



GLA Homes for Londoners: Affordable Homes Programme 2021-2026 - Acceptance of Grant

Key Decision No - CE S061

**CABINET MEETING DATE
(2021/22)**

28 February 2022

CLASSIFICATION:

Open

WARD(S) AFFECTED

All

CABINET MEMBER

Councillor Guy Nicholson, Deputy Mayor for housing supply, planning, culture and inclusive economy

KEY DECISION

Yes

REASON

Affects two or more wards

Spending/or saving

GROUP DIRECTOR

Mark Carroll, Chief Executive

1. CABINET MEMBER'S INTRODUCTION

- 1.1 Since launching Hackney's innovative, not-for-profit Council house building approach in 2011 we have led the way in delivering a new generation of high-quality Council housing in Hackney – a model of delivery that is being followed by Councils across London.
- 1.2 Hackney is delivering on its commitment to build almost 2,000 new homes between 2018 and 2022. By May 2022 we expect to have started or completed over 1,500 new homes during this time, and this despite the huge challenges caused by Brexit, the coronavirus pandemic and the rapidly increasing costs of building materials.
- 1.3 Through our pioneering cross-subsidy model, more than half of the Council's new homes are for genuinely affordable Council social rent, shared ownership and Hackney Living Rent. The remaining half are sold outright to help pay for the new affordable homes in the absence of sufficient government funding.
- 1.4 Wherever possible we use external funding to maximise the amount of social housing in Hackney's programme. For example, a £10m Mayor of London grant in 2019 enabled us to swap 100 new homes that would have been for shared ownership or sold outright into social rent Council homes.
- 1.5 As we develop plans for even more new homes beyond May 2022, this new £17.5 million of GLA funding will ensure as many of these as possible are the Council homes for social rent Hackney desperately needs.
- 1.6 These plans are not only providing much-needed, genuinely affordable new homes to help address Hackney's acute housing shortage, but they also unlock investment into community spaces, employment spaces and communal areas to benefit both new and existing residents.
- 1.7 I commend this report to Cabinet.

2. GROUP DIRECTOR'S INTRODUCTION

- 2.1 This report seeks Cabinet authority to enter into a funding agreement with the Greater London Authority (GLA) for the allocation of £17.5m funding from the Affordable Homes Programme (AHP) 2021-2026, to support the delivery of new council homes through a future house building programme.
- 2.2 The Council's house building programmes are based on a self-financing model, with grant funding and income from outright sale homes cross-subsidising the delivery of affordable homes, including homes for social rent.

- 2.3 We have a proud record of building high-quality, well designed new council homes to help those in housing need in Hackney and to provide genuinely affordable housing in the borough for future generations. Despite the successes of our approach, there is a clear need to do even more to address the affordable housing shortage in the years ahead.
- 2.4 A future house building programme is being developed for consideration by Cabinet at a later date. This £17.5m GLA funding could be used to deliver around 100 new homes for social rent within that programme.

3. RECOMMENDATION(S)

Cabinet is recommended to:

- 3.1 **Agree to enter into a funding agreement with the GLA in order to secure £17.5m grant funding through the Homes for Londoners: Affordable Homes Programme 2021-2026.**
- 3.2 **Agree to adopt the new shared ownership model and sign up to the Service Charges Charter as a condition of receiving the grant.**
- 3.3 **Request that a further report be brought to Cabinet, seeking approval for a new house building programme.**

4. REASONS FOR DECISION

- 4.1 The Council submitted a bid for £17.5m of GLA funding from the AHP 2021-2026 to support the delivery of 100 new social rented homes, and in October 2021 notification was received that this had been successful. In order to secure the funding allocation, the Council must enter into a standard form of contract with the GLA by March 2022.
- 4.2 One of the funding conditions of the GLA AHP 2021-2026, is that the Council must dispose of any shared ownership homes that have GLA funding using the new model shared ownership lease, which will provide consistent management across all tenures on a new development. The Council is also required to sign up to the new Service Charges Charter, with the aim of improving leaseholders' service experience spanning four key areas: Transparency, Affordability, Design and Challenge and Redress.
- 4.3 Work is underway to review land and building assets held in the Housing Revenue Account, to determine their best and future use. A number of sites have been appraised, with some identified as potentially suitable for housing development. Officers are currently working on developing a new house building programme to bring to Cabinet in late 2022.

5. DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 5.1 The £17.5m grant allocation will enable the Council to deliver around 100 new homes for social rent within a mixed tenure house building programme. Without this grant, the number of social rented homes that could be delivered will be reduced.
- 5.2 It is a prerequisite of securing the £17.5m grant that the Council enters into a funding agreement with the GLA and meets the associated funding conditions. Therefore the 'do nothing' option of not entering into the funding agreement has been rejected.

6. BACKGROUND

6.1 GLA Affordable Homes Programme

- 6.1.1 The Mayor of London's new Homes for Londoners: Affordable Homes Programme 2021-2026 launched in November 2020, with a £4bn pot to deliver 82,000 new affordable homes across both new and current programmes, and is expected to result in a significant contribution from London to the national target of 180,000 new starts by 2026.
- 6.1.2 Funding is expected to support start on sites for new homes between 2021-2026 with completions by 2028, or 2029 in the case of the more strategic sites. The aim is to not only deliver new homes, but to also drive up standards in terms of sustainability, building safety and equality, diversity and inclusion. Funding is allocated to three affordable housing products:
- Social Rent
 - Shared Ownership
 - London Living Rent.
- 6.1.3 The new Affordable Homes Programme (AHP) also includes provision for supported and specialist housing for older people, disabled people, gypsies and travellers, the homeless and those at risk of homelessness, refugees, care leavers, offenders, young people at risk and those with complex and multiple needs.

6.2 GLA Grant Bid

- 6.2.1 Recognising the acute housing shortage in Hackney, in April 2021 the Council submitted an ambitious bid for £157m in GLA grant, that would have seen at least 500 additional council homes delivered - 100% for social rent. In order for this to be financially viable, without having to sell some homes outright to pay for the social rented ones, our bid was for £300k per unit.

6.2.2 Feedback from the GLA was that, while it welcomed a bid from Hackney, the GLA could not support our grant requirement within the constraints of the government imposed funding deal. Following careful consideration, the Council then revised its bid to £17.5m - to deliver 100 new homes for social rent at a grant rate of £175k per unit - and in October 2021 we were notified that this was successful.

6.2.3 Under current market conditions i.e. based on recent construction costs and sales prices, and taking into account the £17.5m GLA grant, it will be necessary to build around 300 homes for outright sale in order to pay for 100 new social rent homes on a break-even basis - that is to say a total of 400 homes. However, alternative delivery models are being explored in preparation for the new house building programme.

6.3 GLA Funding Agreement

6.3.1 In order to secure the £17.5m grant allocation, the Council will need to enter into a standard form contract with the GLA, as set out at Appendix 1. The terms of this funding agreement are non-negotiable and will include agreed delivery milestones. The GLA will regularly monitor performance against these milestones, and it reserves the right to review grant allocation where the Council cannot deliver a scheme or replace it with an equivalent scheme. As currently, the Council will be subject to the GLA's compliance audit process.

6.3.2 Further, the Council is required to meet the GLA's funding conditions and to adopt the new shared ownership model and Service Charges Charter, as set out in sections 6.4 and 6.5.

6.4 GLA Funding Conditions

6.4.1 There are a significant number of funding conditions that must be met in order for projects to be eligible to draw down GLA funding. These are set out in paragraphs 38 - 68 of the Homes for Londoners: Affordable Homes Programme 2021-2026 - Funding Guidance at Appendix 2, and include the following. It is important that the Council complies with these terms in order to secure the grant funding and ensure it is not subject to clawback:

Building Safety

6.4.2 The Council must meet five mandatory building safety standards and self-certify compliance ahead of receiving payments:

1. Automatic fire suppression systems.
2. No use of combustible materials in external walls of all homes and buildings.
3. All homes must include access to water supplies for firefighting.
4. Register any inbuilt electrical products.
5. Product registration, product recalls and electrical safety information must be made available to all residents.

Sustainability

6.4.3 The Council must adhere to six new sustainability standards:

1. Developments of 10+ homes must be net zero-carbon. Any shortfall will be paid to the borough's carbon offset fund.
2. Referrable developments (150+ homes) must calculate whole life-cycle carbon emissions.
3. Developments of 10+ homes must submit 'Be Seen' data.
4. Developments of 10+ homes must be at least Air Quality Neutral.
5. Developments of 10+ homes must meet their borough Urban Greening Factor targets.
6. Developments of 10+ homes must provide an Energy Strategy to demonstrate reduced internal overheating.

Modern Methods of Construction (MMC)

6.4.4 The Council is expected to maximise their use of Modern Methods of Construction (MMC) systems:

1. Pre Manufacturing: 3D primary structural systems.
2. Pre Manufacturing: 2D primary structural systems.
3. Pre Manufactured components: Non systemised primary structure.
4. Additive Manufacturing: Structural and non structural.
5. Pre Manufacturing: Non structural assemblies and sub assemblies.
6. Traditional build product led site labour reduction/productivity improvements.
7. Site process led labour reduction/productivity/assurance improvements.

Equality, Diversity and Inclusion

6.4.5 The Council is contractually required to meet the minimum equality, diversity and inclusion standards within one year of grant allocation approval:

1. Offer diversity and inclusion training for all employees.
2. Implement a zero tolerance approach to all forms of discrimination, harassment and bullying.
3. Broaden recruitment channels and encourage applicants from diverse and under-represented groups.
4. Publish gender and ethnicity pay gaps.

6.4.6 The Council is also expected to develop, publish and implement an Equality, Diversity and Inclusion Action Plan within one year of grant allocation approval and must provide annual updates on:

- Theme 1: Organisational equality, diversity and fairness
- Theme 2: Sustainable and diverse supply chains
- Theme 3: Working together with Londoners.

London Living Wage

6.4.7 The Council is contractually required to ensure employees and workers are paid the London Living Wage and should endeavour to ensure that consultants, contractors and subcontractor employees meet this obligation.

6.5 New Shared Ownership Model and Service Charges Charter

6.5.1 Shared ownership aims to help people overcome the income and deposit barriers to home ownership. It is a condition of our Funding Agreement with the GLA that the new model shared ownership lease is used for the disposal of homes delivered through the 2021-2026 funding programme.

6.5.2 The fundamental changes are:

- the minimum initial share of the property that can be purchased has reduced from 25% to 10%;
- introduction of the option of staircasing in 1% increments for the first 15 years; following this period the minimum share that can be purchased has reduced from 10% to 5%;
- the introduction of a 10-year period during which the costs of any maintenance or repairs will be met by the landlord, rather than the shared owner;
- at the point of resale, the option for the shared owner to end the Council's nomination period at the four week point if they wish to pursue a sale on the open market, rather than the previous eight week period.

6.5.3 The Council is required to adopt the new model shared ownership lease, incorporating additional clauses where necessary, to be able to provide consistent management across all tenures on a new development.

6.5.4 All investment partners that receive funding via the AHP 2021-2026 are expected to sign up to the updated Service Charges Charter. The Charter sets out commitments relating to four key areas of service charges:

- Transparency - ensuring leaseholders are provided with the information they need to understand their service charges;
- Affordability - ensuring that the affordability of service charges is a key consideration when setting or reviewing service charges;
- Design - encouraging design approaches for new build developments that minimise service charges while ensuring high quality design;

- Challenge and redress - ensuring that leaseholders are aware of how to challenge their service charges and the routes to redress that are available to them.

6.5.5 The Charter's primary goal is to improve leaseholders' experience of service, and we will be required to meet all four key areas before, during and after sale. Further, we are expected to work with the GLA to develop a new and improved Charter reflecting the new shared ownership model.

6.6 Programme Delivery Update

6.6.1 In 2018 the Council made a commitment to starting and/or completing almost 2,000 new homes between 2018 and 2022, with more than half of these for genuinely affordable social rent, shared ownership and Hackney Living Rent.

6.6.2 Despite the challenges caused by Brexit, the coronavirus pandemic and rapidly increasing construction costs, we have since completed more than 800 homes at Aikin Court, Bridge House, Colville Estate, Frampton Park Estate, King Edwards Road, Nile Street, St Leonard's Court, Tiger Way, Tower Court and Whiston Road.

6.6.3 170 additional homes are currently under construction at Daubeney Road, Gooch House, Mandeville Street, Pedro Street and Tower Court; and we now have full planning permission and are progressing work to begin construction on over 700 more homes at Buckland Street, Colville Estate, Fairbank Estate, Kings Crescent Estate, Marian Court, Nightingale Estate and Wimbourne Street.

6.6.4 Further, the Council is progressing plans to continue its programme beyond 2022, through ongoing design development and engagement with communities at the De Beauvoir Estate, Frampton Park Estate and Lincoln Court, as well as work taking place to identify further sites that could accommodate much-needed new Council homes.

6.7 Future House Building Programme

6.7.1 Since early 2021 the Council has been carrying out a review of potentially surplus or underused land and buildings on our housing estates i.e. property accounted for within the Housing Revenue Account (HRA). The purpose of this review is to make sure that all HRA land and buildings are used to best effect. Work is also underway to ensure that both HRA and General Fund held assets are reviewed within an overarching strategic framework, which is aligned with meeting the Council's objectives.

- 6.7.2 To date, nearly 800 HRA sites have been mapped (many of them small) and over 300 have undergone an initial review. Of these, 58 sites are being considered against a range of options for their future use - including the 'do nothing' option of retaining the current usage. Some of these sites may be suitable for providing new homes, and officers are working to develop a new house building programme on HRA land, similar to the existing Housing Supply Programme.
- 6.7.3 Based on current market conditions, it is anticipated that the £17.5m GLA funding could be used to deliver around 100 new homes for social rent as part of a larger mixed-tenure programme. Further details of the new programme will be brought to Cabinet in due course, with the target date for this report of late 2022.

6.8 Policy Context

- 6.8.1 The Mayor of London has an ambitious programme for housing, including investment plans which aim to increase the supply of genuinely affordable new homes in London. Hackney has been awarded £17.5m from the Mayor of London's Homes for Londoners: Affordable Homes Programme 2021-2026, which the Council will use to continue the direct delivery of genuinely affordable housing through our future housing programme.
- 6.8.2 The Housing Strategy adopted by the Council in January 2018 reinforces the priority of building high quality, well-designed and genuinely affordable new homes. Funding obtained through the GLA has helped Hackney to deliver on these commitments by building new social rented and shared ownership homes in the borough.
- 6.8.3 As stated in Hackney's inclusive economy strategy 2019-25, "Building an inclusive economy is not just about economic opportunity, it is also about people feeling they belong in the borough and feel safe and included here". By delivering additional affordable homes in the borough, we can ensure that more housing opportunities are provided for those in greatest need - and a stable home will help people to access wider economic opportunities in the borough.

6.9 Equality Impact Assessment

- 6.9.1 Social rented homes delivered through a new house building programme will be made available in accordance with the Council's lettings policies. A full Equalities Impact Assessment (EqIA) will be prepared for a future programme of house building.

6.10 Sustainability

- 6.10.1 At present, the built environment contributes around 40% of the UK's total carbon footprint (UKGBC), evidencing that new-build housing is one of the priority areas to target emissions reduction. In the context of Hackney, new builds contribute 4% of total carbon emissions - a relatively small figure - but as Hackney has direct control, or strong influence over a large percentage of those, the contribution has greater significance for our Hackney net zero targets.
- 6.10.2 Like any housebuilder, the Council is guided by National, London and Local policies which form a hierarchy within which we work. We also work within an energy hierarchy, which currently sees us delivering a minimum improvement on Building Regulations (2010) of 35% in terms of carbon emissions (as per the London Plan). We are continuing to improve on this as we react to and pre-empt change through the emerging new-build programme.
- 6.10.3 Moving from gas CHP (Combined Heat and Power) systems to Air Source Heat Pump technology, continued emphasis on the building fabric performance, and maximising renewables is expected. This places us on the trajectory to achieving Hackney's 2040 net zero target.
- 6.10.4 The future house building programme provides a real opportunity to bring further change. Feeding back the learning from our current programme through - increased understanding of our buildings in use (Post-Occupancy and Building Performance Evaluation); lessons learnt from our early adoption of Cross Laminated Timber construction, together with regulatory support, to drive down embodied carbon; continuing to reduce operational carbon with emerging energy technology and fabric improvement; identification of sites which satisfy the criteria for modular methods of delivery without losing the character and place-making qualities of our current and emerging projects; and benefitting from the ever increasing body of industry knowledge to help make informed feasible decisions and establish sustainability metrics to prescribe ever greater performance targets.

6.11 Consultations

- 6.11.1 Residents and stakeholders will be consulted and involved in any future housing programme that impacts their estates, properties and neighbourhoods. Our commitment to meaningful consultation and engagement will be restated in the forthcoming Resident Charter that will be brought to Cabinet later this year.
- 6.11.2 In line with the principles of the Residents Charter, we will ensure close collaboration with local residents from start to finish, whether through resident steering groups on larger projects or meaningful engagement on our smaller schemes.

6.11.3 The process itself for selecting sites to deliver new housing will also be open and transparent, and we will engage with the community on the principles informing where we build new homes, and to take on board suggestions about the most appropriate locations for new housing.

6.12 Risk Assessment

6.12.1 The Regeneration Programmes are subject to regular and robust risk assessments that are an integral part of the Regeneration Governance Framework. The use of effective risk management is a critical part of all business activity that the Regeneration function undertakes, and is reflected in the assurances provided for the Annual Governance Statement and as part of regular internal audits that are undertaken.

6.12.2 New building safety legislation places additional responsibility in ensuring that the 'golden thread' of building information is passed from Regeneration to Housing Services. Further, the new energy standards will have a significant impact on the design, specification, cost and timescale for new homes delivered by the Council. A Hackney New Build standardised brief and building information/quality assurance system has been established and work has started, supported by an external advisor, on implementing the new building safety legislation into working practises.

6.12.3 Flat and falling house prices within the borough continue to be compounded by increasing build costs due to labour and material shortages following Covid and Brexit. This will have a significant impact on the financial viability of the Council's house building programmes and the quantum of affordable homes that can be delivered. There is ongoing monitoring of the housing market and supply chains.

7. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

7.1 The grant funding from the GLA is at the equivalent rates that would apply if the Council used 1-4-1 retained Right to Buy receipts funding, and therefore this grant award represents good value.

7.2 In the current construction and housing market, viability is a challenge and so additional funding from cross subsidy, in line with the current regeneration financial model would still be required to deliver a viable scheme.

7.3 The GLA funding is proposed to be applied to a future house building programme, however the funding conditions may require earlier allocation of the funding. In order to accommodate this, the funding could be applied within the current delivery programme, subject to viability and tender returns.

8. VAT Implications on Land & Property Transactions

- 8.1 No VAT will be charged on the majority of the costs of the construction, other than in relation to professional fees.
- 8.2 Social rents are held in the Council's HRA as non-business use, so any VAT that is attributable to the social rent properties will be recoverable in full.
- 8.3 Shared ownership will have a zero-rated sale followed by an exempt rent, so any VAT on construction will be recoverable, but the VAT on the ongoing maintenance will need to be included in the Council's partial exemption calculation.
- 8.4 Outright sales will be zero-rated, so any VAT incurred on construction will be recoverable in full. The only exception on VAT recovery on the zero-rated sales will be if there are any goods which are not ordinarily installed included in the building i.e. built in wardrobes, fridges, etc. where the VAT recovery will be blocked.

9. COMMENTS OF THE DIRECTOR, LEGAL & GOVERNANCE SERVICES

- 9.1 The decision in paragraph 3.1 of this Report is a key decision under Regulation 8 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 as it is an executive decision, which is likely (a) to result in the relevant local authority incurring expenditure which is, or the making of savings which are, significant having regard to the relevant local authority's budget for the service or function to which the decision relates; or (b) to be significant in terms of its effects on communities living or working in an area comprising two or more wards or electoral divisions in the area of the relevant local authority. Key decisions can be made by Cabinet under Article 13.6 of the Constitution and therefore this Report is being presented to Cabinet for approval.
- 9.2 Further, funding arrangements within the budget strategy in respect of Regeneration Schemes are also reserved to the Mayor and Cabinet under the Mayor's Scheme of Delegation (January 2017), and therefore Cabinet is able to agree the recommendations in this Report.
- 9.3 In order to accept the funding from the GLA Homes for Londoners: Affordable Homes Programme 2021-2026, the Council will need to enter into a grant agreement with the GLA, which will set out the terms of the grant. It is important that the Council complies with the terms of such grant in order to secure the grant funding and ensure it is not subject to clawback.
- 9.4 It will also be necessary to ensure that any of the grant sums which are applied in the provision of services or works from third parties are compliant with any clauses in the grant conditions regarding the appointment of third parties, and compliant with both the law regarding procurement and the Council's own internal requirements as set out in Contract Standing Orders.

APPENDICES

[Appendix 1: Grant Agreement - AHP 2021 - Local Authority 20.12.21](#)

[Appendix 2: Affordable Homes Programme 2021-2026 Funding Guidance](#)

EXEMPT

No

CONFIDENTIAL

No

BACKGROUND PAPERS

None

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|---------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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