

Item No. 8.	Classification: Open	Date: 9 December 2014	Meeting Name: Cabinet
Report title:		Update on the Proposed Pipeline for the Delivery of 1,500 New Council Homes by 2018	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Peter John, Leader of the Council	

FOREWORD – COUNCILLOR PETER JOHN, LEADER OF THE COUNCIL

This council's commitment to build 11,000 new council homes across the borough by 2043 is one of the most important decisions which we have taken as a council. And we have set an important target of delivering 1,500 of these new council homes by 2018.

Underpinning the decisions which we have taken has been thorough consultation with our residents; consultation which has set a new standard for the way in which we as a council receive the views of those who live in Southwark.

This report seeks cabinet's approval to further take forward the delivery of Southwark's new council homes and begins to set the financial parameters for that work, together with the mechanisms which we can use to ensure we meet our building ambitions.

Council housing remains the most genuinely affordable housing option for many people in our borough. With the delivery of a new generation of council housing at social rents I hope and believe that Southwark Council will continue to demonstrate its ambition to create genuinely mixed communities right across our borough for people from all backgrounds.

RECOMMENDATIONS

That cabinet:

1. Notes progress in the Direct Delivery programme as part of the council's commitment to build 11,000 new council homes and especially the interim target, of 1,500 homes to be delivered by 2018.
2. Notes the continued progress underway within the Direct Delivery programme, that forms part of the commitment to build 11,000 new council homes over 30 years from 2013 to 2043, including, as instructed to the strategic director of housing and community services through the 22 July 2014 cabinet report that:
 - the future programme delivery for new council homes and the ongoing asset management of the existing housing stock has been brought together under the Head of major works
 - the necessary capacity to oversee further programme delivery has been put in place
 - a comprehensive appraisal of the overall performance of current Housing Revenue Account (HRA) assets has taken place and will be presented to cabinet in January 2015

- work is in progress to establish a wholly owned and controlled council 'vehicle' to secure future funding capacity for the programme and subsequent protection and proper use of assets created, to be operational from 1 April 2015.
3. Notes the identified sites in the attached schedule and map at appendix 2 detailed in paragraphs 52-62.
 4. Delegates authority to the director of regeneration, in consultation with the strategic director of housing and community services and strategic director of finance and corporate services to acquire land and housing for the direct delivery of new council housing and this be considered as a scheme pursuant to Part 3C of the council's constitution.
 5. Note that officers may wish to recommend the appropriation of land held within the general fund to the housing revenue account for the delivery of new council homes and will bring forward these proposals to cabinet for approval.
 6. Agrees:
 - that rents for all new build properties will be set at the council's target rent without exception.
 - to apply fixed tenant service charges for new build properties developed by the council at the prevailing rate for existing properties.
 7. Notes the results of the completed community conversation already reported to November 2014 cabinet on a 'Charter of Principles' for governing our approach to engagement on housing investment and renewal.
 8. Notes the continuing role of the Futures Steering Board (FSB) as a valued sounding board, providing important tenant and homeowner perspectives on the delivery of the 11,000 new council homes.

BACKGROUND INFORMATION

9. Improving housing in Southwark is at the centre of the council's plans to create a Fairer future for all, regardless of whether residents are social housing tenants, council leaseholders, private renters or homeowners. Access to appropriate, good quality, affordable homes is important not just for residents but also to the wider economy and essential to shaping a borough that all residents are proud to call home and which is truly sustainable into the future.
10. In order to deliver the council's historic commitment to build 11,000 additional council homes by 2043, cabinet has set an interim target of the delivery of 1,500 new council homes by 2018.
11. Local residents continue to be engaged through a number of mechanisms on the future of council housing. The engagement process comprises wide ranging community conversations, consultation through formal mechanisms, including Tenant council and Homeowners' council and the establishment of the new tenant and homeowner sounding board, the Futures Steering Board (FSB). Further outcomes of the ongoing community engagement were reported to cabinet in November 2014.

Purpose of this report

12. This report sets out details of the initial phase of the delivery of one of the most ambitious programmes of housing investment and renewal in a generation, and gives specific details about the proposed pipeline for the first 1,500 new council homes to be built by 2018.
13. The report also deals with setting rents, service charge levels and purchases of housing units.

What the report says

14. The report describes the proposed pipeline for delivery of the 11,000 homes to the 2043 target and the interim target of 1,500 homes by 2018, within the context of the 11,000 homes to be built by the 2043 target, as well as the technical elements of procurement best able to deliver to these targets effectively.
15. The report also outlines the assets' appraisal and financial and non-financial analyses carried out to inform the programme, including the use of the Appraisal feasibility model.

KEY ISSUES FOR CONSIDERATION

New management arrangements

16. Following cabinet's decision, as detailed above, consultation with staff was undertaken to combine the housing delivery team into the major works team in the housing and community services department. On the 10 October 2014 the team formally transferred. The combined team is called the major works and new homes delivery team.
17. The new homes delivery team itself consists of 10 established posts of which 2.5 posts are currently vacant. Within the structure we have agreed a new role of development delivery manager. As an interim measure from January 2015 for a 6 months period a temporary manager, with extensive experience of leading and managing development programmes within Registered Social Housing providers, has been appointed. This appointment will provide a degree of expertise in the delivery of our new homes programme. Permanent recruitment to the post will follow in the near future. A copy of the new structure is attached (Appendix 1).
18. The structure of the new homes delivery team mirrors the project team model that has been successful in delivering the warm, dry, safe programme.

HRA assets analysis and appraisal - use of council's existing assets

19. One element of the appraisal is to identify the long term financial performance of the housing stock. This will give the council an understanding of how each element of the stock performs within the overall business plan, and provides objective evidence on which to appraise options to strengthen cashflows and improve performance for residents. The information can be used to inform investment decisions, prioritising investment where it can deliver the greatest return (from both the financial and the residents' perspective).

20. The first step has been to build up data on the stock – e.g. rents, day to day expenditure and future investment need. This has involved extracting information from a range of different systems, including the housing management system (iWorld), the asset management database and, the financial accounts and budgets. While this exercise has not included an audit of any of these systems, it has helped to identify data gaps and anomalies across the system, which can be used by the council to develop a data improvement plan.
21. A plan is in place to resolve these issues as part of the project to update the APEX asset management system. At that point the council will take the opportunity to establish a consolidated and consistent asset register. It will be critical to ensure the APEX update is able to be implemented in a timely manner, and that the scope of implementation includes this data reconciliation and cleansing exercise.
22. Data issues have meant that the data collection process has taken longer than originally envisaged and this has impacted on final timescales for the analysis and results.
23. It is anticipated that data collection will be complete by mid November 2014. There will then be a period of intensive analysis and modelling over the month of December 2014, with results available early/mid January 2015.

Non-financial analysis

24. The analysis also includes a non-financial element. This seeks to identify the extent to which existing homes are meeting the council's social housing objectives, including resident priorities for their homes and the surrounding area.
25. A cross departmental group has been identified to bring together the council's various social housing objectives and to agree a way in which performance against these can be objectively measured.
26. Measures include:
 - Income – to measure the levels of income deprivation, the extent of the impact of welfare reform and fuel poverty
 - Housing Management – to measure the levels of Anti-social behaviour (ASB)/Crime as well the extent to which residents are actively involved in management through Tenant Management Organisations (TMOs) and Tenant & Resident Associations (T&RAs)
 - Demand – to measure the popularity of properties based on rates of bidding for new lets, turnover and resident satisfaction with place as measured by regular surveys.
 - Wider social/economic issues – to measure factors impacting on people's quality of life, including health, overcrowding, transport accessibility and education.
27. Data collection on the indicators is almost complete and a scoring methodology agreed.
28. This first draft of indicators and measures will form part of the wider resident consultation and can be amended over time to reflect emerging resident priorities.

29. Results will be incorporated with the financial analysis to inform the future asset management strategy. The combination of the sustainability analysis and financial assessment is useful as a comprehensive assessment of overall performance. Priority in terms of action will differ depending on whether financially poorly performing stock is located within an area that scores well on social indicators.
30. At a simplistic level, an area that scores high on the social element of sustainability will, in theory, continue to be popular with occupiers in the future, whereas a less sustainable area may be at risk from increasing dissatisfaction of residents leading to a cycle of decline that can accelerate fast. Therefore, actions (in terms of options appraisals) need to be prioritised in respect of poorly performing stock from both a financial and non financial perspective.
31. Intervention in areas would generally vary depending on the relative position. For example, a high financial performance but low social sustainability score may indicate a need for community investment, alongside asset investment to improve the council's ability to deliver sustainable communities and long term resident satisfaction.
32. While demand for Southwark's stock is high, due to lack of affordable alternatives for residents, low sustainability scores can indicate risks of increased costs from management and maintenance and bad debts that may have consequences on future financial viability and resident satisfaction.
33. Where properties show a low financial performance, an analysis of the social sustainability score may help to identify whether investment will genuinely improve outcomes for residents, or whether alternative options, such as regeneration, need to be explored to ensure investment has an impact in improving outcomes for residents.

Updated asset management strategy

34. The council will then work to incorporate the results into a revised asset management strategy, including the identification of a programme of local options appraisals, in consultation with residents, to identify the best options for delivering future investment.
35. The draft renewed asset management strategy will be completed by the end of January 2015. Options appraisals will then follow, in consultation with residents during 2015.

Rents

New Build Rent Policy

36. This section sets out the basis of the proposed rents and service charges that will apply to new build (direct delivery) stock, to both ensure equity amongst residents and the financial viability of the programme going forward.

Social Rented Housing - Target Rents

37. Government implemented a national rents policy in 2002 and the introduction of target rents as part of its rent restructuring regime for local authorities and registered social providers. This set out the specific mechanism by which a

target rent is determined for a particular property. It also sets out a rent cap for the maximum rent that can be charged for properties dependent on the number of bedrooms, in order to ensure affordability.

38. With the exception of 2014/15 when the council approved a lower rent increase than that derived by application of the formula, Southwark has adhered to the mechanism prescribed by the rent restructuring policy, including the original setting of rents for all its housing stock, commencing in 2002/03. Because of an historically low rent base, actual rents were significantly lower than target when the regime was introduced and have been gradually converging ever since. However, the application of affordability limits (RPI + 0.5% + £2) to annual rent increases has meant that movement to the target was limited – hence virtually all actual rents still remain below their target levels.
39. Since 2014, retail price index (RPI) + 0.5% has been replaced by consumer price index (CPI) + 1% as the government’s definition of the underlying inflation rate to be used in social rent calculations, and the annual affordability limit has been rendered redundant by the ending of the rent convergence policy in 2014/15.
40. Rent levels are commonly expressed as an average across all the tenanted stock for pan-London comparative purposes and for government statistical analysis. The average actual rent in Southwark in 2014/15 is £99.07, which is 9.82% below the average target rent of £108.80. However, this conceals a wide range between the minimum and maximum rents charged for properties of different sizes (bedrooms) and of differing standards and locations, and likewise between target rents. There are also a number of outliers (predominantly larger properties with higher values) that have been excluded in order to ensure consistent comparison. Table A below shows the position on target and actual rents for the major bed sizes.

Table A

Number of Bedrooms	Target Rent			Actual Rent			Rent Cap	
	Min. £pw	Max. £pw	Ave. £pw	Min. £pw	Max. £pw	Ave. £pw	Rent Cap £pw	No. of Target Rents Above Cap
Bedsit	72.81	108.97	81.61	70.84	106.30	79.29	137.71	0
1	81.06	158.48	94.64	72.63	128.29	90.12	137.71	58
2	95.27	186.72	107.41	78.87	139.43	99.37	145.80	56
3	108.62	225.60	122.95	84.19	149.58	108.57	153.90	268
4	111.34	253.84	139.56	86.83	158.74	117.31	162.00	366
5	114.06	267.20	160.23	89.88	166.18	128.32	170.10	158

Note. Analysis excludes 116 larger properties with more than five bedrooms.

Table B

Number of Bedrooms	Average Actual Rent All Stock £pw	Average Target Rent All Stock £pw	Average Target Rent New Build Phase I £pw	Range of Target Rents New Build Phase I £pw	Local Housing Allowance Rates @ April 2014 £pw	Average Southwark Market Rents @ October 2014 £pw	Rent Cap £pw
Bedsit	79.29	81.61	–	–	–	286.56	137.71
1	90.12	94.64	102.56	101.70 – 107.03	196.23	353.72	137.71
2	99.37	107.41	119.95	112.70 – 136.87	255.09	448.47	145.80
3	108.57	122.95	135.51	127.72 – 146.49	318.00	573.13	153.90
4	117.31	139.56	158.22	156.19 – 160.24	412.89	680.18	162.00
5	128.32	160.23	–	–	–	–	170.10

Note: Above data is based on Phase I new build programme excluding Long Lane which is high value and therefore has a distortive effect. Southwark market rent data obtained from Market Trends Bulletin (median figures for October 2014).

41. It should be noted that whilst all actual rents are currently below the rent cap, the target rent for 906 properties out of c.38,000 exceeds the cap and would (in the event of their actual rent being higher), be restricted to it. New build properties will similarly receive this protection.

Target Rent Methodology

42. It is proposed to apply precisely the same methodology to the new build stock as that employed to calculate rents for the existing stock, which comprises the number of bedrooms, the open market value of the property discounted back to January 1999 and a local earnings index that is uplifted by inflation each year. Whilst bedroom numbers and the earnings index are givens, there are two variables, firstly, the current open market value of the property and the application of a relevant property price index to retrospectively adjust back to January 1999.
43. The current open market value for a number of early schemes has been determined by the council's own in-house property team who are professional RICS-qualified valuers. However, it is recognised that this is not an exact science and variations can occur. To mitigate this, Savills, who are the council's external advisers on the direct delivery programme, have provided comparative data to inform the process and provide assurance.
44. In terms of the index, there are a number of options, ranging from a London-wide approach, through borough-specific to postcode level and from several sources, primarily the Land Registry, Halifax and Nationwide. After careful consideration it is proposed to use a borough-wide index, as this is both more local and representative and draws from a wider base than using a postcode approach and helps to eliminate distortions caused by small numbers of high value transactions in any period, or any particular property hot-spot. To ensure the most comprehensive and accurate picture of property transactions locally and nationwide, it is proposed to adopt the Land Registry Southwark-specific index

for all new build valuations going forward. Nationwide and Halifax do not produce a Southwark-specific index.

45. Notwithstanding the council's commitment to maintain low rents, new properties will be built to a higher standard using modern building techniques and incorporating greater thermal efficiency and lower maintenance/ running costs. This inevitably gives rise to a higher value and results in a proportionally higher rent compared to the average actual rent in Southwark, but is not out of line with rents for existing higher value properties. The rents noted in Table B and Appendix 4 are indicative of those applicable to Phase I of the direct delivery programme. For comparison, the table also shows the current Local Housing Allowance (LHA) rates and average market rents in Southwark, which illustrates the marked differential between council rents and the external rented sector.
46. Table C shows the percentage differential between actual average rents and average target rents for the existing stock and the differential for new build properties.

Table C

Number of Bedrooms	Average Actual Rent All Stock £pw	Average Target Rent All Stock £pw	Uplift Actual to Target All Stock %age	Average Target Rent New Build Phase I £pw	Uplift Actual to Target New Build %age	Uplift Target All Stock to Target New Build %age
Bedsit	79.29	81.61	2.93%	–	–	–
1	90.12	94.64	5.02%	102.56	13.80%	8.37%
2	99.37	107.41	8.09%	119.95	20.71%	11.67%
3	108.57	122.95	16.43%	135.51	24.81%	10.21%
4	117.31	139.56	18.90%	158.22	34.87%	13.37%
5	128.32	160.23	24.87%	–	–	–

Target Rents for New Lets

47. In Autumn 2013 the Department for Communities and Local Government (CLG) issued a consultation paper '*Rents for Social Housing from 2015-16*', which proposed moving to a new inflation factor of CPI + 1% and ending the policy of rent convergence from April 2015. These proposals have subsequently been enacted and whilst it removes an inflationary element for tenants, it exacerbates the council's position in terms of a lower realisable rental stream than that predicated under the Self-financing settlement.
48. The consultation paper also took the policy of moving new-let properties straight to target as a given, as a means of defraying rental income lost by non-convergence. The council has previously resisted this, however, given the extensive Warm Dry Safe (WDS) programme and the introduction of a higher voids standard which now incorporates redecoration and other internal improvement works, and in a number of instances kitchen and bathroom replacements, there is a compelling argument that rent levels (only applicable to new tenants), should reflect this additional investment in the stock and the higher lettable standard of accommodation on offer.
49. These initiatives have had a discernable impact on tenant satisfaction and the council is consulting residents on this measure as part of the HRA budget and

rent setting process for 2015/16. The consultation will consider possible exemptions where circumstances necessitate a move for reasons of regeneration and under-occupancy. It is not proposed that these exemptions apply to new build stock since the financial viability of the direct delivery programme is in large-part dependant on the realisation of target rent levels.

Tenant Service Charges

50. For new build properties developed by the council it is proposed to set fixed service charges where applicable, at the prevailing rate for existing properties. The current charge rates are set out below at Table D, together with proposed charge rates for 2015/16 (subject to cabinet approval in January 2015).

Table D

	Actual 2014/15 £pw	Proposed 2015/16 £pw
Estate Cleaning	4.60	4.70
Grounds Maintenance	1.09	1.11
Communal Lighting	1.17	1.20
Door Entry System Maintenance	0.68	0.70

51. On schemes purchased directly from third-party developers, for example through s.106 agreements, there are likely to be service charges payable for the whole development, administered by a management company. These will generally be higher than Southwark levels and whilst every effort will be made to avoid this situation, by purchasing stand-alone/self-contained units/blocks, in the event, the implications will be considered on a case by case basis before any decision to purchase is taken.

Pipeline for 1,500 new council homes for 2018

52. In recognition of the need to address some of the more immediate housing needs in the borough in May 2012, the leader of the council signalled his intent that the council begin a programme of new house building and asked that officers work up a programme of delivery.
53. The schemes comprising the first phase of the directly funded housing delivery programme were agreed by cabinet in October 2012. Many of these schemes all now have planning approval and construction works have commenced or are very soon to start on site.
54. In October 2013 cabinet agreed to a further set of sites to be included in the direct delivery programme. In July 2014 cabinet agreed to put in place the necessary capacity to oversee further programme delivery, including a proposed pipeline of 1,500 new homes to be developed by 2018.
55. Appendix 2 contains a list bringing together all of the sites previously reported to cabinet.
56. The new sites fall into a number of categories, including: council offices; garage/parking areas; under-utilised retail buildings; community-use buildings, and housing estate land. Further feasibility work will establish the capacity of these sites and this work will be progressed over the coming months. In parallel

with this officers are in the process of identifying a further tranche of sites that will add significant capacity to the programme. These sites will be proposed once further feasibility and consultation work has been undertaken.

57. Officers will work closely with residents on the development of proposals for each of these sites; the draft Charter of Principles sets out how the council will work with residents on the 11,000 New Council Homes programme (Appendix 3).
58. In addition, to the direct delivery programme, officers will consider the potential to acquire new council homes in private developments secured through Section 106 agreements. This will correspond to the role traditionally taken by Registered Providers of affordable housing. There are relatively few schemes that will deliver homes over the next four years that do not have Registered Providers identified; large schemes, such as Aylesbury, Heygate, Elmington and Wooddene, all have contractual arrangements in place with Registered Provider partners. Notwithstanding this, as part of the planning process, the council is well placed to know what future schemes are proposed and developers' promoters can be approached with a view to acquiring the affordable rental element of the schemes. The early identification of a purchaser for this scheme element assists in de-risking for the developer promoter. The price the council pays will be negotiated by the Head of Property and will need to satisfy usual best value criteria and the terms of purchase will be drafted by the Director of Legal Services to protect the council's position, as much as possible, in delivery time, quality and recourse terms.
59. In considering which homes to acquire it will be necessary to develop a criteria that establishes candidates are right for the council. The criteria will cover location, management and service charges.
60. There may be opportunities for the council to purchase land that becomes available on the open market for the direct delivery of homes. This was recognised in the October 2014 Capital Monitoring report, which that approved capital funding for acquisition of properties in order to progress regeneration projects and enhance the property portfolio, including for the direct delivery of new homes.

Southwark Council owned and controlled delivery vehicle

61. The establishment of a wholly owned and controlled funding vehicle, as instructed by July 2014 cabinet, is in progress, with the vehicle to be in place for any appropriate operations from 01 April 2015. It is anticipated that the vehicle will be used on a case-by-case basis as befits the particular circumstances of any given specific development opportunity, to sit as one device within the council's overall development capacity.

The New Southwark Plan and 11,000 new council homes

62. The new plan includes using our powers, as the local planning authority, to ensure that all new homes, regardless of ownership, are built to high standards of quality and design.
63. Through the new Southwark Plan we will ensure delivery of the Housing Strategy commitment that all homes, regardless of whether they are in council, housing association or private ownership, are of the same high quality.

64. In addition, through the New Southwark Plan, we will also ensure that new homes will be part of healthy, sustainable neighbourhoods, supported by all the necessary community facilities (schools, parks, shops etc.), and with high environmental standards (relating to noise, air quality, and the natural environment).

Efficient and cost effective procurement

65. The council has no current formal arrangements or frameworks in place to deliver the programme beyond the current phase.

66. The creation of bespoke framework agreements, specific to the council's envisaged construction programme, would offer a level of control and the potential for long-term partnering approaches. cabinet has previously approved the establishment of such framework arrangements for the delivery of the 'Phase 2' sites. Whilst the establishment of such frameworks may prove useful in the longer term, they can take a considerable period of time to set up (12-18 months) and therefore cannot be relied upon to meet shorter term targets.

67. The sites that are already in delivery have utilised the Improvement and Efficiency South East (IESE) consultancy and contractor frameworks established to assist local authorities in the south east of England to deliver capital projects collaboratively and with improved efficiencies. This has comprised a lead consultant appointment to coordinate design and technical inputs, and a two stage open-book Design & Build contracting route to deliver enabling and mains works packages. This procurement route has initially offered a quick route into delivery through the IESE approach to two-stage tendering. There are some concerns that this approach has been too drawn out on the early projects and that a more defined and shorter process should be adopted for future projects. The much expanded programme now envisaged by the council will need to be supported by a range of procurement routes.

68. Services required to deliver the programme will be:

- Consultant team / project / development management
- Design services including architectural, mechanical & electrical, civil & structural, and environmental services
- Surveying services, including quantity surveying/cost consultancy, land surveys, building surveying, party wall, rights of light, utilities issues
- Property related professional services, including planning, valuation and legal.
- Professional services for the early sites have been procured on the basis of a 'lead consultant' role that then procures, manages, and coordinates the consultant team.

69. A large number of individual commissions are likely to be under the OJEU threshold and can be procured (either directly or through a lead consultant) in accordance with the council's Contract Standing Orders through competitive quote or tender. For some services existing council held supplier lists may include appropriate operators with the capacity to deliver such services. However, for some services shortlists of other suppliers will be required.

70. There are a number of OJEU compliant consultancy services frameworks available for use by the council. Examples include:

- The Construction-Related Services Framework operated by Lewisham Council
- Crown Commercial Services
- Catalyst Framework operated by Harlow Council
- Professional Services Hub operated by Places for People
- HCA Property Panel
- HCA Multi-Disciplinary Panel
- GLA Architecture, Design & Urbanism Panel
- Scape panels for Surveying, Design and Project Management services
- London Construction Programme Consultants Services Framework.

71. Combined, these frameworks have sufficient number and range of operators to provide a wide range of the key services that the council may require supporting this programme.

72. The current OJEU threshold for the procurement of works is £4.32 million (£4,322,013). For contracts below this value the council must follow its own Contract Standing Orders but does not have to use an OJEU compliant procurement process.

73. Consequently there will be a number of smaller sites within programme for which there is an opportunity to target and encourage small and medium sized operators. Below the OJEU threshold these can be tendered in accordance with the council's Contract Standing Orders and through a tendering process designed to encourage smaller operators whilst maintaining the council's quality and cost benchmarks and integrity.

74. For projects above the OJEU threshold, the preferred route will be to utilise existing frameworks. Examples of frameworks available for OJEU compliant procurement of construction works are:

- The IESE Major Works Framework, that has been used for procurement of the construction packages for the early projects, expires in 2015 and is being replaced by the **Southern Construction Framework**. This new framework will be available to local authorities across London (and the south-east and south-west of England). This framework will adopt a two stage open book tender approach similar to that used in the existing IESE framework.
- The **London Construction Programme** is a new initiative established by a group of local authorities in London, supported by London Councils, to develop a pan-London strategy to improve construction procurement. Expressions of interest have been invited for a framework for construction works split into 30 lots (by value band) with a wide range of contractors expected to be appointed. This framework is expected to be available for use in 2015 and may prove a useful route for a range of different sized projects.
- **Scape System Build Ltd** is a Local Authority controlled company wholly owned by Derby City, Derbyshire County, Gateshead Council, Nottingham City Council, and, Nottinghamshire County and Warwickshire County Councils. Scape has procured a number of frameworks, including national frameworks, for minor works defined as up to £2m and major works above £2m. These are, however, single supplier frameworks and are unlikely to offer the level of competition required by Southwark Council.

- The Greater London Authority has procured a panel of contractors and developers called the **London Developer Panel**. The panel was set up by the GLA specifically to deal with public sector land coming forward for development and to accelerate the delivery of housing. Aimed at public landowners, it offers an OJEU compliant procurement route for the full cycle of housing development activities, including: raising development finance; site preparation, obtaining planning consent; design; construction, and disposal of new homes. Panel members are drawn from the contracting, house-builder, and registered provider sectors. As such this panel may be particularly suited to broader development activities as opposed to straightforward construction contracting opportunities.

75. There are a limited number of frameworks available for construction-led activity, and procurement decisions will need to balance the need for speed with ensuring value for money and qualitative considerations.
76. A variant to procuring new rented housing through a land sale or development agreement approach would be an arrangement with a local Registered Provider partner providing a development agency service to deliver the project from inception to completion. Services would be procured by competitive fee tender. Again, depending on the value, an OJEU compliant route, such as the London Developer Panel, may be required.

Implementing new development through a feasibility model

77. Following a competitive tender Appraisall Ltd was commissioned to develop a feasibility model on behalf of the council. (A copy of the summary page from the Appraisal model is attached at Appendix 3.)
78. The new model has been finalised and Grant Thornton has carried out an independent audit.
79. The model is an important tool in assessing scheme viability and in addition provides the opportunity to bring together individual scheme projections to consolidate cashflows so we can better assess the wider impact on delivering the overall programme and the resources required to support delivery, either through combinations of the following: grant; RTB receipts; Section 106 contributions; borrowing within the HRA, or borrowing within the Housing Revenue Account (HRA) or within a subsidiary.
80. The new model is linked directly to the work Savills is completing with regards to maintaining the balance between the delivery of new council homes and the continued investment into the council's existing housing stock. (A copy of the summary page from the Appraisall model is attached at Appendix 3.)
81. Training in the new model for the New Homes Delivery Team has been put in place and is now being rolled out to other relevant staff.

Delivery timeline and next steps

82. This report sets out plans to progress one of the most ambitious programmes of housing investment and renewal in a generation, including the building of 11,000 new council homes by 2045, the first 1,500 of which will be built by 2018. These plans are based around the pipeline as described from 30 - 35 (above).

Policy considerations

83. The council plan agreed in July 2014 commits the council to a promise of building more homes of every kind, including 11,000 new council homes as part of an overall priority theme to deliver quality, affordable homes. The first 1,500 will be built by 2018.
84. The vision for a new long term housing vision for the borough was agreed by cabinet in January 2014. The vision set a clear policy direction for the council into which the plans set out in this report can be delivered. The vision comprises four overall principles:
- We will use every tool at our disposal to increase the supply of all kinds of homes across Southwark.
 - We will demand the highest standards of quality, making Southwark a place where you will not know whether you are visiting homes in private, housing association or council ownership.
 - We will support and encourage all residents to take pride and responsibility in their homes and local areas.
 - We will help vulnerable individuals and families to meet their housing needs and live as independently as possible.
85. The outcome of the community conversation with residents on the future of council housing helped to shape the housing vision. The clear direction of travel established in the July cabinet report 'Next steps on developing long term plans for the delivery of new council homes', has meant that we are able to bring forward a new long term housing strategy for the borough for presentation to cabinet early in 2015. The strategy is being presented in early 2015 to give time for officers to discuss the strategy with the Greater London Assembly (GLA). This is because there is a requirement that London borough housing strategies are in general conformity with the Mayor of London's housing strategy. This means that our strategy will need to be discussed with the GLA in December. A new long term housing strategy will be presented to cabinet in January 2015.
86. The development of a long term housing strategy marks Southwark out from many others whose strategies tend to focus on the near to medium term. The vision and a long term strategy means that the council can plan with greater certainty. More specifically the delivery of 11,000 new council homes, and 1,500 of these by 2018, will be a major component in implementing our long term strategy. These new homes will also help to deliver against other principles of the housing strategy vision (and strategy) in that they will be high quality homes and will assist in meeting a range of needs. This report is therefore one of the ways we are helping to make our housing vision and strategy a reality.
87. The development plan for the borough consists of the Mayor's London Plan, the Core Strategy 2011, the Saved Southwark Plan policies, the Aylesbury Area Action Plan, the Canada Water Area Action Plan, the Peckham and Nunhead Area Action Plan and a revised Canada Water Area Action Plan.
88. The New Southwark Plan is being prepared in consultation with residents, land owners, developers, employers, local organisations and other groups over the next two to three years, having just commenced in October 2014. This New Southwark Plan will set out the strategy to bring the full benefits and

opportunities of regeneration to all of Southwark's residents, including the delivery of the long term Housing Strategy.

Consultation

89. It will be important to ensure that the resident engagement referred to in this report informs major area development and action planning within the new Housing Strategy and the New Southwark Plan. As part of the strategy's development separate engagement is taking place on other housing tenures, and for those with special housing needs.

Consultation with residents on the 11,000 new council homes

90. The various stages of the 11,000 new council homes consultation are as follows.

	11,000 council homes – stages of public consultation	Time frame
Stage 1	Charter of Principles	August 15 – October 13 2014
Stage 2	Borough-wide principles for development	Jan – September 2015
Stage 3	Estate-by-estate engagement	Late 2015 onwards
Stage 4	Engagement with local residents around involvement in management of new homes	TBC – as various projects near completion

91. The Charter of Principles consultation is now complete and the Charter was agreed by cabinet 18 November 2014 (see link at background document).

92. The next stage of consultation will be on the borough-wide principles for development of the 11,000 new council homes. An initial proposal for how this should be conducted is included at Appendix 5.

93. The borough-wide principles consultation was due to begin in spring 2015 but has been moved forward to January 2015 to be coordinated with the consultation on the New Southwark Plan. The New Southwark Plan will set out how we will deliver our Housing Strategy, and will support the delivery of some of our key housing strategic ambitions, including the building of 11,000 new council homes for rent. As such, is important that we consult with the public on these directly related issues at the same time.

94. The borough-wide principles consultation will start in January 2015 and run until September 2015. It will take a phased approach to exploring the following issues.

Borough-wide principles – Proposed timeframe

Timeframe	Theme	Questions for residents
Jan - March 2015	Land-use designations	How can we create more opportunities to build new homes?

Timeframe	Theme	Questions for residents
February – June 2015	Sites for development	Where could we build new homes?
April - June 2015	Tenure Mix Design Standards Health and wellbeing	What kind of estates/communities to do we want in Southwark? How do we create these estates/communities? How should we ensure the highest standards of design and delivery?
May - July 2015	Principles for decisions about investment in existing stock	How do we decide to invest or rebuild?
August-September	Analysis and Feedback	

95. Each phase of the consultation will flow into the next, enabling us to take residents through the various decision-making stages that will need to be considered.
96. Furthermore, a multi-disciplinary project team, incorporating officers from community engagement, major works, operations, planning policy and corporate strategy has been set up to steer and coordinate the second stage of the 11,000 homes consultation. The initial proposal has drawn significantly from two workshops conducted with these officers.
97. The overwhelming response to the first stage of consultation puts us in a great position to maximise and deepen the engagement of many residents who have already expressed an interest in staying involved.
98. It will be critical to be open about the aspects of the borough-wide principles which are constrained by national or regional frameworks or targets, as well as emphasising where the council can and is prepared to set and maintain its own targets. For example, the issue of design standards for the new homes is one where there are regional and local standards. Clarity around the standards the council is proposing for all tenures of housing is important to enable us to engage people effectively.
99. At each stage of the engagement process, it will need to be made clear to residents whether the council is informing, consulting or co-producing in relation to a specific decision.
100. All residents living in the borough are stakeholders in this consultation, and will have an opportunity to contribute to the conversation about the borough-wide principles, via community conversations, public meetings, online activity, dedicated mailings, and local and social media.

101. A significant portion of the activity will focus on people living in homes that are owned or leased by the council as those most likely to be directly affected by new council homes being built in the vicinity of their existing homes. This will include close consultation with housing based formal meetings, such as Area Housing Forums (AHFs), Tenants Council, Homeowners Council and the Future Steering Board (FSB).
102. All stages of the consultation will be open to residents to get involved in; however, the approach and method of engagement will be tailored to the specific theme of the borough-wide consultation.
103. For example, engagement around a call for sites is a mainly a data collection project. It will require us to use a broad selection of online and offline engagement tools to deliver a high number of responses. This ideally will be done via online and hard copy maps of the borough that people add their suggestions to. The process needs to enable people to give their suggestions quickly and easily, and expect feedback if they are share their details.
104. In contrast, engagement on land use designations is a more complex issue that requires explanation and interrogation of the advantages and disadvantages. This is an area that the planning policy team will be leading on. We would propose engaging residents in this theme via area-based community forums, workshops or focus groups to enable more detailed exploration of the issues which need to be considered, and obtain more in-depth and considered feedback.
105. There will be an emphasis on ensuring we **consult both through our existing network of formal housing-based meetings, and with a broader constituency of people** via community conversations, bespoke online tools and discussion group, dedicated area-based meetings and workshops to ensure we include hard to reach groups.
106. Following on from the council's recent support of #Housing Day on 12 November, which was a twitter campaign to promote the positive value of social housing, it is suggested that the council should continue to actively contribute to such national level debates. It is proposed that we set up a **dedicated twitter feed** for the 11,000 council homes campaign, as well as starting an **online discussion forum** (hosted externally to the council site) to facilitate debate and enable people to post interesting ideas and innovations.
107. As part of the New Southwark Plan consultation, a number of **area-based consultative meetings** will take place from November 2014 – February 2015. Starting from January, there will be the opportunity to incorporate some of the above themes in these meetings, as an opportunity to explore some key issues with residents in more detail. It is highly likely that we will reconvene these area-based consultative forums one or more times during the consultation period.
108. **Youth participation** will be critical to this stage of the consultation, and work has been ongoing during 2014 to conduct a survey of young residents of the borough and identify the barriers and enablers to them becoming more informed and active around their housing and broader council decision-making. Some 400 young people have been involved to date, and we will be sharing and developing youth-led strategies to tackling these barriers at an event in February 2015. This event will be the launch-pad for a strand of engagement activity on the borough-

wide principles, which is developed and run by young people living, working or studying in the borough.

109. Another element of the engagement plan which is worth highlighting, are plans to develop a **council show-home** on one of the first new council home developments which will be available in 2015. This will be an important tool in demonstrating the kind of design standards that the council will deliver for new council homes, and overcoming some of the concerns people have. A virtual show home and visuals should also be developed to be posted online and shown at meetings. A broader communication strategy around the new homes being delivered in 2015, and the responses of those going to live in them, will also be a valuable tool in encouraging people to get involved in the consultation.
110. The borough-wide principles consultation has a quite important theme underpinning it around the new homes being **“more than just bricks and mortar”**. It is therefore suggested that the council initiate **a debate** about not just the homes themselves, but the broader neighbourhoods and communities needed around them to support residents. It is envisaged that this will help create a body of useful insights to inform the 11,000 homes project.
111. Clearly, it will be critical not to create unrealistic expectations of what can be delivered. The aim would more be to explore issues such as infrastructure, green space, health and wellbeing, community facilities and community resilience - and start a discussion around the co-productive strategies residents, community organisations, businesses, the voluntary sector and the council can take to deliver this vision.
112. There has been ongoing consultation with residents on the development of proposals for the 1,500 new council homes that will be delivered by 2018, which in some cases is already complete. In the case of new sites, the Charter of Principles sets out how the council will work with residents.
113. Engagement will also take place on future and ongoing major works programmes including those where there are opportunities for additional new build homes and these will follow the Charter of Principles approach. A current example is the refurbishment of Lakanal where there has been an extensive programme of engagement on refurbishment of the block, the provision of new homes and other improvements on the estate.

Risk management

114. The practical risks associated with the planning and actual delivery of new homes at this scale are those normally associated with any significant development programme: site availability; funding capacity; and, skills and expertise (in-house or external), with and officers are developing mechanisms to manage and mitigate those risks.
115. The procurement routes outlined above represent a means to address the risks inherent in the supply of services necessary for large scale development of homes by the council.
116. A wholly owned and controlled company is the preferred model to contain financial risk within a separate delivery vehicle.

Community impact statement

117. Southwark is a borough which has high levels of housing need. The 2014 Strategic Housing Market Assessment (SHMA) continues to demonstrate the need for affordable housing, with the borough experiencing very high house prices that are outside the reach of many of its residents. Southwark has the highest house prices in the housing sub-region (the average 2 bedroom flat being sold for £360k in 2013). At the time of the 2011 census there were 18,547 overcrowded households in Southwark, a higher number than any of the other four boroughs in the sub-region, and a higher percentage (15.3%). Over the period 1981-2012 the population of Southwark increased by 34%, the fastest growth in the sub-region by some margin. This helps to demonstrate a continuing need for more homes, and particularly for affordable homes in the borough.
118. Local residents continue to be engaged through a number of mechanisms on the future of council housing. The engagement process comprises wide ranging community conversations, consultation through formal mechanisms, including Tenant council and Homeowners' council and the establishment of the new tenant and homeowner sounding board, and the Futures Steering Board (FSB). Further outcomes of the ongoing community engagement were reported to cabinet in October 2014. (Appendix 1 – October 2014 cabinet).

Resource implications

119. All costs associated with the development of this plan to date have been contained within the Housing Revenue Account. The resource implications arising from a proposal of this size are significant and will be addressed in detail as plans progress. More details will be provided in future reports.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Legal Services

Property Issues

120. Section 1 of the Localism Act 2011 grants councils a general power of competence whereby a local authority has power to do anything that individuals generally may do. However that power does not enable a local authority to do anything which it is unable to do by virtue of a pre-commencement limitation.
121. Section 120(1) of the Local Government Act 1972 ("the 1972 Act") authorises the council to acquire any land by agreement for the purposes of (a) any of its statutory functions or (b) for the benefit, improvement or development of its area. By virtue of Section 120(2) of the 1972 Act the council may acquire by agreement any land for any purpose for which they are authorised by the 1972 Act or any other Act to acquire land, notwithstanding that the land is not immediately required for the purpose; and, until it is required for that purpose, it may be used for the purpose of any of the council's functions.
122. Section 227 of the Town and Country Planning Act 1990 ("the 1990 Act") also empowers the council to acquire land by agreement if it will facilitate the carrying out of development, redevelopment or improvement on or in relation to the land if this is likely to contribute to the achievement of the promotion or improvement of the economic, social or environmental well-being of their area, or if it is required

for a purpose which is necessary to achieve in the interests of the proper planning of an area in which the land is situated.

123. The cabinet is advised that the council has adequate legal powers to enable it to acquire land for the provision of housing, on the basis that this is one of the council's functions; and on the basis that the provision of housing will contribute to the achievement of the promotion or improvement of the economic, social or environmental well-being of the area.
124. The report recommends that decisions relating to the acquisition of individual sites are delegated to the Director of Regeneration. Part 3C of the council's constitution provides that decisions relating to the acquisition of land and property, outside any scheme already agreed by members, where the market value is more than £100,000 are reserved to full cabinet. One of the purposes of this report is to create a scheme of acquisitions, agreed by members, such that authority for individual acquisitions can be delegated.
125. Further legal advice will be provided as the project progresses, including advice on the appropriation of land, if applicable, which will be a matter for the cabinet to decide.

Strategic Director of Finance and Corporate Services

126. This report is requesting cabinet to note the progress of the Direct Delivery Programme as part of the council's commitment to build 11,000 new council homes and the interim target of 1,500 homes to be delivered by 2018 and also sets out the basis of the rent policy for the new build properties.
127. It is noted that all costs associated with the development of this plan will be contained within the existing Housing Revenue Account (HRA) budgets and the proposed rent policy for the new build properties will need to be factored within the HRA business plan.
128. The report is also requesting approval for the Director of Regeneration to acquire land for the Direct Delivery Programme. The 2014/15 quarter 2 capital monitor report to cabinet approved a budget of £1m for the acquisition of properties to progress the council's regeneration programme. Acquisition of assets will also be managed through the council's Housing Investment Programme and Officers will report back through regular capital monitor reports to cabinet.
129. Schemes of this magnitude will involve major risks for the council and it is noted that Officers are evaluating such risks and developing mechanisms in managing and mitigating the identified risks.
130. It is noted that whilst there are no immediate resource implications arising from this report, future reports will detail the financial implications as the schemes progress.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Consultation and plans for the delivery of 11,000 council homes (Item 8)	Constitutional Team, Southwark Council, 160 Tooley St, 2 nd floor, SE1 2QH	Paula Thornton Tel: 020 7525 4395
http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=4863&Ver=4		
Consultation draft charter of principles (Item 8)	As above	As above
http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=4863&Ver=4		

APPENDICES

No	Title
Appendix 1	Major works – proposed changes
Appendix 2	Direct Delivery Sites
Appendix 3	Appraisal summary
Appendix 4	Indicative Rents for Phase 1 Schemes
Appendix 5	Stage 2 consultation plan

AUDIT TRAIL

Cabinet Member	Councillor Peter John, Leader of the Council	
Lead Officer	Gerri Scott, Strategic Director of Housing and Community Services	
Report Author	David Markham, Head of Major Works	
Version	Final	
Dated	28 November 2014	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team	28 November 2014	