

Report for: **Housing and Regeneration Scrutiny Panel – 14 September 2020**

Title: **The impact of Covid-19 on the Council's Housing Delivery Programme and Regeneration projects**

Report

Authorised by: **David Joyce, Director of Housing, Regeneration and Planning**

Lead Officer: **Robbie Erbmann, Assistant Director Housing**

Ward(s) affected: **All**

Report for Key/

Non Key Decision: **Non-key**

1. Describe the issue under consideration

1.1. This report summarises the impact of Covid-19 on the Council's Housing Delivery Programme.

2. Recommendations

2.1. Housing and Regeneration Scrutiny Panel is recommended to note this report.

3. Background information

3.1. The Borough Plan adopted in February 2019 commits to delivering 1,000 Council homes at Council rents by 2022 as the first step in a new era of Council home building in Haringey.

3.2. Construction work has now started on 331 Council homes across seven sites.



Rosa Luxemburg House, Tottenham Hale – on site with 104 homes completing March 2022

3.3. A total of 371 new Council homes have planning permission.

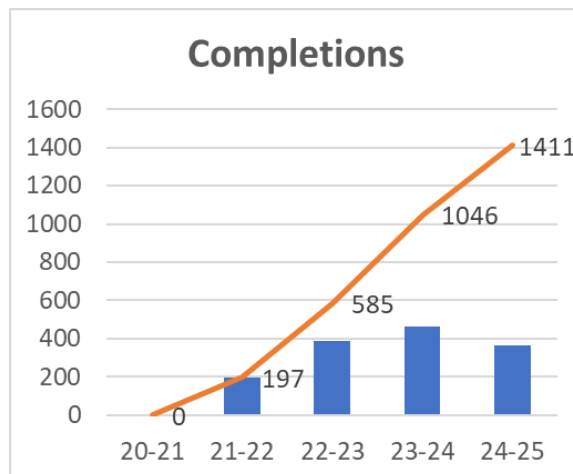
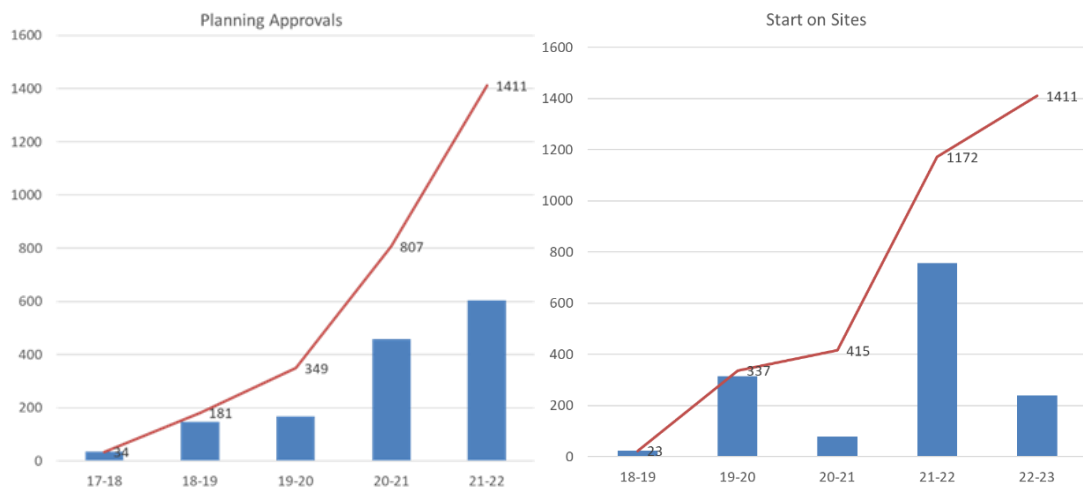


Eleven new Council homes with planning permission at Edith Road, Bounds Green: the Council's first zero-carbon development, starting on site January 2021



Four new Council homes with planning permission at Mount View Court in Harringay ward – the first four-bedroom homes in the borough at social rent in over a decade, starting on site November 2020

- 3.4. The COVID-19 crisis has already significantly set back the Council's housing delivery programme, and it continues to have a negative though uneven impact across the programme.
- 3.5. Current analysis suggests that by 31 March 2022, more than 1,000 Council homes at Council rent will be under construction, with 200 completed.
- 3.6. The Council's Housing Delivery Programme has been established from scratch since May 2018. A team, infrastructure, a budget, and a pipeline of potential sites has all had to be built up from nothing after 40 years in which no Council homes were built.
- 3.7. It takes between 18 months and two years to take a site from feasibility study through design and the planning processes to a start on site. Many schemes were therefore due to start in the second half of 2020/21. The schemes that have started or were due to start on site in 2020/21 were almost all scheduled to complete towards the very end of 2021/22. Compared to the original programme planned before Covid-19, the number of completions has therefore reduced more than the number of planning permissions or starts on site.
- 3.8. Current analysis suggests that by May 2023 around 800 new Council homes will have been completed.



- 3.9. These projections necessarily remain provisional. The course of the pandemic and its impact across different aspects of the development process remain unknowable. These assessments are based on information available at the time of writing and on broad assumptions about the impact of Covid-19 on the sector. It is important to note that any significant restrictions associated with a second spike would set the programme back even further. All assumptions and projections will have to be continuously refined as events unfold.

Covid-19's impact on key elements of the housing delivery programme

Organisational capacity.

- 3.10. Staff capacity and the migration to new ways of working slowed the programme's progress considerably for three months; and this remains to some extent an issue.
- 3.11. Between March and May 2020, a number of officers in the development team contracted Covid-19, were shielding, or had caring responsibilities related to the pandemic. Some staff were redeployed to emergency roles in other areas: to the food hub, calling carers, and on a secondment to economic development.
- 3.12. For all staff, this was a period of adjustment, and it was necessary to move processes to remote platforms. This migration has been achieved, and the development team is now able to work remotely including by meeting with external project team consultants and partners and with developers and land-owners for new business.
- 3.13. However, staffing capacity remains to some extent an issue. Some staff have needed to move to part time working permanently, others for an unknown period.
- 3.14. Recruitment is underway to build up the team's capacity as the programme matures towards a more intensive phase of delivery. Because of the pandemic this is taking more time: there are particular challenges recruiting and onboarding remotely.
- 3.15. Delivering new Council homes is the work of the entire Council, not just the development team. Capacity issues in key supporting services such as legal, finance, and strategic property have also impacted on the housing delivery programme as colleagues' focus is switched to more immediate priorities.
- 3.16. During March and April, lockdown restrictions on consultation also delayed key aspects of the Planning Authority's work. Existing planning applications for new Council homes stalled at consultation phase for a month; and late-stage pre-planning design work was delayed with the postponement of pre-application guidance and Quality Review Panels. The Planning Authority's efficient move to virtual committees and the resumption of statutory consultation from May means that there is no longer any delay to the programme because of the statutory planning process; and the resumption of guidance meetings via remote channels also means that the Planning Authority is again able to support the programme by ensuring planning applications are robust.
- 3.17. **Consultation and engagement**
- 3.18. The suspension of engagement and consultation has set many schemes back by six months. Social distancing requirements continue to slow down progress.

- 3.19. The Council's designs for new homes are produced through an iterative process of engagement with the local community. The corporate suspension of consultation between March and late May therefore had a very significant impact on the housing delivery programme: for nine weeks, early-stage designs could not be developed towards planning submissions, and schemes already submitted were paused.



Redlands, Tottenham Green – eight new Council homes awaiting planning permission – due to start on site March 2021

- 3.20. In response, the team developed an alternative engagement strategy that allowed us to resume and progress engagement with stakeholders remotely as soon as the suspension was lifted, using virtual platforms such as MS Teams, and commissioning a specialist digital engagement platform, Common Place. The Common Place platform will ensure that remote engagement is as meaningful as possible – and, crucially, that the legal requirements of formal s105 consultations are met. However, it is only now fully operational. With these extra provisions, the engagement and consultation process for each scheme will take at least an extra month. So until it is possible to resume public meetings and face-to-face engagement, our commitment to meaningful engagement with local residents means that, for this reason alone, under Covid-19 the development process will take longer.

Regeneration schemes

- 3.21. The Council's major regeneration schemes are of course affected by the same factors, but the key issue has been Covid-19's impact on consultation.
- 3.22. Progress at **High Road West** has been delayed. Consultation with residents was due to take place in Spring regarding housing offers for tenants and leaseholders but had to be postponed. This has delayed the delivery programme, which was due to go to a ballot and then planning following the consultation. Consultation and the resident ballot will only be possible once it is possible to engage effectively with all residents,

through a variety of different contact methods. Officers are looking at ways to achieve this over the coming months and speaking to residents about how they would like to be contacted.

- 3.23. Similarly, much of the community consultation planned at **Selby Urban Village** for spring 2020, during RIBA Stage 1, has been deferred to RIBA Stage 2 from late September 2020 onwards - subject to the Covid-19 status and Government advice at that stage. However, the scheme has continued to evolve, albeit at a slower pace. Meetings with local community organisations and the local school have taken place virtually, and a larger public consultation meeting is currently planned in an in-person event later this month. The event would need to be Covid compliant in terms of social distancing and hygiene, carefully planned and meet the Council's H&S requirements.
- 3.24. Covid 19 delayed the start of engagement work to support the design development for new homes on **Broadwater Farm**. This was initially due to engagement on the project being deemed inappropriate at the height of the pandemic and then secondly due to the time required to rethink the approach to ensure it is compliant with Covid rules.
- 3.25. With our consultants we have progressed early stages of design work for Broadwater Farm, and a new engagement strategy has been developed with engagement starting this month. The overall programme has only marginally slipped but the amount of engagement through the project has reduced. We will also need to assess how successful the new engagement strategy is considering various restrictions. This will be kept under review through the Autumn.

External capacity and the suspension of construction activity

- 3.26. External capacity has significantly delayed the delivery programme's progress and remains a major factor.
- 3.27. The Council project manage a complex array of external contractors on each housing delivery scheme. Many contractors have furloughed staff so that the procurement of crucial roles such as architects, designers, and surveyors for new schemes remains extremely challenging. Work on many schemes has stalled at an early stage as the Council struggles to procure, for example, ground or arboricultural surveys. For similar reasons, existing contractors are struggling to meet deadlines and respond in a timely way: and not only because of staffing issues, but also because of supply-chain and finance challenges.
- 3.28. The impact of Covid-19 on construction is perhaps the most significant single factor delaying the programme.
- 3.29. Across the UK and London, housing construction has been set back. The Office for National Statistics reports that housebuilding construction output in the UK remains at less than half 2019 levels despite a record surge in June; and public sector housebuilding – which does not include housing associations – is affected worse than the private sector, with a record fall in output of 56.9%.
- 3.30. A study by Savills and Shelter suggests that stalled construction and the post-Covid recession will lead to 85,000 fewer homes being built this financial year.
- 3.31. Work was suspended entirely on the Council's active sites during the initial phases of lockdown. Although work at most sites resumed earlier than had been anticipated, social distancing requirements mean that this is at a much-reduced capacity. On-site work at 500 White Hart Lane resumed on 4 May. Work preparing demolitions at 1a Ashley Gardens started on 21 May, and construction of 104 Council homes is now

underway. Work at Welbourne resumed on 11 May. Work resumed at Templeton in August, and work at Plevna is anticipated to resume during September. Site works at Red House will not resume until October 2020 because the existing building is being used for temporary accommodation in response to the Covid-19 crisis. Social distancing at all these schemes, and at every new scheme starting on site, will continue to slow output, and any second wave or local outbreaks will clearly have further impact.



Site of the former Welbourne Centre, Tottenham Green – building Walter Tull House, 131 new Council homes



Socially distanced work on site to build Joy Gardner House - eleven new Council homes at Templeton Road, Seven Sisters

- 3.32. Research carried out by Loughborough University research on behalf of Balfour Beatty, Kier, Mace, Morgan Sindall and Skanska, as well as specialist contractor GKR Scaffolding, found there have been quality and productivity benefits from the industry's adaptation to the coronavirus, though such improvements come at the expense of programme pace. Average productivity of individual workers climbed as a result of altered working practices, even as overall output fell due to a reduction in the total number of people on site

- 3.33. The dates for one of our largest housing development sites, the site of the Ashley Road Depot, have had to be put back because it is being used as a temporary morgue during the crisis.
- 3.34. Significant supply-chain problems will continue to slow construction output considerably. Supplies of bricks, mortar, and wooden pallets, for example, were very constrained until July. Supplies of other items such as external timber, bagged cement, and paints and coatings for external use are only just recovering. The Builders Merchants Federation have warned that supplies of plaster, plasterboard, and some other key building materials are unlikely to be re-established until late September.
- 3.35. The construction sector is relatively vulnerable to economic shocks. The impact of Covid-19 on building firms – particularly smaller firms - is hard to overestimate. It is quite possible that many contractors will go out of business, and there is a risk that contractors will default on existing contracts. Building firms operate on very tight profit margins: borrowing and financing will be a significant problem for many of them. Many firms are finding it harder to get insurance bonds, and bonds are costing more.
- 3.36. Construction workers generally operate on a self-employed basis. The very nature of the sector makes it difficult for the Government to provide support in its current programmes of business support, and there are signs already of labour shortages. In part this is because many migrant workers planning to leave after the Brexit transition period instead left during the Covid outbreak. The number of people employed in the construction sector fell by 83,000 in the second quarter of the year: the steepest since the first three months of 2010.
- 3.37. This underlines the importance of initiatives such as the Haringey Construction Partnership between the Council, Job Centre Plus, The College of Haringey, Enfield and North East London and developers. Haringey Construction Partnership works to get local unemployed people to access training and apprenticeships in the construction industry.
- 3.38. It will be necessary to review at greater length whether to enter into new contracts as the risk of contractor default will rise. This has an impact on the procurement process. It is worth noting that delivery is easier where a larger developer is procured as these contractors tend to provide greater certainty of delivery. However, the bulk of our programme is made up of small and medium-sized sites, and procurement has consciously sought to prioritise local SMEs: exactly the firms most affected by the pandemic.
- 3.39. The Government has introduced a presumption in favour of contractors being allowed to extend working hours on construction sites in order to 'catch up'. This is going to prove complex and potentially time-consuming to manage in areas where there are numerous sites: we have major concerns about the increase to noise and traffic in residential areas, and this in turn is likely to increase objections to planning applications – another source of delay.

Finance

- 3.40. Grant funding is not at this stage at risk from Covid-19. Increased costs associated with the pandemic are substantially mitigated by cuts to the cost of borrowing. The programme's business plan is, however, undergoing thorough review to ensure that the programme remains viable.
- 3.41. In October 2018, the GLA awarded the Council capital grant of up to £59.66 million through the Building Council Homes for Londoners (BCHfL) programme. This grant

is tied to 31 specified schemes and is drawn down as each one starts on site up to March 2022. To date the Council has drawn down £12m of that allocation.

- 3.42. The GLA has indicated that as a result of Covid-19 it expects to extend the BCHfL programme by a year to March 2023, extending deadlines for each scheme accordingly. Furthermore, revised milestones are being finalised with the GLA that would mean the Council could be confident that schemes within its BCHfL allocation will start on site before March 2022.
- 3.43. The GLA have also made it clear that they will consider funding for other schemes in the housing delivery programme either through existing Affordable Housing Grant, through specialist supported housing grant, or through their post-2022 grant programme.
- 3.44. The Mayor of London and Deputy Mayor Tom Copley's Covid-19 Housing Delivery Taskforce are calling on Government to issue a £4.83bn recovery package for London that can provide confidence in the short-term: a £1.33bn programme to facilitate changes of tenure in the remaining three years of the Affordable Homes Programme, and a £3.5bn buyer of last resort scheme to give confidence to the private market to start new schemes.
- 3.45. The Taskforce is also calling for calls for Government to expand the next Affordable Homes Programme to recognise that to build the number of homes that truly responds to London's housing need, at the grant rates that are really required, would cost an average of £4.9bn a year in London.
- 3.46. The National Housing Federation, the largest fifteen Housing Associations, and the Chartered Institute of Housing have also called on the government to provide additional grant in response to the impact of Covid-19. London housing associations have been forced to scale back their development plans in response to Covid-19 and the instability caused by Brexit. Clarion, the UK's largest housing association, has abandoned its target to get up to 5,000 homes per year by 2022 and is now aiming instead to achieve this by 2027.
- 3.47. London Councils' survey of London authorities' finance suggests that the total HRA impact for 2020-21 is £123m – 45% of which is accounted for by income loss from residential rent arrears
- 3.48. Haringey Council's rental income has certainly been negatively impacted by Covid-19, although it is now improving, and the cumulative collection rate is expected to reach at least 96% by end of March 2021. This compares with a collection rate for 2019-20 of 98.5%. However, the revenue contribution to capital outlay (RCCO) which is HRA's contribution to the housing delivery programme is not expected to be significantly impacted.
- 3.49. It is expected that the housing delivery programme's finances will be affected by building cost inflation. National data is not yet available, but it is clear that Covid-19 is currently pushing up costs of construction and some materials – and Brexit was already adding up to 20% on some prices. On smaller sites – which make up the bulk of our programme - contractors are assessing risk much more conservatively and are therefore adding costs.
- 3.50. In March 2020, just before lockdown, the Chancellor announced a cut in interest rates of one percentage point for councils seeking to take out public loans through the Public Works Loan Board for social housing. The move returns rates for social housing to the level they were at in October when the Government increased the

- rates. This reduction will have an extremely positive impact on the HRA's housing delivery Business Plan, mitigating at least some of the cost increases.
- 3.51. The HRA Business Plan is currently undergoing thorough review to reflect the new Covid-19 realities. The high-level assumptions of the existing HRA business plan as it relates to the housing delivery programme have had an opportunity to be tested over the programme's first full year and in light of Covid-19. Key questions around areas such as land value, sales value, and build cost can now be answered in a less speculative way. This gives the Council an opportunity to construct a more robust business plan that accurately reflects the programme and that allows the Council to maximise the number of Council homes for social rent it delivers.
- 3.52. The review is also an opportunity to ensure that the tenure mix between social rent and market sales is such that the long-term viability of the HRA is protected. The Council will continue to review modelling assumptions in light of macro and micro economic indicators to determine the optimum mix, but it is noted that the fall in sales prices for new build homes predicted by some commentators in the wake of the lockdown have not materialised: though the economy shrank by a fifth during the second quarter of 2020, house prices were about 1.7 per cent higher than a year before in July according to the Nationwide Building Society. The Royal Institution of Chartered Surveyors report that transactions also rose, with new instructions from sellers and inquiries from buyers both up sharply during July. Partly this reflects pent-up demand; but Government has added to demand by cutting stamp duty.
- 3.53. However, with the UK's economy falling into its deepest recession on record, and unemployment rising dramatically as the government's furlough scheme for workers winds down, most analysts are forecasting that house prices will fall. The Office for Budget Responsibility forecasts that prices will fall 5 per cent this year and 11 per cent in 2021.
- 3.54. In response, L&Q, Optivo, and Metropolitan Thames Valley, three major London housing associations, have outlined plans to reduce the number of market sale homes they will build in the short term
- 3.55. In the event that there is a collapse in house prices, this would be a challenge faced by every housing developer, private and public, virtually all of whom have far greater reliance on market sale than Haringey's programme. So any significant financial impact here would have to be addressed by Government in the round if it wishes to see housing development restart.
- 3.56. Even if house prices collapse, the Resolution Foundation point out that falling incomes and credit restrictions will leave home ownership out of reach for many people. The house price-to-income ratio is likely to remain relatively similar, or possibly even worse.
- 3.57. The economic fallout of the pandemic is likely to deepen inequality of access to housing. In these circumstances, the Council's commitment to a new era of Council home building is more important than ever.
- 3.58.



318 White Hart Lane, six homes with planning permission starting on site March 2021

4. Contribution to strategic outcomes

- 4.1. This report allows members to scrutinise the Council's progress towards delivering the Housing Priority in the new Borough plan: "We will work together to deliver the new homes Haringey needs, especially new affordable homes". Within this, the Borough Plan sets the aim to "Ensure that new developments provide affordable homes with the right mix of tenures to meet the wide range of needs across the borough, prioritising new social rented homes". In particular, this report enables scrutiny of the strategic commitment to deliver 1,000 new council homes at council rents by 2022.

5. Use of appendices

None

6. Local Government (Access to Information) Act 1985

Not applicable