

Title of Report	New Council House Building Programme and 1,000 Homes for Social Rent Commitment		
Key Decision No	CHE S142		
For Consideration By	Cabinet		
Meeting Date	12 December 2022		
Cabinet Member	Mayor Philip Glanville		
Classification	Open		
Ward(s) Affected	All wards		
Key Decision & Reason	<table border="1"> <tr> <td>Yes</td> <td>Significant in terms of its effects on communities living or working in an area comprising two or more wards</td> </tr> </table>	Yes	Significant in terms of its effects on communities living or working in an area comprising two or more wards
Yes	Significant in terms of its effects on communities living or working in an area comprising two or more wards		
Implementation Date if Not Called In	20 December 2022		
Group Director	<p>Rickardo Hyatt, Group Director, Climate Homes and Economy</p> <p>Ian Williams, Group Director, Finance and Resources</p>		

1. Cabinet Member's introduction

- 1.1. Since 2011 when Hackney's in-house, not-for-profit house building programme was reaffirmed by Cabinet, the Council has managed to meet austerity head on and respond to government under-investment to fund and build much needed new Council homes for social rent. This innovative Hackney model enabling the building of new Council homes has been adopted by Councils across the UK.
- 1.2. In May 2018 Hackney made a commitment to deliver almost 2,000 new homes over the following four year period. Despite the challenges caused by Brexit and the coronavirus pandemic, by May 2022 the Council had started, completed or received planning permission for 1,984 new homes. You can visit and see these often award-winning new Council homes at King Edward's Road, Colville, Aikin Court, Bridge House, St Leonard's Court, Frampton Park, Tower Court and in Clapton Park, with hundreds of families across Hackney benefiting from this investment. On behalf of Cabinet I'd like to thank all those working for the Council and our partners for being part of this pioneering and transformative work.
- 1.3. More than half of the homes we build are genuinely affordable - whether social rent Council homes for those who need them most, low cost home ownership options for people struggling to get on the housing ladder, or new Hackney Living Rent homes that give private renters a more affordable way to rent a high-quality home.
- 1.4. The Council's commitment is always to ensure that local people are first to benefit. That's why we've always insisted that we prioritise Council tenants whose current homes don't meet their needs when new Council homes are built in their neighbourhood, and ensured that anyone whose home is directly impacted by housing-led regeneration gets the right to return to a brand new Council home to rent or buy. The Council also aims, through our in-house sales team at Hackney Sales, all shared ownership homes at people living and working in Hackney, alongside focused marketing of the outright sale element that funds new Council homes to local buyers instead of investors or buy-to-let landlords.
- 1.5. While I'm proud that Hackney is still a Council housing pioneer, as the housing shortage grows and the cost of living crisis hits, there's a need to deliver even more - and ensure the homes we build are prioritised for the people who need them most. That's why the Council has committed to deliver 1,000 new homes for social rent by 2026. This paper starts to set out how we plan to use every means possible to deliver on that commitment.
- 1.6. The success of Hackney's approach to date means delivery can get going straight away at locations including at De Beauvoir and the former Britannia Leisure Centre, while accelerating plans for the Colville and Nightingale estates, to deliver on long-standing 2018 commitments for nearly 400 new social rent Council homes prioritised for local residents.

- 1.7. We're now ready to 'Keep Hackney Building', and this paper identifies 15 new locations where the Council can repurpose underutilised land with around 400 new Council homes, delivered with residents' involvement alongside estate improvements to benefit everyone who lives there. Crucially, additional Council investment will mean that three out of every four of these homes in this new house building programme will be for Council social rent.
- 1.8. But it doesn't stop there, and we're already looking beyond Hackney's estates to tackle the affordable housing crisis by considering how land and buildings that the Council owns in our town centres, like 55 Morning Lane in Hackney Central amongst other sites, can deliver with partners a further 350 new social rent homes alongside new workspaces and other town centre uses and facilities, creating great places and ensuring a vibrant future for our high streets and town centres.
- 1.9. We'll also maximise new social housing outside of our own building programmes. That means expanding our Mayor of Hackney's Housing Challenge fund to use income from homes we're forced to sell under the government's right-to-buy policy to fund housing associations to build more genuinely affordable homes, and committing funding to buy back 100 of these Council homes lost to private landlords.
- 1.10. Hackney has led the way in building new Council homes, but today with rising construction costs and workforce shortages we can't do it alone. We'll therefore seek out partnerships that can deliver for Hackney and Keep Hackney Building, creating 1,000 new quality Council social rent homes for Hackney residents.
- 1.11. I commend this report to Cabinet.

2. **Group Director's introduction**

- 2.1. The Council has operated a successful regeneration and house building programme for more than a decade. Since April 2011 we have completed 1,515 new and refurbished homes, including 522 for social rent, 24 Hackney Living Rent and 154 shared ownership, as well as 815 outright sale homes in order to help pay for the affordable housing and other public infrastructure. We currently have three schemes on site, providing a total of 245 new homes (85 for social rent, 42 shared ownership and 118 outright sale).
- 2.2. As well as providing high quality additional and upgraded homes, we have invested in new and improved community, public and work spaces on our housing estates - making sure the benefits of these projects are felt by both existing and new residents. Further, the Council has worked closely with our construction partners to maximise the training and employment opportunities for residents arising from these developments, as well as supporting local businesses and community groups.

- 2.3. However, the challenge is greater than ever - due to the deepening housing crisis within the borough, significant pressures on the construction sector and a shrinking economy. The Council currently has 8,500 households waiting for a new Council home on the housing register. Of these, 3,300 homeless households are living in temporary accommodation, including 3,700 children mainly of primary school age. Increasingly the nearest available temporary accommodation outside of hostel provision is in the Midlands. There is no privately rented accommodation available within the borough at the Local Housing Allowance rate, meaning that Hackney is unaffordable for households with an annual income of less than £45,000 to rent a home on the open market.
- 2.4. In the past two years we have seen the cost of building Hackney's projects increase by around 30% due to the impact of Brexit and associated supply chain issues, with the pandemic and the war in Ukraine significantly exacerbating these inflationary pressures. This trajectory is set to continue and, unlike previous fiscal cycles, these pressures have not been offset by increased house prices, thus stretching the viability of the Council's hitherto successful cross subsidy model, whereby some new homes are sold outright in order to help pay primarily for new social rent properties.
- 2.5. The Mayor has set out a commitment to continue our award-winning Council house building programme, to deliver 1,000 additional Council homes for social rent, and to search for new sites to unlock this next generation of social rented Council homes. It is clear that the Council will need to use all means at its disposal to meet this stretching target. This will involve looking for suitable locations to build homes across all our land, and broadening the range of delivery models we use, while working closely with local communities and delivery partners to bring forward development proposals.
- 2.6. This report seeks authority to commence the necessary preparatory work for a new house building programme on Housing Revenue Account land, as part of the wider portfolio approach to housing delivery and meeting the manifesto commitment. Our detailed plans for funding and delivering this new programme will be informed by expert advice, and this will be set out in a further report to Cabinet.

3. **Recommendations**

Cabinet is recommended:

- 3.1. **To include the 15 anchor locations set out in the report within a new house building programme, subject to scheme design, viability testing and further resident engagement.**
- 3.2. **To include additional sites and development opportunities in the vicinity of the anchor locations within the programme, subject to scheme design, viability testing and resident engagement.**

- 3.3. To delegate authority to the Capital and Asset Steering Board to include additional sites not in the vicinity of the anchor locations within the programme or a future housing delivery programme, subject to scheme design, viability testing and resident engagement.
- 3.4. To delegate authority to the Group Director Finance and Resources, in consultation with the Mayor and relevant Cabinet Leads, to approve the Small Assets Fast Track Policy, the framework for which is set out at Appendix 1.
- 3.5. To agree to commission surveys and other investigations for the locations and sites set out at 3.1 to 3.3.
- 3.6. To agree to commission architect design team services for the locations and sites set out at 3.1 to 3.3.
- 3.7. To agree to commission cost consultancy and employer's agent services for the locations and sites set out at 3.1 to 3.3.
- 3.8. To agree to commission other consultancy services as may be required in relation to the delivery of new homes at the locations and sites set out at 3.1 to 3.3.
- 3.9. To agree to submit planning and other applications in respect of the locations and sites set out at 3.1 to 3.3.
- 3.10. To agree a budget cap of £10m for the next steps set out at 3.5 to 3.9, noting that lead consultants will be commissioned on a stage by stage basis, and programme delivery will be monitored by the Capital and Asset Steering Board.
- 3.11. To request a further report setting out details of the delivery models, funding arrangements and financial assumptions for the new house building programme.
- 3.12. To request a further report providing an update on the other programmes of housing delivery referred to in this report, including the risks and opportunities.
- 3.13. To authorise the Director of Legal, Democratic and Electoral Services to prepare, agree, settle and sign the necessary legal documentation to effect the proposals contained in this report and to enter into any other ancillary legal documentation as required.
- 3.14. To authorise the Director of Legal, Democratic and Electoral Services to enter into planning agreements, unilateral undertakings and any other ancillary legal documentation as required to effect the proposals contained in this report.
- 3.15. Following approval of the Small Assets Fast Track Policy to delegate authority to the Group Director Finance and Resources and the Director of Legal, Democratic and Electoral Services to agree all

commercial terms and prepare, agree, settle and sign the necessary legal documentation for sales and purchases authorised by that policy.

4. Reason(s) for decision

New house building programme

- 4.1. The Housing Asset Management Strategy 2019-2027 established an asset review process, to undertake a coordinated and comprehensive assessment of investment options for Housing Revenue Account (HRA) land and building assets, considering the longer term performance of the asset base, cost of maintenance, quality of provision, usage and meeting local needs.
- 4.2. On 29 April 2019 Cabinet considered a comprehensive update on the delivery of the Council's regeneration programme (Key Decision No NH P65), including a refreshed development strategy. This report introduced the principle of commencing a new Council house building programme, alongside the existing Estate Regeneration and Housing Supply Programmes. It was anticipated at the time that the development sites for this new programme would be identified predominantly through the asset review process referred to above, formed of underutilised land across the borough, as well as buildings at the end of their lifecycle which are no longer cost effective to maintain.
- 4.3. The Asset Review team has, since early 2021, been carrying out the review of HRA land. This has involved mapping more than 1,000 non-dwelling assets, which were then filtered to remove those with limited or no development potential, with the remainder being ordered according to their potential to deliver new homes. A separate process is underway to analyse the condition of the existing stock in preparation for planned investment.
- 4.4. The top 70 locations have been reviewed through a two-stage appraisal process. At the first stage, officers identified key constraints, risks and opportunities, and liaised with internal teams including Housing Services and Area Regeneration. During the second stage, core surveys such as trees and underground services were undertaken for each location, further exploring their suitability for the delivery of new housing and other uses. A broader range of internal stakeholders was engaged at this point, including Finance, Legal, Planning, Regeneration Strategic Design and Strategic Property Services. Following both appraisal stages, recommendations from a menu of eight options set out in the Housing Asset Management Strategy were made for each location, in accordance with the governance framework.
- 4.5. Through the above process, 15 anchor locations have been identified on HRA land, as shown in Table 1, which collectively have capacity to deliver around 400 new homes. These are also shown on the location plan at Appendix 2. Following resident consultation carried out during spring and summer 2022 (as detailed in section 6), it is proposed to include all 15

anchor locations within a new Council house building programme. For clarity, no design work has been carried out at this stage, nor have any decisions been made as to the number and type of homes that would be provided at each location. However, the ambition is for 75% of these new Council homes to be for much needed social rent across the programme, as set out in section 6.

Table 1 - Anchor locations for new house building programme

Cluster	Anchor location	Ward
Suffolk, Welshpool and Regents	Orwell Court garages	Haggerston
	Welshpool Street depot and car park	London Fields
	Regents Court garages and car park	Haggerston
Fellows Court and St. Mary's	Fellows Court garages	Haggerston
	Weymouth Court garages	Haggerston
Wenlock Barn and St. Johns	Cropley Court garages	Hoxton West
	Buckland Court garages	Hoxton West
King's Park	Nye Bevan Estate garages	Kings Park
	Blackwell Close garages	Kings Park
Hackney Central	161 Graham Road	Hackney Central
	Wayman Court car park	Hackney Central
N/A	Morris Blitz neighbourhood office	Stoke Newington
N/A	Selman and Wellday garages	Hackney Wick
N/A	Morpeth Grove garages and car park <i>(to be known as Parkside Estate garages and car park)</i>	Victoria
N/A	Blandford Court garages	De Beauvoir

- 4.6. It is anticipated that, through the design process for the 15 anchor locations and by working closely with residents, further development opportunities may be identified on other land and buildings in the local area. These could include additional infill sites, 'hidden homes' such as undercroft conversions or rooftop extensions, and potentially small-scale demolition projects where residents support the proposals. These additional sites will be included within the anchor locations for delivery purposes, as this holistic, area-based approach will result in economies of scale and greater benefits for residents.

- 4.7. Further, officers will seek where possible to sequence programmes of planned investment in the existing homes with the timeline for new homes being built at the locations, so that everyone gains from these improvements. This supports the manifesto commitment to set out five-year plans for future estate investment which capture the aspirations of residents to improve where they live.
- 4.8. Given that the Council has been building new homes on its land for the past decade, the larger and more readily developable sites within the HRA portfolio have either already been built on or are included in the current Estate Regeneration and Housing Supply Programmes. The average scheme size within this new programme is estimated to be around 30 homes, subject to scheme design, viability testing and further resident engagement. It is proposed to group these locations for the purposes of design and delivery in order to ensure a more consistent and effective approach than with progressing each site on a standalone basis.
- 4.9. Beyond these 15 anchor locations, the opportunities for infill development on HRA land become further limited in scale. Such small sites are unlikely to be resource effective to develop on their own. However, some may lend themselves to using replicable designs and Modern Methods of Construction (MMC) to deliver new homes, and it is anticipated that this approach will be piloted through the house building programme set out in this report. Subject to further investigation, a supplementary small sites programme could deliver an additional 100-200 homes across 10-20 sites in future years. It is recommended that the Capital and Asset Steering Board has delegated authority to include additional sites that are not included in the anchor locations within this or a future housing delivery programme, subject to scheme design, viability testing and resident engagement.
- 4.10. As well as identifying potential development sites for the Council's house building pipeline, the Asset Review process has located a number of small, underused Council-owned pieces of land which serve little value to its strategic objectives. Enquiries are regularly received from residents and property owners looking to purchase small areas of unused Council land adjacent to their homes and properties. There is the potential for such unused small plots, where they are confirmed as surplus to the Council's requirements, to be put to use by new owners while generating an income stream to the Council that could be reinvested in these programmes.
- 4.11. To address this opportunity, a Small Assets Fast Track Policy framework has been drafted, as set out at Appendix 1. The purpose of the policy is to define a 'small asset' and enable identified sites to be reviewed in a proportionate manner and, where they are deemed surplus to Council requirements, to be made available for purchase in a fair and transparent way, fulfilling the Council's statutory obligation to meet the best consideration requirements of the Local Government Act 1972. The framework also proposes delegated authority for the acquisition of small assets where this is advantageous to the Council's strategic objectives and where a budget is available.

4.12. Delegated authority is sought from Cabinet for the Corporate Director Finance and Resources, following consultation with the Mayor and relevant Cabinet Leads, to approve the final version of Small Assets Fast Track Policy, the framework for which is set out at Appendix 1.

Wider approach to housing delivery

4.13. It can be seen from above that the HRA does not at this point have sufficient underutilised land to meet the manifesto commitment for 1,000 new homes for social rent, regardless of the tenure mix, without further large-scale estate renewal plans. However, the Council is already delivering and facilitating the delivery of affordable housing via a number of other programmes, as follows:

- Pipeline Estate Regeneration and Housing Supply Programme projects, and the Britannia regeneration
- Buy-back of former Council homes using Right-to-Buy receipts
- New housing association properties delivered through the Mayor of Hackney’s Housing Challenge, also using Right-to-Buy receipts
- Town centre regeneration: new homes delivered in mixed use schemes in our town centres, where the Council is the landowner (such as at 55 Morning Lane), or in partnership with other landowners.

4.14. A position statement for each of these programmes is set out in Appendix 3. In summary, this portfolio approach will see around 1,000 additional homes for social rent brought on stream by 2026 (see Table 2), with some headroom to accommodate potential changes to programme delivery based on current projections. It should be noted that, where projects are delivered by partners such as housing associations, the Council will have nomination rights to the social rent homes.

4.15. The delivery of all these homes and programmes will be monitored by the Capital and Asset Steering Board. Given the scale of the opportunities, but also the delivery risks in the current economic climate, it is recommended that Cabinet requests a further report providing an update on the other housing programmes referred to in Appendix 3.

Table 2 - Combined housing delivery pipeline

Programme	Number of social rent homes
New house building programme (this report)	313
Estate Regeneration and Housing Supply Programmes	255
Buy-back of former Council homes	100
Mayor of Hackney’s Housing Challenge	100

Town centre regeneration sites	350
Total	1,118

5. **Details of alternative options considered and rejected**

- 5.1. Hackney is facing a housing crisis. As set out in the Community Strategy 2018–2028 and the recently adopted Strategic Plan, the Council will seek to increase the supply of genuinely affordable homes available to local people for rent and sale in the borough, including through our own house building programmes. This is a clear manifesto commitment and a high priority for the Council’s Administration, consequently and rightly the option to do nothing has been rejected.
- 5.2. However, there are competing financial pressures on the Housing Revenue Account (as well as the General Fund for the wider approach to housing delivery), with the need to invest in the existing stock to keep it in good condition, meet building safety requirements and contribute towards the Council’s net zero carbon obligations. This is set against a below inflation rent cap introduced by the government and rapidly increasing construction costs, meaning that reduced income will stretch less far.
- 5.3. Therefore, while the commitment to deliver a new house building programme is confirmed, the detailed means of implementing it are subject to ongoing consideration including with external advisers. A further report to Cabinet will set out the delivery routes and funding arrangements in due course. Time is of the essence to minimise the impact of rising construction costs, which is projected to continue. The next steps set out in section 6 will allow the necessary preparatory work for the new programme to be undertaken while the delivery routes and funding arrangements are being finalised.

6. **Background**

Policy Context

- 6.1. The Hackney Community Strategy 2018-2028 sets out the overarching vision and strategic direction for Hackney over the current decade, broken down into five key themes. A new house building programme, which results in the delivery of additional homes for social rent, will make a significant contribution towards meeting the objectives of the Community Strategy.
- 6.2. On 21 November 2022 Cabinet approved the Council’s new Strategic Plan, ‘Working Together for a Better Hackney’, setting out its ambitions for the next four years, as well as the challenges we face and how we will respond. The Strategic Plan makes clear that maximising opportunities for developing genuinely affordable housing, with a focus on the provision of Council social rent homes, is a key part of our overarching approach to responding to the housing crisis and meeting the objective of creating a fairer, safer Hackney.

This includes prioritising the delivery of high quality homes and genuinely affordable housing in our growth areas and town centres, as well as continuing our partnership working with housing associations to maximise genuinely affordable homes.

- 6.3. The new borough wide Local Plan 2033, known as LP33, is the key strategic planning document used to direct and guide development in the borough up to 2033. In relation to the proposed new house building programme, this sets out policies relating to the provision of affordable housing (LP13) and dwelling size mix (LP14), as well as specific site allocations.
- 6.4. In 2018 the Council published its five-year housing strategy, 'Delivering the Homes Hackney Needs', setting out the steps we would take to address Hackney's housing crisis. We have delivered on those commitments - expanding our innovative Hackney is Building Council housing programme, pioneering new Hackney Living Rent homes for private renters, and enforcing tougher private sector housing regulations through our Better Renting campaign.
- 6.5. Despite all these successes, the housing crisis remains as acute as ever. During 2023 and 2024 we will develop and launch a new five-year Hackney Housing Strategy. Following the delayed release of the full census data, this will be underpinned by a robust evidence-based housing needs survey and strategic housing market assessment (SHMA). In the meantime, this report sets out how the Council will continue to deliver the homes Hackney so badly needs.
- 6.6. The Housing Asset Management Strategy 2019-2027 provides an overarching framework for investment decision making across the Council's homes and housing estates. This strategy introduced an asset review process, to systematically review HRA land and property assets, and enable decisions to be made regarding their future use, based on up to date information and an assessment of a range of possible options.
- 6.7. In April 2019 Cabinet received a comprehensive update on the delivery of the Council's regeneration programme (Key Decision No NH P65), including the refreshed development strategy. That report introduced the principle of commencing a new Council house building programme, alongside the existing Estate Regeneration and Housing Supply Programmes.
- 6.8. On 28 February 2022 Cabinet considered a further report (Key Decision No CE S061), advising that our bid for £17.5m of GLA funding from the Affordable Homes Programme 2021-2026 had been successful. This was to support the delivery of 100 new homes for social rent, at a grant rate of £175k per home within a mixed tenure house building programme, and the Council has subsequently entered into a funding agreement with the GLA in order to secure the grant. The report set out that work was underway to review land and building assets held in the HRA, to determine their best and

future use, and that officers would be bringing a proposed new house building programme (this report) to Cabinet in late 2022.

Equality impact assessment

- 6.9. An Equality Impact Assessment (EIA) has been completed to assess the equalities impacts of the proposed new house building programme. This assessment identifies opportunities to promote equality or avoid negative equality impacts as a result of the programme. On balance, the negative impacts are outweighed by the positive impacts on different equality groups.
- 6.10. We will be providing a mix of different size homes and tenures to cater for a variety of household types and compositions. The Council is also committed to building new homes that are adaptable to the varying needs of occupiers over time, and that will enable people to live independently in their homes for longer.

Sustainability and climate change

- 6.11. Tackling Hackney's housing crisis and addressing the climate emergency are two of the Council's core priorities. Like any housebuilder the Council is guided by national, London and local policies. We work within an energy hierarchy which sees the current Estate Regeneration and Housing Supply Programmes making 35% carbon reductions beyond Building Regulation requirements, as per the London Plan.
- 6.12. The new house building programme will improve on this significantly as the defining policies, standards and guidance are tightened. However, in order to achieve Hackney's net zero commitment by 2040 (10 years in advance of the UK target), we need to be ahead of this regulatory change. There is inherently carbon in anything we build. We could simply build less, but it is critical for the Council to increase the supply of good quality, affordable and energy efficient housing. We therefore need to make an accommodation between tackling the housing crisis and achieving net zero.
- 6.13. In energy terms, the future programme will work within the goals set out by Hackney's Climate Action Plan (CAP) 2030 - specifically the early objectives for gas phase out, with the use of low carbon heat sources. Sustainability and climate change are complex topics covering a variety of broad concepts and technical specialisms. To manage this complexity, Hackney's next pipeline of new build homes will follow the themes below:
- High performing and energy efficient buildings
 - Resilient buildings that are ready for future changes in climate
 - Self-sufficient homes that are powered by on-site renewable energy and connected to district heat or decentralised energy networks
 - Healthy and comfortable spaces that consider a building's biology.
- 6.14. The viability of the programme is already challenged by rising construction costs and housing market uncertainty. Bringing forward accelerated energy

improvements through improved fabric performance or new technology further challenges that viability. Therefore, without additional funding or subsidy, we may have to choose between the number of homes we build and the level of carbon saving we can achieve, while aiming for net zero.

Consultations

- 6.15. In accordance with the long-standing commitment to delivering new homes alongside the local people they impact and benefit, the Council has sought to ensure this programme of new housing projects is informed by the views and priorities of the Hackney community. In early 2022 the Council undertook a borough-wide engagement exercise to gather input on the principles of a new housing programme, with 199 residents sharing views to help determine how and where the Council should focus its efforts, and ensure new homes are brought forward to benefit and with support from the local community. See Appendix 4 for the Keep Hackney Building consultation report.
- 6.16. Following this, in summer 2022 the Council undertook dedicated engagement with residents and local stakeholders at the 15 initial locations identified in this report as having the potential to accommodate new homes, with 447 residents formally sharing their views (see Appendix 4). The scope of the engagement was not solely to inform whether or not to progress ideas for a new development at each location, but to gain a full understanding of the place from a resident's perspective at the earliest possible stage, including the opportunities and challenges that building new homes could create, before any design work takes place. This input has been considered alongside other factors such as financial and planning requirements, and will be used to inform how the Council takes forward its plans for these locations.
- 6.17. This initial engagement represents the very early stages of continuing conversations with residents to design new developments that deliver on the Council's commitment to building genuinely affordable new homes with the involvement of local communities. In line with the Council's Residents' Charter agreed by Cabinet in early 2022 and the Resident Engagement Strategy currently in development, this will ensure that all projects are delivered through close collaboration with local residents from start to finish

Risk assessment

- 6.18. The Asset Review team has developed a risks and issues register of internal and external influences on the emerging house building programme. The register is monitored and control mitigations are updated on a monthly basis, with significant risks being escalated to the Divisional Risk Register which is managed and monitored at Director level. The key risks at this stage relate to the following:
- Financial:
 - Build costs exceed projections
 - Projected sales values not achieved
 - Increase in interest rates

- Reduced levels of subsidy available
- Reputational:
 - Delivery of new homes within the manifesto period
 - Resident opposition to proposals
 - Loss of Member support for plans
 - Investment in existing homes alongside new build
- Programme:
 - Complex site or construction issues
 - Unforeseen planning constraints
 - Change in regulatory requirements
 - Inefficient programme management.

Tenure mix, funding and financial viability

6.19. When the principle of a new house building programme was introduced in April 2019, it was anticipated that this would deliver a planning compliant tenure mix comprising 30% social rent homes, 20% shared ownership and 50% outright sale to help provide the necessary cross-subsidy. However, such is the depth of the housing crisis facing Hackney, that the ambition is now to provide 75% of the new homes for much-needed Council social rent, partly funded by 25% outright sale. The indicative unit and tenure mix for this programme is set out in Table 3 below.

Table 3 - 75% social rent unit and tenure mix

	1 bed	2 bed	3 bed	Total
Social rent	98	106	109	313
Outright sale	33	36	35	104
Total	131	142	144	417

6.20. As previously stated, we have seen the cost of construction rise significantly over the past two years, and these inflationary pressures have not been matched by house price increases. Based on independent advice with regard to current build costs and sales values, the estimated financial viability of the new house building programme is as follows (see Table 4).

Table 4 - Current financial viability with 75% social rent homes

No. of homes	Total scheme cost	Sales income	Subsidy	Net Present Value	Opening loan
417	£224m	£66m	£54m	£(65m)	£102m

6.21. The above estimate assumes:

- A blended construction cost of £4,200 per square metre

- GLA grant at £175k per social rented home
- No Right-to-Buy or Section 106 subsidy.

6.22. It is anticipated, based on external advice, that sales values will begin to recover in relation to build costs over the medium-term. However, the potential increased income from the 25% outright sale element within the new programme will be insufficient to offset the additional cost of building all the new homes. Projecting forward to the first completed schemes in 2026, the estimated outturn viability position is set out in Table 5 below.

Table 5 - Projected financial viability with 75% social rent homes

No. of homes	Total scheme cost	Sales income	Subsidy	Net Present Value	Opening loan
417	£236m	£74m	£54m	£(70m)	£108m

6.23. The above estimate assumes:

- 8% construction cost inflation to contract award in 2025
- 10.5% sales price growth to first sales in 2026
- No change to grant/subsidy position.

6.24. It would be prudent for Cabinet to consider sensitivities on the projected outturn position. In the event of final construction costs being 5% higher and sales income 10% lower than anticipated in Table 5, the viability gap would rise to £(87m). However, in the reverse scenario (outturn construction costs reduced by 5% and sales income increased by 10%) the funding requirement would fall to £54m. This sensitivity analysis is summarised in Table 6.

Table 6 - Sensitivity analysis of projected outturn viability position

Scenario	No. of homes	Total scheme cost	Sales income	Subsidy	Net Present Value
Downside Build cost +5% Sales income -10%	417	£245m	£66m	£54m	£(87m)
Upside Build cost -5% Sales income +10%	417	£227m	£81m	£54m	£(54m)

6.25. The above scenarios assume GLA grant (subsidy) at £175k per social rent home, based on the Council's Affordable Homes Programme 2021-26 allocation of £17.5m for 100 social rent homes, delivered within an indicative mixed tenure programme (Key Decision No CE S061). This is considered to

be a reasonable assumption as, while the Council is lobbying for an increased grant rate to reflect current market conditions and the cost of building in Hackney, the GLA seeks to deliver the maximum number of affordable homes across London from its available funding.

- 6.26. It can be seen from above that the new house building programme, with 75% social rent and 25% outright sale homes, will require additional funding in the region of £70m to achieve a break even budget without adding financial pressure to the HRA. For comparison purposes, a planning compliant tenure mix (30% social rent, 20% shared ownership and 50% outright sale) would require around £28m additional funding, albeit that the number of new social rent homes would reduce proportionately from 313 to 125 homes.
- 6.27. While this new programme rightly prioritises the delivery of additional homes for social rent, the Council recognises the value of Intermediate housing (in Planning terms) - be that shared ownership/equity, Hackney Living Rent or other models - for residents who are unable to get on the housing ladder in Hackney, but do not qualify for social housing. Intermediate housing options will continue to be provided through the other programmes of delivery set out in this report. Further, an Affordable Housing Commission will be established to explore and advise on existing housing models, to develop new ways to build affordable and accessible homes in Hackney, and to explore other options for increasing their supply.
- 6.28. Should Cabinet approve this new house building programme, the £70m additional funding requirement will be met from the one-off windfall overage (surplus) arising from a historic stock transfer arrangement. Hackney's budgets will come under increasing pressure over the next few years, and this highlights the need to exercise fiscal responsibility when allocating resources to meet our priorities. If the one-off overage payment is invested in this programme, it will no longer be available for other purposes be they housing related or alternative areas of capital investment.
- 6.29. Officers will strive to secure efficiencies through the design, procurement and delivery of the new house building programme, while not compromising the quality of the homes built. This will include both fiscal and delivery efficiencies, in order to improve the viability of the programme. A review is underway with external consultants, aimed at ensuring we use all available levers to optimise the delivery models and minimise the additional funding required in order to achieve a balanced budget. The outputs of this work will be reflected in a further report to Cabinet.
- 6.30. In order to keep delivering the homes Hackney needs in the current economic climate, this will require changes to our ways of working, for example to maximise the income from sales by adopting a more commercial approach, potentially scaling back non-residential elements of schemes, and working in partnership with others to bring forward developments. While the target tenure mix maximises the number of social rent homes that can be delivered within the available funding, it also requires a considered approach to the distribution of the outright sale element of the programme in order to

ensure those homes are mortgageable in the absence of any co-located Hackney Living Rent or shared ownership homes, and to make a positive contribution to the programme's viability.

Principals of new programme

- 6.31. The 2019 Cabinet report set out a number of objectives for the Council's future house building programme. These have been reviewed and updated, and will continue to be developed through the process of setting project briefs for the new programme. The proposed objectives are set out at Appendix 5.
- 6.32. Subject to the further Cabinet report in 3.11, it is anticipated that the new house building programme will adopt the same portfolio approach developed to deliver the Estate Regeneration and Housing Supply Programmes. This enables schemes which have the potential to generate a surplus to be combined with those that require a net investment. The above approach will ensure that, as a whole, the programme is both planning policy compliant and financially viable.

Next steps and budget requirement

- 6.33. Following approval of this report, the next key steps will be to draw up project briefs and to commission consultant teams for the 15 anchor locations on a grouped basis. These will be made up of architect-led design teams, cost consultants and employer's agents (EA) and other specialist advisers. The projects will be commissioned on a stage-by-stage basis, taken through the planning application process, and designed ready to seek tenders for a construction contract. The estimated cost of this necessary preparatory work, for which a budget of £10m is sought, will be spread largely over the next three years as indicated in Table 7 below.

Table 7 - Budget requirement to planning and pre-tender stage

Budget line	Year 1 (2023/24)	Year 2 (2024/25)	Year 3 (2025/26)	Totals
Architect design team	£1.00m	£2.60m	£400k	£4.00m
Cost consultant & EA	£230k	£600k	£90k	£920k
Surveys	£370k	£960k	£150k	£1.48m
Planning	£690k	£1.80m	£280k	£2.77m
Development adviser	£30k	£80k	£10k	£120k
7.5% contingency	£170k	£450k	£70k	£690k
Totals	£2.49m	£6.49m	£1.00m	£9.98m

- 6.34. Throughout the design development stage, the delivery teams will follow the Council's established governance and project management framework to ensure the programme has clear reporting structures, financial controls and risk management processes in place. Overall programme delivery will be monitored by the Capital and Asset Steering Board.
- 6.35. Alongside this, the exercise which is currently underway to set out the delivery routes, funding arrangements and financial assumptions for the new programme will be brought to a conclusion. This will be reported to Cabinet in order to secure the programme's capital budget, prior to any construction tenders being issued.
- 6.36. Residents and stakeholders at the anchor locations will be kept updated on Cabinet's decision with regard to the proposed house building programme and the commissioning of consultants. Once the design teams are in place there will be ongoing conversations and meaningful opportunities for local communities to help shape the new developments.

7. Comments of the Group Director of Finance and Corporate Resources

- 7.1. The report asks for an initial budget of £10m, to progress the design of the sites included in the new programme. This £10m has been based on the consultants and surveys required for the design development to take place, with costs from the current regeneration programmes being used to reach this estimate. The spend will essentially be at risk, but is unavoidable in the delivery of a house building programme.
- 7.2. The wider budget for construction works will be requested in a separate Cabinet report, alongside confirmation of the funding arrangements, delivery models and financial assumptions to be used in the new house building programme.
- 7.3. The current market for house building is extremely challenging, with an unprecedented level of cost inflation being experienced, which is unmatched by sales values that are likely to remain static or reduce slightly in the short term. This is putting significant pressure on being able to deliver using the cross subsidy model that has been used in the past.
- 7.4. Advice has been obtained from external consultants for all of the costs and sales assumptions used in the viability workings in this report, and these have been checked and validated against what is being experienced within our current programmes. The Finance team have been consulted on these figures throughout the process to date and are comfortable that they are a fair reflection of the current climate.
- 7.5. The use of the previously obtained overage to maximise the amount of social rent homes is a one off opportunity and this will not be available for any future house building programmes. Its use on this programme would also take away the flexibility from the funding being used against current

regeneration programmes or wider Council projects. It should be noted that this funding is being used to increase the percentage of social housing that the programme is able to deliver, as opposed to bridging the viability gap being caused by the challenging market conditions.

- 7.6. As per 6.21 there is an assumption of subsidy being available for all of the social rented units at the same rate (£175k per unit) as per the most recent GLA Affordable Homes Programme bid. This is noted as a risk in 6.18, and it should be highlighted that, if this level of grant is not available, it will have a significant impact on what can be delivered. This is also impacted by an expected reduction in the number of Right-to-Buy (RTB) sales over the coming years, as a result of the cost of living crisis, reducing the amount of 1-4-1 funding available.

8. VAT implications on land and property transactions

- 8.1. The construction of new dwellings will be zero rated for VAT. Where the dwellings are built by converting existing non-residential buildings, the costs are likely to attract a reduced rate of VAT. The construction of any commercial units and public realm space will be liable to VAT at the standard rate.
- 8.2. The lease of residential units for social housing within the Council's HRA will be non-business supplies and hence any VAT incurred on attributable costs will be recoverable in full. The sale of new dwellings will be zero rated, as the Council is the person constructing, and this will be the first grant of a major interest. This should also include new dwellings created from converted non-residential units.
- 8.3. With regard to the Small Assets Fast Track Policy, where surplus land and buildings (over three years old) are sold, this will be exempt from VAT (subject to the option to tax) and therefore any VAT incurred on costs attributable to the sale will need to be included in the Council's partial exemption calculation.

9. Comments of the Director of Legal, Democratic and Electoral Services

- 9.1. Section 1 of the Localism Act 2011 ("the general power of competence") grants local authorities the ability to do anything that a private individual is empowered to do, subject to any restrictions which bound local authorities before coming into force of that section or any later provisions expressed to apply to it.
- 9.2. 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.

- 9.3. Key decisions can be made by Cabinet under Article 13.6 of the Constitution. Further, all corporate policies and strategies can be approved by Cabinet under the Mayor's Scheme of Delegation. Therefore this Report is being presented to Cabinet for approval.

Appendices

[Appendix 1 - Small Assets Fast Track Policy framework](#)

[Appendix 2 - Map of anchor locations](#)

[Appendix 3 - Position statement for housing delivery programmes](#)

[Appendix 4 - Consultation report *Keep Hackney Building: Developing a new programme of Council homes in Hackney*](#)

[Appendix 5 - Proposed objectives of new house building programme](#)

Exempt

None.

Background documents

None.

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