreed by Council in February 2018 included £586.3 million in respect of the existing RDV Business plan. For the rest of the programme, there is limited funding within the existing Budget Strategy, and this was set out within the in the Mid Year Budget report agreed by Cabinet in October 2018.

13.1.7 Newham will prudentially borrow to provide loans to RDV and the rest of the programme not funded via capital receipts, S106 contributions or GLA grant. Repayments from the entity owning the assets (RDV, Future New Homes or an alternative Registered Provider) would need
to be sufficient to meet Newham’s borrowing costs.

13.1.8 Where the income is sufficient to enable the loan to be repaid, there is no requirement for Newham to make a Minimum Revenue Provision (MRP). Should the rental income reduce, as can happen if there is a downturn in the economy it is possible that the Council would need to revisit this and need to make an MRP. This would reduce scheme viability. A reduction in value of the units could also require the Council to provide an impairment charge should the value of the property reduce below the loan provided to finance it.

13.1.9 The Council can legally provide funding to support affordable housing at less than commercial terms. However where there is a need to finance market accommodation, commercial rates and funding structures are required to meet State Aid obligations.

13.1.10 Should equity be provided, an MRP charge would be required, where the funding is recovered over a 20 year period, either on a straight line or annuity basis. This would increase the cost to the Council, requiring a higher income stream. There is no MRP in respect of HRA properties.

Summary of General Fund/HRA resources required to deliver the programme

<table>
<thead>
<tr>
<th>Phase</th>
<th>General Fund</th>
<th>RDV Fund</th>
<th>Total General</th>
<th>HRA Fund</th>
<th>Programme</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£ million</td>
<td>£ million</td>
<td>£ million</td>
<td>£ million</td>
<td>£ million</td>
</tr>
<tr>
<td>Expenditure</td>
<td>161.3</td>
<td>326.7</td>
<td>488.0</td>
<td>112.0</td>
<td>600.0</td>
</tr>
<tr>
<td>Funded by</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GLA Grant</td>
<td>22.0</td>
<td>44.6</td>
<td>66.6</td>
<td>40.9</td>
<td>107.5</td>
</tr>
<tr>
<td>GLA affordable grant</td>
<td>1.8</td>
<td>0.0</td>
<td>1.8</td>
<td>0.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Prudential Borrowing / Capital Receipts</td>
<td>127.5</td>
<td>281.6</td>
<td>409.1</td>
<td></td>
<td>409.1</td>
</tr>
<tr>
<td>S106</td>
<td>10.0</td>
<td>0.0</td>
<td>10.0</td>
<td>0.0</td>
<td>10.0</td>
</tr>
<tr>
<td>HRA reserves</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>18.6</td>
<td>18.6</td>
</tr>
<tr>
<td>HRA borrowing</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>53.0</td>
<td>53.0</td>
</tr>
<tr>
<td>Total</td>
<td>161.3</td>
<td>326.2</td>
<td>487.5</td>
<td>112.5</td>
<td>600.0</td>
</tr>
</tbody>
</table>

13.1.11 Borrowing may also be reduced by sale of some of the RDV market rent units. This would further reduce the long term income stream to the Council. The level of RDV property sales required to provide subsidy will decrease with the availability of GLA grant, S106.
contribution and usable capital receipts.

13.2  **RDV element of the programme**

13.2.1 RDV has indicated that it will require £353 million to deliver the current Wave 1 of their business plan which is planned to deliver 948 units. Wave 1 and 2 of their business plan, if reconfigured to reflect greater affordable housing would see 1,603 units delivered of which 797 (49.72%) would be at social rents.

13.2.2 To achieve the Wave 1 objective £37.5 million of GLA grant would be required, and the Council would need to supplement this with £21 million from capital receipts and S106 contributions.

13.2.3 Progression of the projects will depend on their individual viability both for RDV and the Council – RDV will need to achieve a commercial return on their market properties for State Aid reasons, and the Council will need to cover its borrowing costs including substantial costs during the development phase when properties are under construction and not generating income.

13.3  **HRA implications**

13.3.1 An updated HRA Business Plan was agreed at Cabinet in December 2019. This reflected the removal of limitations on the level of HRA borrowing Councils can now increase borrowing in line with the Prudential Code. This means that any new borrowing needs to be repaid over the life of the asset to which it relates.

13.3.2 The HRA new build programme as set out in the current HRA business plan is estimated to cost the Council £112m. This will be funded from the £53m additional borrowing, £41m GLA grant and the balance of £18m from the HRA reserves. The HRA can afford the additional borrowing costs for the new debt. Future capacity is uncertain and will depend on the availability and level of grant from GLA, and potentially Government.

13.3.3 The HRA business plan assumed 409 properties could be funded, via a combination of HRA prudential borrowing and GLA grant. Provision of further units would be dependent on additional subsidy, as the HRA would need to provide further subsidy for such units.

13.3.4 Provision of units within the HRA would introduce the possibility that properties could be sold under Right to Buy. While there are regulations which limit the discount available for new build properties (cost floors), the impact of these will erode over time. Where properties are sold at a discount, the Council will potentially be left with a reduced rental income with which to service the debt. The impact on the HRA of RTB disposals could be significant in the medium to long term.

13.3.5 The HRA financial position will be affected by political and economic uncertainty and an updated stock condition survey.

13.3.6 Funding for the rest of the Affordable Homes programme, will need to be included within the investment strategy and Medium-Term Financial Strategy to be agreed by Council in February 2019. This will be a
combination of further prudential borrowing, S106 Contributions, capital receipts and other GLA affordable housing grants.

13.4 Future Budget implications

13.4.1 As the Council is increasing the number of homes in the borough, there will be implications on the physical and social infrastructure in the medium to longer term. For example, an increased population will mean greater demand for school places, while increased property numbers will mean a greater cost for refuse collection and disposal. This will have a revenue and capital impact.

13.4.2 Typically, elements of government funding based on population growth lag behind the actual growth in population as they are based on historic numbers rather than forward projections. The decrease in the level of government grant will mean that the Council will need to meet a greater proportion of the additional cost than previously via Council Tax and other income sources.

13.4.3 This will need to be factored into the Council’s Medium Term Financial Strategy as the homes become occupied and the demand for Council services grows accordingly.

13.5 Legal Implications

13.5.1 This report seeks authority to enter into grant agreement with the GLA.

13.5.2 The Council 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.

13.5.3 Furthermore, as Section 1 of the Localism Act 2011 gives the Council a general power of competence, the Council has the power to receive grant funding and enter into grant agreement(s).

13.5.4 The GLA Programme Grant Agreement also requires the Director for Legal and Governance to give a certificate that amounts to a warranty that the Council has the power and authority to enter into, observe and perform the terms and obligations under the Grant Agreement and has obtained all relevant consents and approvals (statutory or otherwise) to authorise the execution and delivery of the Agreement and the performance and validity of the obligations under it.

13.5.5 Appendix 3 sets out key terms of the GLA Programme Grant Agreement. The green sites set out in Appendix 1 and 4 have been accepted as named projects by GLA and therefore, as part of entering into the agreement and throughout the agreement, the Council will be required to provide a number of warranties, including around ability to meet the delivery timescales.

13.5.6 There will be a number of financial and legal implications arising from any decision to proceed with the schemes outlined in the programme. These will be the subject of further reports to Cabinet.
13.6 Equalities Implications

13.6.1 This programme works to make more affordable housing units available to residents and will contribute to the Council’s work to address homelessness. A full Equalities Impact Assessment has been prepared and included as Appendix 2.

13.7 Other Implications relevant to this report:

13.7.1 Asset Management: Plans to redevelop many of the proposed Council-owned sites have been in development for a number of years, with a number in a state of dereliction and generally vacant. The Council will continue to pay holding costs: security, rates and general expenditure until this takes place. It is important alternative options be developed for all stalled sites to ensure delivery in some form. Some sites have become magnets for anti-social behaviour and fly-tipping.

13.7.2 Programme Management: The following key risks and issues have been identified. Further workshops and ongoing monitoring will take place:

<table>
<thead>
<tr>
<th>Key Risk</th>
<th>Description</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Viability</td>
<td>Further Viability Assessments to be undertaken may show that some schemes are not viable at proposed tenure split / 50% social rented</td>
<td>• Additional rental levels up to London Affordable Rent to be assessed.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Flex tenure and size mix.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Seek alternative sources of funding</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Link more and less viable sites</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Careful cost management</td>
</tr>
<tr>
<td>Capacity and resources</td>
<td>A major programme of capital delivery will require reallocation of current resources and additional specialist skills.</td>
<td>• Continue enhanced council-wide co-ordination of programme</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Make best use of existing resources</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Phased resourcing plan (see 8.6).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Explore working with trusted delivery partners that share our objectives</td>
</tr>
<tr>
<td>Financing the programme</td>
<td>The ability of the Council to finance the overall programme</td>
<td>• Assessments to ensure that the cost of borrowing to fund the affordable units can be met from the anticipated rental stream, grant or other subsidies.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Additional funding could be provided via capital receipts, Section 106 contributions, suitable partnerships working with other third parties or additional grant funding, if available.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Careful phasing of the programme to manage debt levels.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Repurposing and extending existing medium term capital commitments.</td>
</tr>
<tr>
<td>Delivery</td>
<td>Grant is only available if All ‘Green’ sites are in LBN ownership</td>
<td>• All ‘Green’ sites are in LBN ownership</td>
</tr>
</tbody>
</table>
### Timescales and Start-on-Site

- Timely start on site is achieved as set out in Appendix 1. Adequate time for Planning and Procurement activity will be required in the overall programme. Failure to achieve start on site by agreed dates may mean the grant cannot be drawn down.
- Early sites are unencumbered
- Many early RDV schemes have planning consent and contractors in place
- Maintenance of an accurate Programme, with risks being escalated to senior officers to support decision making.
- A pipeline of reserve sites being maintained and prepared in additional to the main programme.
- Additional resources as set out in 8.6.

### Changes to delivery programme

- GLA does not agree to future LBN proposed changes to delivery programme
- Maintain a core and a reserve list of delivery sites for each year.
- Develop a acquisitions strategy that would support delivery of additional homes if required.
- Substitute Right to Buy receipts for Affordable Housing Grant.

### 14. Background Information used in the preparation of this report

Grant Agreement - Local Authority -in relation to the Building Council Homes for Londoners Programme (programme basis) -
[https://www.london.gov.uk/sites/default/files/grant_agreement_-_building_council_homes_for_londoners_programme_basis_thl_133729199_5.pdf](https://www.london.gov.uk/sites/default/files/grant_agreement_-_building_council_homes_for_londoners_programme_basis_thl_133729199_5.pdf)

Approved Provider Consortium Grant Agreement (Mixed Consortium) - in relation to the Affordable Homes Programme 2016-2021 -