Appendix B

Why Does LB Lambeth Need Homes for Lambeth to Support it to Deliver New Housing and Regeneration?

1.1 This document has been developed to provide a more detailed, technical narrative in support the proposal and recommendations to be considered by Cabinet in the report Homes for Lambeth: A Special Purpose Vehicle for Lambeth’ at its meeting on 12 October 2015.

1.2 This document should be read in conjunction with the Cabinet report and is a direct extension of the proposals presented therein.

1.3 The Council already has a number of options available to it for delivering new housing in Lambeth, which could be regarded as ‘self delivery’. These include:

   o Entering into a Development Management Agreement with one or more private sector companies to develop and deliver new housing, which may be procured using one of a number of frameworks and panels that the Council is party to, or through a formal procurement exercise;

   o Contracting with a Registered Provider to deliver new housing for social rents; or,

   o Securing commitments from private developers to deliver affordable housing (on or off-site) through the planning process. In some cases a sum of cash may be paid in lieu by the developer, which may be deployed directly by the Council for new housing delivery.

1.4 However, in considering the Council’s ambitions to deliver significant volumes of new housing that meets the current and future needs of for Lambeth’s residents (and which includes adding significantly to the availability of new homes at Council rent levels), it is essential to note that these ambitions cannot be effectively realised through conventional approaches alone and as such there is a clear need for a new approach to housing delivery in Lambeth.

1.5 Conventional mechanisms provide the Council with only a limited ability to stimulate and shape the pace, volume and mix of housing delivered, or to control the delivery of housing in a way that supports its wider agenda for regeneration and growth:

1.5.1 The estimated numbers of new homes that will be delivered at an equivalent to Council rent levels through these approaches will not meet the Council’s targets for current or future residents’ needs, this shortfall also extends across a range of tenures and a range of price points.

1.5.2 There is little incentive for private developers to share the surpluses of development and efforts made by public bodies to raise the levels of affordable housing to be delivered are typically met with resistance across the market.
1.5.3 Where the Council is not directly involved in originating new development activity, its ability to directly influence private development is primarily effected through the planning system, which provides only very limited abilities to increase the pace and scale of delivery, or to optimise local socioeconomic benefits for residents.

1.5.4 Viability testing and constraints in the National Planning Policy Framework (NPPF) mean that developers can legally negotiate affordable housing offers that are lower than required in local planning policies if the financial modelling shows that the financial return on investment will be less than 20%. The effect of the viability assessments is that sometimes developments deliver below Lambeth’s stated aims on the proportion of affordable and social housing delivered, or these units are provided off-site within an agreed radius.

1.5.5 The number of new social rented units being built in the borough has fallen dramatically due to the Central Government cutting the grant for building new social homes. In 2010-11, 700 new social homes were built in Lambeth in one year; by 2013-14 this had fallen to 120; the forecast for 2015-16 from housing associations is that just 40 homes for social rent will be built. New housing delivery planned by registered providers (RPs) will not make up the shortfall and it is questionable whether many RPs could offer the capacity, flexibility or assurances around nominations to the Council that it needs. In view of Central Government’s pre-election statements around the intentions for RTB to be extended to RP stock, RPs face a period of significant uncertainty about their future investment abilities.

1.5.6 The Localism Act 2011 states that the Council must carry out activities that are commercial in purpose (such as the objective of creating a surplus for future growth and expansion plans, which could for example include development of homes for private rent), through a company and cannot carry them out itself. Therefore, a Special Purpose Vehicle in the form of a standalone business is required if the Council’s strategic intention is to create a surplus, to be reinvested for future activities.

1.5.7 Legislation imposes a ring-fence as between the Housing Revenue Account (HRA) and the General Fund. Any housing activities carried out directly by the Council (with the exception of temporary accommodation) must be carried out within the HRA.

1.5.8 As part of the summer budget, Central Government announced plans for a 1% cut in social rents, which means that the HRA will struggle to deliver the remainder of the LHS Programme without some cuts to revenue budgets. As such, the Council is currently revising the HRA Business Plan to identify its options to fund its existing revenue and capital commitments. The Council must safeguard its ability to meet its long-term obligations towards maintaining its social housing stock. As such these cuts limit is effective abilities to deliver new housing via the HRA.

1.5.9 Further to this, the HRA borrowing cap effectively limits the Council’s ability to use its existing HRA resources, or increase its borrowing in order to directly deliver new homes for social rent. The base position for Council-led housing delivery is that capital investment in HRA assets is accounted for within the HRA, and any financing requirements will lead to an increase in the HRA capital finance requirement. As such, the Council is effectively constrained in its ability to increase its HRA capital financing requirement.
1.5.10 Although the Council has secured a significant income stream from One for One (1-4-1) RTB receipts which are to be used to deliver replacement social housing, this funding comes with a number of attached conditions that restrict how it may be used. In effect, these conditions limit how the funding may be used and place the Council at risk of repaying any sums unspent within a given period with interest. Specifically, if the Council wishes to use RTB receipts to fund acquisition or development of property it must find 70% of the costs of doing so from its own resources, within the HRA. It cannot obtain "match funding" from any other public sector sources. As identified above, there are significant capacity pressures on the HRA brought about by planned cuts mandated by Central Government.

1.5.11 A number of factors are contributing to a lack of available finance for publicly-funded house building. Grant finance to Registered Social Landlords for building affordable housing is being significantly reduced – the last round of funding provided on average only 10% of delivery costs, and with what little grant that is available being focused on 'affordable' rent rather than social rent. Coupled with the borrowing limitations on the HRA and the restrictions on the use of Right to Buy receipts, these factors are severely inhibiting the availability of finance for house building.

1.5.12 A significant source of potential funding that is available to the Council is the Public Works Loan Board. However, because of the HRA borrowing cap it isn’t possible to make use of this source beyond the limits imposed by the cap.

1.5.13 Funding brought into the Council by way of an investment as opposed to a loan would necessitate the creation of some form of Joint Venture, in order to provide the third party investor with an equity position to invest against. If the Council wishes to retain control over delivery then this route would not be suitable as a ‘catch-all’ for new housing delivery.

1.5.14 Consequently, in considering the Council's ambitions to deliver significant volumes of new housing that meets the current and future needs of Lambeth’s residents (and which includes adding significantly to the availability of new homes at Council rent levels), it is essential to note that these ambitions cannot be effectively realised through conventional approaches alone under the current Government’s policies for housing and funding. As such there is a clear need for a new approach to housing delivery in Lambeth.