

Decision Maker: EXECUTIVE

For pre-decision scrutiny at the Renewal Recreation and Housing Policy Development and Scrutiny Committee on Wednesday 26 January 2022

Date: Wednesday 9 February 2022

Decision Type: Non-Urgent Executive Non-Key

Title: HOUSE BUILDING PROGRAMME

Contact Officer: Lydia Lee, Assistant Director Culture and Regeneration
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Chief Officer: Director of Housing, Planning, Property and Regeneration

Ward: (All Wards);

1. Reason for report

This report summarises progress made to date in relation to the house building programme, and sets out potential scope of future delivery and estimated cost.

2. **RECOMMENDATION(S)**

That the RRH PDS:

2.1 Note the contents of the report and make any comments available to the Executive.

That the Executive:

2.2 Note the contents of the report, namely the progress made to date and the challenges in relation to future delivery.

Impact on Vulnerable Adults and Children

1. Summary of Impact: The Council's housebuilding programme is focussed on affordable housing.
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Corporate Policy

1. Policy Status: Existing Policy
 2. BBB Priority: Quality Environment Regeneration
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Financial

1. Cost of proposal: Not Applicable
 2. Ongoing costs: Net savings of around £675k per annum for the five sites/109 units listed in para 3.9
 3. Budget head/performance centre: Capital programme
 4. Total current budget for this head: £21.3m (excluding land appropriation)
 5. Source of funding: GLA grants, Section 106 contributions, internal borrowing
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Personnel

1. Number of staff (current and additional): c.7 FTE across Housing, Regeneration, Finance and Legal to date
 2. If from existing staff resources, number of staff hours: Unknown
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Legal

1. Legal Requirement: Non-Statutory - Government Guidance
 2. Call-in: Not Applicable
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Procurement

1. Summary of Procurement Implications: N/A
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): If 1000 homes are built and purchased this could benefit approximately 3500 people. However the savings generated potential benefit all residents in the borough.
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments:

3. COMMENTARY

- 3.1 LBB's adopted Housing Strategy identifies self-delivery of housing schemes as a key deliverable required for the borough to meet its affordable housing needs. This is alongside Joint Ventures and enabling Developers where opportunities arise, and purchasing schemes.
- 3.2 LBB currently has two active purchasing schemes: Meadowship Homes and Beehive. These schemes include the funding, purchasing and (where necessary) refurbishment of residential properties for use as affordable rented accommodation.
- 3.3 To date, 77 properties have been acquired through Beehive, all of which were acquired by Beehive from Hyde Housing Association and leased to the Council at an initial fixed percentage of the total applicable Local Housing Allowance levels, increasing annually by RPI (collared at 0-5%). After 50 years the rent reduces to a peppercorn and the Council can acquire the properties for £1. Beehive are continuing to seek further property portfolios to acquire and lease to the Council as an extension of the same arrangement and any such proposals will be reported to Members in due course.
- 3.4 Meadowship Homes is the joint venture with Orchard and Shipman for the acquisition of around 250 properties funded by a £67m loan from Pensions Insurance Corporation and a £20m loan from the Council. This commenced in August 2021, and as at January 2022, 26 acquisitions have completed, a further 7 contracts exchanged, and 119 further sales agreed. These 152 properties, which are in Bromley and surrounding London Boroughs have an average total cost of £321k.
- 3.5 In addition to these two schemes, there is the existing More Homes Bromley joint venture with Mears which acquired and refurbished 360 properties between 2016 and 2020 at an average total cost of £193k. Initially these were for use as temporary accommodation, with Members subsequently agreeing that the majority of these be used to discharge the Council's homelessness duties and let as longer-term affordable housing. To date around half of these have now been converted.
- 3.6 There are also opportunities to work with Developers, particularly in cases where LBB has a land interest, and as part of the Heads of Terms agree that LBB will have first refusal in relation to purchasing the affordable units. Similarly, there are opportunities to work with housing associations (HA), such as Clarion, on schemes where both the HA and LBB has an interest to secure nomination rights as part of the deal.
- 3.7 There are currently approximately 1,800 Bromley households in Temporary Accommodation both within, but predominantly outside, the borough. This includes c.1,200 households (a number that is rising) in costly and unsatisfactory nightly paid Temporary Accommodation. Nightly paid accommodation has unsecure tenancies which impact on resident's wellbeing. It is also putting a strain on LBB's budgets which impacts on other services.
- 3.8 A particular problem is the lack of larger homes, with families requiring three bedrooms or more waiting for many years for a suitable unit.
- 3.9 There are currently five housing schemes in delivery and/or approved as part of the capital programme. The cost of delivering the affordable housing element of these schemes as set out in the capital programme is £21m (excluding land appropriation). These five schemes are:
- Burnt Ash – 25 affordable units
 - Bushell Way – 25 affordable units

- Anerley – 10 affordable units
 - York Rise – 35 affordable units
 - West Wickham library car park – 14 affordable units (plus Library refurbishment and extension, part funded by 12 private sale units)
- Total: 109 units

- 3.10 In addition to the five schemes listed there are approximately eleven other sites that could potentially be available and suitable for self-delivery house building across the borough, although some of these would be linked to wider developments, and options appraisals for all of these sites will need to be undertaken which may indicate that selling and taking a capital receipt is the better way forward. The Operational Property Review currently being undertaken will identify these sites and is due to report to the Executive with a series of recommendations in June 2021.
- 3.11 The Operational Property Review is likely to identify sites which could be developed or disposed of to generate a capital receipt. It is not an unreasonable assumption to make that 310 units could be potentially developed which would deliver savings/mitigation of growth of around £1.9m per annum.
- 3.12 The average cost of building an affordable unit going forward is estimated at £225k, making self-delivery better value than purchasing. To build 310 affordable units would require further funding of around £70m (subject to levels of GLA grant available etc). In addition many of these sites would require LBB to pay additional costs up front, such as for the building of private housing the sale of which subsidises the affordable housing and/or community buildings that are required in some cases. For example the West Wickham Library Car Park site is building affordable and private housing, as well as extending and refurbishing the library. Very few sites will be pure affordable housing.
- 3.13 This means that more than £70m will be needed, albeit the additional costs will in the case of private housing be paid back to the Council through the sale of the properties. It is intended that a report will be produced later in the year with further details of these schemes and proposed long term funding arrangements.
- 3.14 As well as the cost of building, in relation to the Housing Revenue Account (HRA), there is a land appropriation value of c.£40k per unit, which would total £12.4m for the 310 units. By appropriating the land from the General Fund into the HRA, the market value of the land is charged to the HRA. Although this is not an actual capital receipt, it does mean that the General Fund can incur more capital expenditure without needing to borrow through an adjustment to the Capital Financing Requirement.
- 3.15 A key criterion when assessing the suitability of these sites for housing delivery is that they are self-financing i.e. that the net rental income is sufficient to repay the net capital financing costs and interest over no more than a 40 year period within the ring-fenced HRA, and that the General Fund therefore receives the full benefit of the savings on temporary accommodation costs.
- 3.16 It should be noted that it is unlikely that the HRA will be opened on 1st April 2022, and the optimal time of opening is still to be determined in relation to critical mass. Until this time LBB can apply for Secretary of State direction/exemption to hold up to 199 homes in the General Fund. To date exemption has already been approved in relation to all sites except West Wickham for which an application has not yet been made. Given the length of time expected to pass between the housing units being built and appropriation into the HRA, the Red Book valuations may need to be redone dependent on current legislation, and depending on changes in the values this may have an impact on the cost of the housing to the HRA.

3.17 Overall LBB has a target to bring forward 1,000 homes for Bromley residents through self-delivery and purchasing. Therefore, given the expected scenario is currently that we will bring forward 419 homes on LBB land through self-delivery, significant more funding will be needed in relation to the purchasing programmes to meet this target.

4. POLICY IMPLICATIONS

4.1 LBB’s adopted Housing Strategy identifies a need for LBB to self-deliver affordable housing alongside purchasing schemes, with a target to bring forward 1000 homes.

5. FINANCIAL IMPLICATIONS

5.1 A summary of the funding for the five housing delivery sites detailed in paragraph 3.9 that have been agreed to date is set out in the table below:

	York Rise	Burnt Ash	Anerley	Bushell Way	West Wickham	Total
Number of units	35	25	10	25	14	109
	£'000	£'000	£'000	£'000	£'000	£'000
Capital scheme cost	8,072	4,262	2,078	3,849	3,083	21,344
Land appropriation value	2,250	900	470	1,350	260	5,230
	10,322	5,162	2,548	5,199	3,343	26,574
Financed by:						
GLA grant	3,500	2,500	1,000	2,500	840	10,340
Section 106 contributions	758	523	340	523	356	2,500
Internal borrowing	6,064	2,139	1,208	2,176	2,147	13,734
	10,322	5,162	2,548	5,199	3,343	26,574

5.2 These sites will deliver savings to the General Fund of around £675k per annum, as well as an adjustment to the Capital Financing Requirement (equivalent to an “effective capital receipt”) of £5,230k relating to the land appropriation values.

5.3 The internal borrowing element of the financing is an internal loan from the General Fund (using earmarked reserves set aside for housing investment) to the Housing Revenue Account, with interest charged based on the 40-year rate that the Council could borrow from the Public Works Loan Board.

5.4 As set out in paragraph 3.13 above, future reports will set out proposed financial arrangements for future housing delivery schemes, including any options to refinance the internal borrowing element.

5.5 In the event that the sites aren’t immediately held in the HRA as suggested in 3.16 above, then the land won’t be appropriated from the General Fund, and there will be no adjustment to the Capital Financing Requirement. Although this means that the General Fund won’t benefit from this “effective capital receipt”, there will be an increase in net revenue benefit as the internal borrowing amount will be reduced by an equivalent amount leading to a reduction in annual repayment. This will also no longer be shown as internal borrowing but funding from earmarked reserves, although interest can still be charged similar to use of the Invest to Save earmarked reserve.

6. PERSONNEL IMPLICATIONS

6.1 There are significant resourcing challenges linked to house building. The Regeneration team has struggled to absorb the house building work to date within the resources available, and further house building will require additional staffing capacity. The Property team does not have an officer with residential or affordable housing expertise to manage these housing units, and

therefore whilst the homes are held in the General Fund this issue will need to be addressed. The Housing team is expected to require additional capacity too in relation to potential skill gaps.

6.2 There may also be future pressures in Finance in relation to the opening of the HRA.

7. LEGAL IMPLICATIONS

- 7.1 The Council has various statutory powers to provide, maintain and improve housing in particular under the Housing Act 1985. In addition, the Council has the general power of competence to do anything an individual could do under section 1 of the Localism Act 2011 which is underpinned by the Council's local Regeneration and Housing policies. All projects must be looked at separately and at all times kept under review to ensure the legal compliance. Consideration here should be given to the council's appropriation, CPOs, best value, subsidy control, planning powers and benefits or otherwise of using the Housing Revenue Account.
- 7.2 It is apparent from this report that projects will require that certain building works will be undertaken to develop sites. Such public building works would appear to involve the provision of homes (affordable and non-affordable) and other civic facilities on Council land.
- 7.3 The Public Contracts Regulations 2015 apply to the acquisition of works above a threshold (currently £4,269,550) and professional service (170,782). As to whether works and/or services fall within the Regulations is a matter which will require further detailed analysis.
- 7.4 In order to reach implementation, each project will need to ensure it complies with the Council's Contract Procedure Rules and internal decision-making approvals under the Council's Constitution and all external funding requirements such as grant funding.

Non-Applicable Sections:	Impact on vulnerable adults and children; Procurement implications.
Background Documents: (Access via Contact Officer)	HPR2021/037 HPR2021/008 HPR2020/024