Public Document Pack

Havering LONDON BOROUGH

CABINET

7.30 pm	Wednesday 15 November 2017	Council Chamber - Town Hall

Members 9: Quorum 3

Councillor Roger Ramsey (Leader of the Council), Chairman

	Cabinet Member responsibility:
Councillor Damian White	Housing
Councillor Robert Benham	Children & Learning
Councillor Wendy Brice-Thompson	Adult Social Services and Health
Councillor Osman Dervish	Environment and Community Safety
Councillor Melvin Wallace	Culture and Community Engagement
Councillor Clarence Barrett	Financial Management, Transformation & IT
Councillor Ron Ower	Housing Development Company and OneSource Management
Councillor Joshua Chapman	Deputy Cabinet Member for Housing
Councillor Jason Frost	Deputy Cabinet Member for Environment, Regulatory Services & Community Safety

Andrew Beesley
Head of Democratic Services

For information about the meeting please contact:
Debra Marlow tel: 01708 433091
e-mail: debra.marlow@onesource.co.uk

Webcast

Please note that this meeting will be webcast.
Members of the public who do not wish to appear in the webcast will be able to sit in the balcony, which is not in camera range.

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

AGENDA

1 ANNOUNCEMENTS

On behalf of the Chairman, there will be an announcement about the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE

(if any) - receive

3 DISCLOSURES OF INTEREST

Members are invited to disclose any interests in any of the items on the agenda at this point of the meeting. Members may still disclose an interest in an item at any time prior to the consideration of the matter.

9 EXCLUSION OF THE PRESS AND PUBLIC

To consider whether the press and public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the press and public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

CABINET
15th November 2017

Subject Heading:	**HRA Business Plan Review November 2017.**
Cabinet Member	**Councillor Damian White** **Councillor Roger Ramsey**
SLT Lead:	**Steve Moore**, Director of Neighbourhoods. **Andrew Blake-Herbert**, Chief Executive Officer.
Report Author and contact details:	Neil Stubbings, Programme Director Regeneration. 01708 433747 neil.stubbings@havering.gov.uk Martin Fahy Interim HRA Accountant 01708 432651 martin.fahy@havering.gov.uk John Price Business Partner 01708 433595 j.price@havering.gov.uk
Policy context:	HRA Policy and budgets
Financial summary:	To review the HRA Business Plan and the impact of the provision of new affordable homes via regeneration schemes in Havering. To note the HRA Business Plan and revised 30 year plan with associated expenditure on existing stock and services and investment in development of new units.
Is this a Key Decision?	**Yes**
When should this matter be reviewed?	February 2018
Reviewing OSC	Towns and Communities

<u>The subject matter of this report deals with the following Council Objectives</u>

Havering will be clean and its environment will be cared for	[X]
People will be safe, in their homes and in the community	[X]
Residents will be proud to live in Havering	[X]

SUMMARY

The HRA remains a ring-fenced account that is used to manage the Council's own housing stock. The proposed Business Plan will enable the Council to manage the existing stock to a reasonable standard and to maintain the Decent Homes standard as well as providing significant resources for the development of new affordable homes for local people.

This report is a pre-curser to the planned annual budget and rent setting report that will be presented to Cabinet in February next year (2018). The reason for the review is to provide Cabinet with an updated position on the impact of the delivery of new affordable homes in Havering, from various regeneration schemes in the borough, on the resources available in the HRA.

In particular, this report provides Cabinet with the latest assessment on the impact of the provision of new homes via the HRA 12 sites regeneration project and the setting up of the HRA Joint Venture and the identification of a provision in the HRA for affordable housing on other regeneration opportunities in the borough.

RECOMMENDATIONS

That Cabinet:

1. **Approve the update of** the Housing Revenue Account Business Plan as detailed in **Appendix 3a**.

2. **Note** the implications of the housing estate regeneration and other regeneration opportunities on the HRA Business Plan.

3. **Approve the allocation** of £3.360 million of HRA 1-4-1 Right to Buy receipts to fund the estates renewal buyback programme. This will be used to accelerate the estates buyback programme whilst maintaining a neutral effect on the HRA.

4. **Instructs** officers to report back to Cabinet, within twelve months, with a review of the Allocations Policy and Local Lettings Plan, including eligibility criteria for affordable low cost home ownership properties and rent levels for affordable rent properties.

REPORT DETAIL

1. BACKGROUND

1.1 As reported previously to Cabinet, the Localism Act 2011 changed the financial system for the management of council housing. The new system has provided freedom and independence for the local management of council housing finance by comparison to the previous national subsidy system.

1.2 The new system started in April 2012 and has been reported to Cabinet in this format since that time. The Housing Revenue Account (HRA) Business Plan is designed to provide long term management of the Council's housing assets. We have more freedom to direct our resources to the best and most cost effective management of the Council's housing stock. However, we do not have complete freedom – some aspects remain centrally controlled, such as the use of capital receipts and rent setting.

1.3 The central driving aims of the Council is to maintain the Decent Homes Standard for its existing stock, improve the quality of the housing service and maximise the number of new affordable homes built for local residents thus replacing some of the properties lost through Right to Buy and helping to reduce homelessness pressures in the General Fund.

1.4 The Council recognises that there is a need for good quality affordable homes, especially for vulnerable residents such as the elderly, those on low incomes and first time buyers, and has set out its ambition to meet these needs by using resources generated through the Council's Housing Revenue Account Business Plan. The Council also has ambition to use HRA new build development resources to facilitate in line with legislation and kick start regeneration of Havering.

1.5 However, there are many influences on the resources available to the HRA. These are all identified and quantified within the HRA Business Plan (HRA BP). The Business Plan is composed of various income and expenditure lines. Some of the lines in the HRA BP are under the complete control of the council, whilst some are impacted upon by Government policy and legislation.

The lines in the business plan that have a direct impact on the income into the HRA BP include:

- Social rent setting policy in the years following the four years of 1% reduction.
- Any capping of Local Housing Allowance (LHA) levels.
- Rent policy regarding supported housing rents.
- Service charge recovery.

The lines in the business plan which impact on the levels of expenditure in the HRA BP include:

- Planned maintenance to existing stock.
- Responsive repairs costs to existing stock.
- Delivery of new build homes.
- Staffing costs.
- Financing costs of the borrowing in the HRA.
- Losses from bad debts, voids etc.

There is still uncertainty regarding the Government's proposed higher value sales programme proposed to fund the extension of the Right to Buy system to Housing Association properties. This could have an impact on the resources available in the HRA BP. However, as this is still unknown, the impact has <u>not</u> been included for the purposes of this report. As soon as final proposals are known and modelled for Havering, this will be reported back to Cabinet.

2. INCOME

2.1 Rents

2.1.1 The Council's main source of income to manage its housing stock is tenants' rents.

2.1.2 Government policy sets council rents. The formula used to develop the HRA Business Plan from 2015/16 onwards, and as reported to Cabinet in February 2015, allowed rents to be increased by a maximum of CPI + 1% annually.

2.1.3 However, the previous Government required Councils to reduce rents by 1% against July 2015 levels for four years as part of on-going austerity measures. This reduces the rental income available to the HRA over the four years of the reduction by just below £8.000m. This reduces the income into the business plan model by £68.000m over 10 years and is a significant reduction. Two 1% annual reductions have been applied to tenant's rents so far. The third will be in the 2018/19 rent setting report in February 2018.

2.1.4 The Government announcement on the 4th October has clarified rent setting policy for the medium term. After the four years of 1% reduction, it has been announced that the HRA will revert back to the original rent setting formula of CPI +1% for 5 years from 2020. The announcement was made with the following additional comment:

"As set out in the Housing White Paper, to help encourage more investment in social housing, government will create a stable financial environment by setting a long term rent deal for councils and housing associations in England.

Under the proposal set out today, increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020. This will give social tenants, councils and housing associations the security and certainty they need."

This provides certainty for rents in council housing up to 2025. In addition, it was announced that Government would carry out a consultation exercise on rents in 2018. For the purposes of the business plan, it has therefore been assumed that the rent increase guidelines of CPI + 1% will continue. The outcome of any future changes will be factored in to future budget reports provided to Cabinet.

2.1.5 The Government announced a one year exemption from the 1% reduction for supported housing in 2016/17. This is because the level of support provided to residents living in supported housing is higher and the maintenance and investment costs for the buildings are higher. Government is completing a review into supported housing rent policy and the outcome is awaited. However, for the next two years a 1% rent reduction is also being applied to supported housing rents and is included within the Business Plan with increases of CPI + 1% from 2020.

2.1.6 The capping of new rents at LHA levels is now effective. In Havering, the LHA levels for each bed size is above the levels of the 2016/17 rents and so there is no impact on the HRA BP. However, the LHA levels have been frozen for 4 years. This also has no additional financial impact on the HRA BP over and above the impact of the 1% reduction. Future announcements on LHA levels may have a future impact and this will be kept under scrutiny and reported annually as part of the rent setting report.

2.1.7 The level of rent recovery in Havering is extremely good. The national accepted level of good performance is in the region of 98%. For 2016/17, Havering achieved a level of 98.24%. Nationally this figure is top quartile performance and is the best figure Havering has achieved.

2.2 **Service charges**

2.2.1 The aim of the Council, in respect of service charges, is to ensure that those receiving the services are paying for them. We are now in a position where the cost of each service can be fully recovered from the service charges raised. This principal continues in this HRA BP and therefore has no financial impact.

3. EXPENDITURE.

3.1 **Stock investment.**

3.1.1 The major expenditure from the HRA BP is the investment in existing stock or the capital programme. The level of expenditure is controlled by each local authority and is dependent on the investment levels in the Asset Management Strategy (AMS). This Business plan continues the AMS principle for investment in existing stock of "just in time" as reported to Cabinet in October 2016 and February 2017. The impact of this change is to reduce the average annual expenditure from £13.9m to £8.600m, a reduction of £5.300m per year. Over the 30 years of the HRA BP, this amounts to a reduction in spend of £159.000m.

3.1.2 As detailed in the AMS, this level of expenditure allows the decent homes levels to be maintained and all health and safety requirements to be met. In order to meet the decent homes target planned expenditure on new kitchens, bathrooms and electrical systems remain at previous levels. What reduces is the high level of "hypothetical" investments in building elements that would be unnecessary, such as walls, chimneys and roofs.

3.2 **Repairs service.**

3.2.1 The expected level of expenditure on the repairs service will continue at an average of £6.454m per year. This projects spending of £680 per year per property, a level that is considered good performance for the type of properties Havering owns along-side a well-managed repairs contract.

3.3 **Staffing costs.**

3.3.1 The restructuring of the Housing Service completed in April 2016 reduced the staffing costs to the HRA of £1.700m per year, a reduction of 15%. Across the 30 year HRA BP this reduced the cost by £51.000m.

3.4 **Debt costs.**

3.4.1 This update to the HRA Business Plan is making the assumption that the HRA will not need to utilise the full level of borrowing permissible under the HRA reform rule. However, this is subject to a number of key assumptions, any change in which may require the HRA to utilise the full level of borrowing. The "borrowing cap" is a tool introduced by Her Majesty's Treasury limiting the borrowing in the HRA. The HRA is not allowed to use prudential borrowing rules where the borrowing level is restricted by its ability to repay the debt through the revenue generated through borrowing. This "cap" therefore restricts the borrowing levels to around half of the amount were prudential borrowing rules applied. The borrowing cap for the Havering HRA is £209.003m. The gap between the actual borrowing and the cap is termed "headroom". The current level of headroom in the HRA Business Plan is £34.334m. Current projections suggest that no additional borrowing shall be required to fund both the 12 Estates Joint Venture and the earmarked provision for affordable housing on other regeneration opportunities. The full costs of borrowing are included within this Business Plan.

3.4.2 As reported to Cabinet previously, there has been no change to the debt management strategy contained in the February 2016 plan. It is currently assumed that the 12 Estates development programme will be completed by 2029/30. Approximately £50.432m of debt is scheduled to mature from the start of 2026/27 to the end of 2029/30. This strategy creates a pressure on the HRA BP during these years and adversely impacts on the level of affordable house building the council can achieve through the life of this Business Plan. The Treasury Management team will look to refinance this debt at an appropriate point in the future when the cost of borrowing can be reduced.

3.5 **Void losses and bad debts.**

3.5.1 It is anticipated that the high level of performance around void properties will be maintained. The vastly improved void loss of £0.700m per year (1.5%) has not been included in the HRA BP. The current assumption is the previous lower level of 2.25% (£1.080m). This is therefore a potential area of improved income to the HRA BP. The void loss assumption will be reviewed and updated as part of the HRA budget report to be tabled in February 2018.

3.5.2 Despite the implementation of universal credit and payments direct to tenants, the arrears and losses figures have remained low. The introduction of Universal Credit (UC) introduces a risk to the levels of arrears in the HRA that will need constant monitoring and attention. The bad debt provision currently stands at £0.665m per annum based on a collection rate of 98.24%.

3.6 **Building new homes and regeneration.**

3.6.1 As the main level of income to the HRA BP comes from rents, it is imperative that the number of rental properties is maximised. The current HRA BP expects to lose 80 properties per year through RTB. This reduces rental income by around £0.390m per year, assuming a full year loss of income per property.

3.6.2 As increased demand for properties continues and the number of families presenting as homeless rise, there is a trend for more families to be housed for longer in the hostels and there is a risk that the council will need to resort to the use of expensive B&B emergency accommodation. This is a General Fund cost. More properties available in the HRA mean more properties available for permanent housing and therefore reduced spend on B&B in the GF.

3.6.3 In addition, changes to the costs of temporary accommodation are adversely impacting on the General Fund. The detail of these pressures was included in the budget report presented to Cabinet in October 2017. However, the key impacts are coming from the increased costs of procuring temporary accommodation in the private rented sector and reductions in benefit subsidy to pay for temporary accommodation. One way of mitigating these rising pressures is to build new homes that can be accessed by local people who are facing homelessness.

3.6.4 The HRA BP resources can be used to fund new build and can be augmented by right-to-buy receipts. Failure to use right-to-buy receipts in this way would see the Council having to pay the receipts over to the GLA with additional interest. Some council housing new build schemes have also attracted grant from the GLA. The Council have been awarded just over £30.296m from the GLA for the affordable housing provision on the first three sites in the HRA 12 sites project. Those sites are Waterloo Estate in Romford, Napier and New Plymouth Houses in Rainham and Solar, Serena, Sunrise sheltered scheme in south Hornchurch.

3.6.5 The HRA BP presented to Cabinet in October 2016 identified a total of £169.000m available within the HRA BP over the next 10 years that was available for investment in new units of affordable housing to help replenish losses of units through the right to buy and to help local people access affordable housing. This report therefore updates Cabinet on the progress of the land and estates review already in progress. It also updates Cabinet on the financial impact of the HRA new build programme and in particular the impact of the work carried out in relation to the HRA 12 sites project.

3.6.6 The focus of new build units is to provide general needs rented properties, low cost home ownership and supported housing for Havering residents. This will be achieved by looking to build on unused or derelict land in the HRA, such as garage sites as well as looking to maximise the number of units on existing estates where there are opportunities for estate regeneration or in-fill developments plus opportunities to purchase affordable housing on other regeneration sites in Havering. The additional resource is also to be used to focus on out dated units, such as bedsit sheltered units and those estates where there is a negative or low value to the HRA.

4. HRA 12 Estates Regeneration Programme.

4.1 The sites included within the Regeneration project are:

Estate/Scheme	**Ward**
Waterloo Estate	Romford Town
Queen Street Sheltered Scheme (as part of the Waterloo Estate Regeneration)	Romford Town
Solar, Serena, Sunrise Sheltered Scheme	St Andrews
Napier and New Plymouth	South Hornchurch
Maygreen (inc Park Lane Sheltered Scheme)	Hylands
Oldchurch Gardens	Brooklands
Delta TMO (Elvet Ave)	Squirrels Heath
Farnham Hilldene and Chippenham Road	Gooshays
Royal Jubilee Court Sheltered Scheme	Pettits

Brunswick Court Sheltered Scheme	Cranham
Dell Court Sheltered Scheme	St Andrews
Delderfield Sheltered Scheme	Pettits

4.2 As previously reported to Cabinet, the council's preferred method to deliver this project is via a Joint Venture so that the council retains the long term ownership of the land and exerts control over the developments carried out. This also enables the council to share in the proceeds of the venture so that additional value can be used to extend the regeneration of estates across the borough in the future. The procurement exercise is being carried out via competitive dialogue. The process is being lead in the council by the project sponsor and lead officer with full involvement from officers from procurement, legal and finance. That team are being supported by a specialist team lead by Savills with legal advice and support from Bevan Britton who report up to the Deputy Director of Legal and Governance. In addition, external financial due diligence has been provided by KPMG, reporting to the Head of Finance (Commercial and Investment).

4.3 The project is progressing according to the project plan key milestones leading to the anticipated Cabinet report on the selection of a JV partner in January 2018 where the detail of the implications of the project will be provided. This update report is based on the best information currently available to officers. This is based on officer appraisal of the project, Savills and the specialist technical team corroboration of the figures and the early information provided via the competitive dialogue process.

4.4 The competitive dialogue process commenced in March 2017. 52 initial expressions of interest were received. This resulted in 10 initial submissions which were reduced to a long list of 6 companies who provided detailed proposals following detailed dialogue sessions with each bidder. During August and early September those proposals from the 6 bidders were fully reviewed and considered. In mid-September, the final shortlisted 3 organisations were invited to enter into continued dialogue with a view of final and detailed submissions being submitted for review and evaluation during November and December 2017. The results of that continued dialogue are expected to be presented to Cabinet in January 2018 for a decision on the preferred partner.

4.5 The principles of the estate regeneration programme are designed to make better use of the land that the council owns in the HRA to maximise the number of safe, affordable homes for local people. Many of the homes in the sheltered schemes being redeveloped are vacant as they are unsuitable bedsit accommodation resulting in up to 15% of the regeneration estates being empty for long periods. In addition, poor design of estates and low densities mean there is opportunity to redesign the estates and increase the number of homes provided at the same time as improving the infrastructure associated with the estates.

4.6 The 12 estates currently provide a total of 878 homes. Of these over 100 are long-term vacant properties (as described above), 112 have been sold through Right to Buy and 658 are tenanted council homes.

4.7 The expected numbers on the newly designed estates will be to provide in the region of 2,700 to 3,000 homes of which up to 1,200 will be affordable homes. In other words, the estate regeneration programme is expected to deliver almost a doubling of the affordable homes on the estates. In addition the 1,500 to 1,800 additional private sale homes built will also be targeted to local families as part of the sales strategy to be developed via the JV.

4.8 The value of the private sales is being used by the HRA to subsidise the cost of delivering the large increase in affordable homes for local families. A percentage of the new affordable homes to be built will be low cost homeownership properties that will be targeted to the children of existing Havering residents who would otherwise have no opportunity of accessing the housing market.

4.9 It should be noted at this point that every resident currently legitimately occupying a home on the existing 12 estates have been given the right to return to the new estates.

4.10 The numbers above and therefore the corresponding financial impact detailed below in the financial appraisals is currently being tested through the competitive dialogue process and will of course be subject to change. Whilst they are provided for illustrative purposes, the outcome of marketing exercise currently underway is expected to deliver a similar quantum of new housing for the borough.

4.11 Part of the dialogue process is also designed to identify the JV partner who is best able to also deliver the place shaping agenda for the estates, delivering better homes on estates where people are proud to live. They will focus on the infrastructure needed to deliver new homes such as health facilities, new schools, public realm improvements, new open spaces and play areas.

4.12 Every opportunity will also be taken to maximise the social value associated with this level of house building. This is expected to include the delivery of apprenticeships, training opportunities and work experience as well as creating supply chain opportunities for local SMEs and investing in delivering other community facilities.

4.13 Current forecasts suggest that the redevelopment of the 12 estates will cost £760.171m (including finance and inflation) in total, generating revenues of £827.813m. The JV shall be funded by a combination of equity, third party debt and net sales proceeds. It is assumed that profits are to be shared 50:50 between the Council and private sector partner (PSP), in line with the equity investment stakes.

4.14 The Council would be required to invest £42.881m of assets during the construction phase, which shall be a combination of cash (£0.227m) and land assets (£42.654m). This is to be 100% funded from HRA capital and land assets. Furthermore, as a 50% partner, the PSP shall contribute an equivalent amount (£42.881m cash).

4.15 In addition, the Council shall acquire the affordable homes development by the JV (794 units), at an estimated cost of £144.677m, along with the residual interest (60% - 300 units) in the shared ownership portfolio at no cost. However, this is subject to the outcome of the negotiations with the successful bidder. They may require the Council to purchase the interest for market value in advance of receiving a compensating land receipt. It is assumed that the Council shall utilise its GLA grant allocation (£30.296m phase 1) to reduce the overall net capital cost.

4.16 It is anticipated that the development and sales programme will be completed by 2029/30. With the completion of the program the Council shall recoup both its equity investment £42.881m, and its share of the development surpluses £33.821m. However, it is anticipated that the joint venture will be in a position to begin distributing surpluses from 2026/27. The assumption is that the surpluses are directly credited to the HRA in order for future regeneration opportunities and delivery of more affordable housing to be funded.

4.17 The JV and the acquisition of the properties will create significant revenue (TABLE 1) and capital implications (TABLE 2) for the HRA.

TABLE 1 - Revenue Impact (HRA) 12 Estates and other Affordable Housing provision to 2029/30		
	£m	**£m**
HRA Balance - 2029/30 (Base Model)(available)		**(145.384)**
Base Adjustments		
Opening reserves adjustment (16/17 outturn)	3.326	
Rents	(3.203)	
Ground Rent / Shared Ownership Rents	(18.094)	
JV - Subsidy (Surplus on OMS Activity)	(33.821)	
Revenue Repairs	1.420	
Financing	5.511	
RCCO	103.166	
		58.305
Closing HRA Reserve - 2029/30 (available)		**(87.079)**

TABLE 2 - Capital Programme 12 Estates JV and other affordable housing acquisitions to 2029/30		
	£m	**£m**
Affordable Housing (rent) - 900 units	184.427	
Equity (JVs - Cash)	0.227	
Equity (JVs - Land)	42.654	
Shared Ownership – 514 units	14.798	
Asset Management Programme (12 Estates)	(5.254)	
Asset Management Programme (New Properties)	2.751	
Buybacks (Increase Provision)	19.923	
New Build (Revised Estimates)	0.726	
Total to 2029/30		**260.252**

5. Other Regeneration proposals.

5.1 The provision of affordable housing for residents and reduction in homelessness is of critical importance. Not only does this improve opportunities for local people but reducing homelessness will reduce the pressures in the General Fund. In order to maximise the number of affordable homes provided though the HRA this report asks Cabinet to approve the principle that the HRA pays for the development or procures affordable homes on other regeneration opportunities, such as Bridge Close, within Havering. This report identifies a provision within the HRA BP of £55.000m over 7 years from 2020 to deliver this aspiration whilst adding significantly to the asset base in the HRA. This allocation could provide for a further 300 units subject to how the purchases are negotiated. This will be financed through a combination of 1-4-1 RTB receipts, GLA grant funding where available and HRA capital resources.

6. Eligibility and affordability of affordable housing

6.1 The use of the HRA to provide affordable housing in Havering is a key strategy in the councils Housing Policy. The provision of more affordable homes for rent, and as low cost home ownership opportunities, will enable local people to access homes that are affordable. It is essential that these homes are available to people who have lived in the borough for a period of time and at a cost that is affordable on the incomes that they have. This will help reduce homelessness, reduce the negative impacts on families of poor or expensive housing and also help local people access the housing ladder for the first time.

6.2 The access to the affordable homes provided through the HRA is therefore linked to the Allocation Policy and any Local Lettings Plans that are made under that policy. In order to ensure that local people are helped into this housing, the eligibility and affordability of affordable housing in Havering is being reviewed through the latest review of the Allocations Policy and Local Lettings Plan. Once a consultation exercise has been carried out, recommendations for any changes will be presented to Cabinet, along with a full Equalities Impact Assessment of the policy itself and any changes.

6.3 It is anticipated that the review of the Allocations Policy and Local Lettings Plan (currently out for consultation) and any proposed changes will be presented to Cabinet in the first half of 2018.

6.4 Proposed rent levels for the new-build properties will be provided to Cabinet within 12 months following liaison with the District Valuer.

7. 30 year Business Plan 2016/17 to 2046/47

7.1 Attached at **Appendix 3a, 3b, 4a and 4b** are extracts from the reworked HRA Business Plan financial model along with the 2017-18 HRA approved budget **Appendix 1** and HRA Capital Budget **Appendix 2**. Years 1 to 13 have been included. Year 1 of the business plan is based on the 2017/18 budget.

7.2 The plan for the HRA is based on keeping a minimum of £2.500m in working balances and using current reserves above this figure to invest in the major works programme. It has been assumed that all available resources over and above those required for revenue spend, payment of interest on debt and maintaining reserves at £2.500m are available for major works, for as long as the stock condition survey need to spend exists, and new development.

7.3 There have been a number of changes to the Business Plan since it was first approved in February 2012. In particular, the Government changes to Right to Buy have increased the number of sales completed above that originally anticipated. In addition, now that the majority of borrowing (self-financing debt) has been fixed at 3.26% for the next 12 years this has stabilised the long term interest charges in the Business Plan at a very low level. There is a significant beneficial impact caused by the Council's proposals to move directly to formula rents in 2015/16. However, the latest negative impact has been the 1% reduction in rent levels against July 2015 levels. This reduces the rental income available to the HRA over the four years of the reduction by just below £8.000m. This reduces the income into the business plan model by £68.000m over 10 years and is thus a significant change.

8. CONCLUSION

8.1 The Self Financing Business Plan extracts (**Appendix 3a and 3b**) show that the Council is able to maintain and improve its stock and provide good quality housing services over the next 5 years. The Housing Revenue Account investment in the new build of new homes via the Joint Venture which is set out in this report is a prudent budget, designed to maintain a good level of service, and inject further resources into a programme of major investment in the housing stock that will maintain the Decent Homes standard for our housing stock and carry out additional much needed investment.

8.2 This report, and the costs for the provision of affordable housing contained within it, are provided to Cabinet to ensure that Cabinet are able to identify sufficient resources for the provision of new affordable homes are available within the HRA Business Plan. Future reports will be provided to Cabinet, as part of the budget setting cycle, for specific provision of funding as required, including any referral onto Council for the agreement of capital funding.

REASONS AND OPTIONS

Reasons and Options

The budget provisions within the reviewed Business Plan will enable more affordable homes to be built in the borough for local people and help to mitigate homelessness funding pressures within the General Fund.

IMPLICATIONS AND RISKS

Financial implications and risks:

HRA Revenue

This report largely concerns the financial implications and risks concerning the setting up of a Joint Venture to deliver the 12 Estates Regeneration project in the HRA budget during 2018 up to 2029 and includes the subsequent revision of the figures for the 30 year Self Financing Business Plan. The HRA is sufficiently healthy to generate working balance reserves of an estimated £2.500m at the end of 2018/19 and for the 11 years beyond this until 2029/30.

There are risks associated with any HRA budget, but it is felt these can be managed. The council has reviewed its resource requirement for 2018/19. On repairs, there are unbudgeted volume risks, but these can be managed by ensuring the HRA working balance is maintained at a minimum of £2.500m. The bad debt provision contribution has been set based on an allowance for increasing arrears for the possible consequences of welfare reform. An assumption has been made in the business plan projections for this amount to increase in future years. The details on the key risks are included in the body of this report. These risks are monitored on a monthly basis with the financial impacts being reported via the monthly budget monitoring process and performance information being reported to Housing Board.

In addition to £2.500m reserves on the HRA, the following provisions / reserves were held as at 31 March 2017:-

- Bad and doubtful debt provision of £2.937m (including leaseholder major works) - calculated according to best practice
- Leaseholder Major Works Reserve of £2.055m – this is the balance remaining on the reserve. £0.2m is generated from this reserve each year as a contribution to the HRA Investment programme.

The underlying assumptions concerning rent levels underpinning the HRA Business Plan however, have been materially changed with the introduction of the Government's announcement that social housing rents would be reduced by 1% a year for the next four years. This is set out in detail in the main body of this report. Government recently announced that after the four years of 1% reduction, the HRA will revert back to the original rent setting formula of CPI+1% for 5 years from 2020.

HRA Investment Capital Budget

Appendix 4a sets out the Major Works Programme 2018-19 and onwards and includes the impact of the HRA JV and the provision of new affordable housing on other regeneration opportunities in the borough. This is funded from resources available for housing expenditure:-

- HRA resources/revenue surpluses
- Right-to-buy receipts subject to the Council's agreement with the DCLG to use them to fund new housing.
- GLA funded grants

Legal implications and risks:

Under Part V1 of the Local Government and Housing Act 1989 any local authority that owns housing stock is obliged to maintain a Housing Revenue Account. The HRA is a record of revenue expenditure and income relation to an authority's own housing stock. The items to be credited and debited to the HRA are prescribed by statute. It is a ring fenced account within the authority's General Fund, which means that local authorities have no general discretion to transfer sums into or out of the HRA. The Council is required to prepare proposals in January and February each year relating to the income of the authority from rents and other charges, expenditure in respect of repair, maintenance, supervision and management of HRA property and other prescribed matters. The proposals should be made on the best assumptions and estimates available and should be designed to secure that the housing revenue account for the coming year does not show a debit balance. The report sets out information relevant to these considerations prior to the February 2018 Cabinet report of relevance to the new build housing in the HRA

Section 76 Local Government and Housing Act 1989 places a duty on local housing authorities: (a) to produce, and make available for public inspection, an annual budget for their HRA which avoids a deficit; (b) to review and if necessary, revise that budget from time to time and (c) to take all reasonably practicable steps to avoid an end-of-year deficit. The proposed HRA budget in February 2018 will fulfil these requirements.

The regeneration schemes contemplated by this report will be the subject of future Cabinet reports

Human Resources implications and risks:

None specific.

Equalities implications and risks:

As reported to February Cabinet, an equalities impact assessment has been carried out. Of note, rent levels are influenced by central government. Furthermore, best practice and guidance dictates that service charges should be set at a level which covers the cost of providing the service to which the charge relates. Therefore, the Council cannot operate in an unfettered way within regard to the rents and service charges it sets. That said, the Council has examined the proposals in this report from an equalities perspective.

71% of council tenants are in receipt of Housing Benefit. The proposed rents and service charges eligible for housing benefit are within the housing benefit caps for Havering, therefore those in most financial hardship, which can include particular minority groups, will be protected

The major works programme makes available resources to bring forward works to make the remaining sheltered bedsits with shared bathrooms / showers fully self-contained or to consider complete redesign of unsuitable schemes as part of the review of older persons housing. This will advantage this section of the community who are people over the age of 55 and will be subject to further consultation. In addition, any council new build or regeneration proposals will be the subject of full consultation with all affected residents.

BACKGROUND PAPERS

There are none.

APPENDIX 1 - HRA budget 2017/18

	2016-17 Final Budget	2017-18 Final Budget	Movement
Income and Expenditure	**£M**	**£M**	**£M**
Income			
Dwelling rents	(48.552)	(47.144)	1.408
Garages	(0.401)	(0.347)	0.054
Charges for services and facilities - Tenants	(5.296)	(6.058)	(0.762)
Charges for services and facilities - Leaseholders	(1.574)	(1.574)	0.000
Shared ownership	(0.114)	(0.114)	0.000
Other	(0.446)	(0.446)	0.000
Total Income	**(56.383)**	**(55.683)**	**0.700**
Expenditure			
Repairs and maintenance	6.238	6.454	0.216
Supervision and management plus recharges	22.345	24.178	1.834
Depreciation and impairment	16.590	16.590	0.000
Debt management costs	0.050	0.048	(0.002)
Bad debt	0.665	0.665	0.000
Total Expenditure	**45.888**	**47.935**	**2.048**
Net cost of HRA services	**(10.495)**	**(7.748)**	**2.748**
Interest payable and similar charges	5.853	5.853	0.000
Interest and investment income	(0.065)	(0.065)	0.000
Surplus or deficit for the year on HRA services	**(4.707)**	**(1.959)**	**2.748**
Statement on movement of HRA balances			
Surplus or deficit for the year on HRA services	(4.707)	(1.959)	2.748
Major works expenditure funded by the HRA	11.353	19.738	8.385
Transfer to or from Major Repairs Reserve (MRR)	(16.340)	(16.340)	0.000
Net (income) / Expenditure	**(9.694)**	**1.438**	**11.132**
HRA balance brought forward		(7.156)	
Net (income) / Expenditure		1.438	
In year Deficit 16-17		1.000	
Unallocated 16/17 Capital		(9.302)	
RTB receipts (Debt Element)		(1.385)	
HRA balance carried forward	**(7.156)**	**(15.405)**	

Appendix 2 – Funded 2017/18 – 2019/20 HRA Major Works Capital Programme

Major Works Programme 2017-20					
		17/18	18/19	19/20	3 yr totals
New Build Programme and pre commitments in 2016/17		**£M**	**£M**	**£M**	**£M**
New Build Programme		16.193	7.088	0.000	23.280
Other Capital Schemes (funded)		5.729	0.000	0.000	5.729
Total		**21.921**	**7.088**	**0.000**	**29.009**
Stock Upkeep works to maintain standards including Major Repairs					3 yr totals
Major Voids		0.450	0.270	0.270	0.990
Structural		0.050	0.050	0.050	0.150
Electrical Upgrade/Mains Supplies		0.100	0.100	0.100	0.300
Legionella		0.170	0.170	0.170	0.510
Fencing / Boundary Walls		0.050	0.050	0.050	0.150
Drainage/Sewers		0.050	0.050	0.050	0.150
Asbestos Removal/Management		0.100	0.100	0.100	0.300
External Redecorations		0.818	0.818	0.818	2.453
DDA Fire Protection/Means of Escape		0.035	0.035	0.035	0.105
Careline equipment		0.050	0.050	0.050	0.150
Stock condition surveys 10%		0.000	0.000	0.000	0.000
Aids and Adaptations		0.550	0.550	0.550	1.650
Total		**2.423**	**2.243**	**2.243**	**6.908**
Stock Reinvestment to improve conditions including maintaining the Decent Homes Standard					3 yr totals
Stock Investment "Replacements"		3.256	4.278	3.234	10.768
Non Trad Houses/Flats System Build		0.000	0.000	0.000	0.000
Kitchen/Bathrooms at Void stage		0.665	0.270	0.270	1.205
Total		**3.921**	**4.548**	**3.504**	**11.973**
Stock Remodelling					3 yr totals
Bedsit Remodelling		0.545	0.109	0.109	0.763
Total		**0.545**	**0.109**	**0.109**	**0.763**
Future Investment					3 yr totals
Major Improvements (sheltered housing)		2.507	2.289	0.000	4.796
Environmental Improvements (Minor)		0.000	0.000	0.000	0.000
		2.507	**2.289**	**0.000**	**4.796**
		17/18	18/19	19/20	3 yr totals
Works to existing stock Programme Totals		**9.396**	**9.188**	**5.856**	24.440
		Average Annual Investment in existing stock			***8.147***
Below the Line Additional Capital Expenditure					
Multi Disciplianry Team for Estrates Renewal Programme		0.202	0.000	0.000	0.202
Estates Renewal Programme - Land Assembly "Buy Backs"		7.840	7.840	7.840	23.520
Decanting costs		2.300	2.300	2.300	6.900
		10.342	**10.140**	**10.140**	**30.622**
Proposed Capital Expenditure (exc New Build)		**19.738**	**19.328**	**15.996**	**55.062**

Appendix 3a: HRA Projections from Business Plan: Years 1 to 13 (Incorporating 12 Estates Joint Venture and other affordable housing provision)

Year	**2017.18**	**2018.19**	**2019.20**	**2020.21**	**2021.22**	**2022.23**	**2023.24**	**2024.25**	**2025.26**	**2026.27**	**2027.28**	**2028.29**	**2029.30**
£M	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
INCOME:													
Rental Income	(47.925)	(46.559)	(45.019)	(46.581)	(47.555)	(48.913)	(50.815)	(52.972)	(55.676)	(58.204)	(60.003)	(61.395)	(62.804)
Void Losses	1.078	1.046	1.010	1.043	1.064	1.092	1.132	1.177	1.233	1.287	1.326	1.356	1.388
Service Charges	(7.633)	(7.785)	(7.941)	(8.100)	(8.262)	(8.427)	(8.596)	(8.768)	(8.943)	(9.122)	(9.304)	(9.490)	(9.680)
Non-Dwelling Income	(0.347)	(0.354)	(0.361)	(0.369)	(0.409)	(0.508)	(0.866)	(1.449)	(2.243)	(3.239)	(4.013)	(4.442)	(4.588)
Grants & Other Income	(0.305)	(0.571)	(1.189)	(3.484)	(3.163)	(3.529)	(5.494)	(6.177)	(7.036)	(5.784)	(3.484)	(1.113)	(0.710)
Total Income	**(55.132)**	**(54.224)**	**(53.500)**	**(57.490)**	**(58.325)**	**(60.285)**	**(64.638)**	**(68.188)**	**(72.665)**	**(75.062)**	**(75.479)**	**(75.084)**	**(76.394)**
EXPENDITURE:													
General Management	24.428	24.917	25.415	25.924	26.442	26.971	27.510	28.061	28.622	29.194	29.778	30.374	30.981
Bad Debt Provision	0.663	0.642	0.618	0.638	0.649	0.664	0.686	0.709	0.740	0.769	0.792	0.810	0.829
Responsive & Cyclical Repairs	6.478	6.484	6.506	6.619	6.757	6.912	7.125	7.381	7.639	7.849	7.984	8.118	8.254
Total Revenue Expenditure	**31.569**	**32.043**	**32.540**	**33.180**	**33.848**	**34.547**	**35.321**	**36.151**	**37.000**	**37.812**	**38.553**	**39.302**	**40.064**
Interest Paid	5.995	5.995	5.995	5.995	5.989	5.988	5.988	5.988	5.979	5.973	5.920	5.959	5.999
Finance Administration	0.048	0.049	0.050	0.051	0.052	0.053	0.054	0.055	0.056	0.058	0.064	0.065	0.066
Interest Received	(0.150)	(0.111)	(0.102)	(0.138)	(0.168)	(0.157)	(0.141)	(0.102)	(0.064)	(0.072)	(0.206)	(0.421)	(0.585)
Depreciation	7.555	7.274	7.058	7.022	6.987	7.083	7.270	7.489	7.755	7.967	7.946	7.922	7.898
Net Operating Income	**(10.115)**	**(8.975)**	**(7.960)**	**(11.381)**	**(11.617)**	**(12.771)**	**(16.145)**	**(18.608)**	**(21.938)**	**(23.323)**	**(23.202)**	**(22.259)**	**(22.952)**
APPROPRIATIONS:													
Revenue Contribution to Capital	0.000	1.276	8.405	0.000	11.179	13.900	21.521	28.628	27.371	14.718	0.000	0.000	0.000
Total Appropriations	**0.000**	**1.276**	**8.405**	**0.000**	**11.179**	**13.900**	**21.521**	**28.628**	**27.371**	**14.718**	**0.000**	**0.000**	**0.000**
ANNUAL CASHFLOW	**(10.115)**	**(7.699)**	**0.445**	**(11.381)**	**(0.438)**	**1.128**	**5.376**	**10.020**	**5.433**	**(8.605)**	**(23.202)**	**(22.259)**	**(22.952)**
Opening Balance	(2.830)	(12.945)	(20.644)	(20.199)	(31.579)	(32.017)	(30.889)	(25.513)	(15.493)	(10.061)	(18.666)	(41.868)	(64.127)
Closing Balance	**(12.945)**	**(20.644)**	**(20.199)**	**(31.579)**	**(32.017)**	**(30.889)**	**(25.513)**	**(15.493)**	**(10.061)**	**(18.666)**	**(41.868)**	**(64.127)**	**(87.079)**
												MRR Balance	(42.245)
												Total	**(129.323)**

Cabinet 15 November 2017

Appendix 3b: Projected Revenue Impact of 12 Estates Joint Venture on HRA (movements from February 2017 Base – 10 Years)

Year	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30
£M	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
BASE MOVEMENTS FROM FEB 2017:													
Opening Balance (16/17 outturn)	3.326	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Rent Freeze (1 Year) 2020/21	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
12 Estates Joint Venture													
Rents (Affordable Homes)	0.075	0.966	1.839	1.677	1.845	1.690	1.032	0.150	(1.238)	(2.424)	(2.868)	(2.881)	(2.881)
Rents (Shared Ownership)	0.000	0.000	0.000	(0.000)	(0.033)	(0.125)	(0.475)	(1.050)	(1.837)	(2.825)	(3.590)	(4.010)	(4.148)
Joint Venture Subsidy / (Contribution)	0.255	0.000	(0.607)	(2.890)	(2.557)	(2.911)	(4.863)	(5.534)	(6.380)	(5.115)	(2.802)	(0.417)	0.000
Revenue Repairs	0.024	(0.049)	(0.124)	(0.116)	(0.090)	(0.068)	0.013	0.125	0.262	0.349	0.358	0.365	0.372
Bad Debts	(0.002)	(0.015)	(0.029)	(0.027)	(0.032)	(0.034)	(0.029)	(0.022)	(0.010)	0.001	0.005	0.005	0.004
Depreciation	(0.221)	(0.407)	(0.560)	(0.544)	(0.539)	(0.554)	(0.479)	(0.373)	(0.222)	(0.125)	(0.103)	(0.084)	(0.064)
Financing Costs	(0.063)	(0.036)	(0.007)	0.021	0.088	0.182	0.281	0.405	0.544	0.681	0.967	1.095	1.352
Revenue Contribution to Capital Outlay	0.000	(9.632)	(0.243)	0.000	11.179	13.900	21.521	28.628	27.371	14.718	0.000	0.000	0.000
NET REVENUE IMPACT (12 ESTATES JV)	**3.394**	**(9.173)**	**0.269**	**(1.880)**	**9.858**	**12.080**	**17.000**	**22.329**	**18.490**	**5.260**	**(8.032)**	**(5.928)**	**(5.364)**
CUMULATIVE IMPACT	**3.394**	**(5.779)**	**(5.509)**	**(7.389)**	**2.469**	**14.549**	**31.550**	**53.878**	**72.369**	**77.629**	**69.596**	**63.668**	**58.305**
FEB 2017 FORECAST RESERVES	(16.339)	(14.865)	(14.689)	(24.190)	(34.486)	(45.438)	(57.063)	(69.372)	(82.429)	(96.294)	(111.464)	(127.795)	(145.384)
HRA FORECAST RESERVES	**(12.945)**	**(20.644)**	**(20.199)**	**(31.579)**	**(32.017)**	**(30.889)**	**(25.513)**	**(15.493)**	**(10.061)**	**(18.666)**	**(41.868)**	**(64.127)**	**(87.079)**

Appendix 3c: HRA Capital Investment Requirement Projection from Business Plan (Incorporating 12 Estates Joint Venture and affordable housing provision)

Year	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30
£M	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
EXPENDITURE:													
Planned Variable Expenditure	0.000	0.000	0.000	0.000	0.000	0.074	0.145	0.235	0.259	0.414	0.565	0.763	1.036
Planned Fixed Expenditure	28.826	27.562	24.519	5.416	6.153	6.168	9.515	9.336	11.951	11.796	9.151	7.648	10.346
Disabled Adaptations	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other Capital Expenditure	0.000	23.459	0.000	0.000	8.444	0.000	11.290	(0.538)	0.000	0.000	0.000	0.000	0.000
New Build Expenditure	14.016	8.247	1.687	4.680	24.067	23.173	30.782	42.025	37.975	21.189	0.537	0.000	0.000
Previous Year's B/F Shortfall	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total Capital Expenditure	**42.842**	**59.268**	**26.206**	**10.096**	**38.664**	**29.414**	**51.732**	**51.058**	**50.185**	**33.398**	**10.253**	**8.410**	**11.382**
FUNDING:													
Major Repairs Reserve	(30.150)	(18.211)	(7.058)	(3.321)	(10.688)	(7.083)	(7.270)	(7.489)	(7.755)	(7.967)	13.967	11.272	(6.760)
Right to Buy Receipts	(2.566)	(1.865)	(1.865)	(1.865)	(1.052)	(1.052)	(1.052)	(1.052)	(1.052)	(1.052)	(1.052)	(1.052)	(1.052)
HRA CFR Borrowing	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other Receipts/Grants	(7.675)	(35.956)	(8.397)	(3.897)	(14.170)	(5.355)	(19.302)	(10.627)	(12.769)	(9.436)	(23.168)	(18.631)	(3.569)
HRA Reserves	(2.450)	(1.959)	(0.482)	(1.013)	(1.575)	(2.025)	(2.588)	(3.263)	(1.238)	(0.225)	0.000	0.000	0.000
Revenue Contributions	0.000	(1.276)	(8.405)	0.000	(11.179)	(13.900)	(21.521)	(28.628)	(27.371)	(14.718)	0.000	0.000	0.000
Total Capital Funding	**(42.842)**	**(59.268)**	**(26.206)**	**(10.096)**	**(38.664)**	**(29.414)**	**(51.732)**	**(51.058)**	**(50.185)**	**(33.398)**	**(10.253)**	**(8.410)**	**(11.382)**
In-Year Net Cashflow	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Cumulative Position	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

Appendix 3d: Projected Capital Impact of 12 Estates Joint Venture (movements from February 2017 Base – 10 Years)

Year	**2017.18**	**2018.19**	**2019.20**	**2020.21**	**2021.22**	**2022.23**	**2023.24**	**2024.25**	**2025.26**	**2026.27**	**2027.28**	**2028.29**	**2029.30**
£M	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
EXPENDITURE:													
Affordable Housing (900 units)	0.000	0.000	0.000	4.680	24.067	23.173	30.782	42.025	37.975	21.189	0.537	0.000	0.000
JV Investment (JV - Cash Loan)	0.000	0.227	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
JV Investment (JV - Land Loan)	0.000	23.459	0.000	0.000	8.444	0.000	11.290	(0.538)	0.000	0.000	0.000	0.000	0.000
Shared Ownership (514 units)	0.000	0.000	0.000	0.000	0.305	0.732	2.699	3.751	4.192	3.119	0.000	0.000	0.000
Asset Management Programme (12 Estates)	0.000	(0.307)	0.050	(0.607)	(0.503)	(0.411)	(0.615)	(0.296)	(0.422)	(0.869)	(0.552)	(0.317)	(0.405)
Asset Management Programme (New Properties)	0.000	0.000	0.000	0.000	0.000	0.042	0.086	0.132	0.154	0.307	0.456	0.651	0.922
Vacant possession	3.360	8.360	8.203	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
New Build (re-profile)	(2.177)	1.160	1.687	0.000	0.000	0.002	0.004	0.008	0.008	0.008	0.008	0.008	0.009
NET CAPITAL IMPACT (12 ESTATES JV)	**1.183**	**32.898**	**9.940**	**4.073**	**32.313**	**23.539**	**44.247**	**45.081**	**41.906**	**23.754**	**0.449**	**0.342**	**0.526**
FEB 2017 FORECAST CAPITAL SPEND	41.659	26.370	16.266	6.023	6.351	5.876	7.485	5.976	8.279	9.645	9.804	8.068	10.855
REVISED CAPITAL PROGRAMME	**42.842**	**59.268**	**26.206**	**10.096**	**38.664**	**29.414**	**51.732**	**51.058**	**50.185**	**33.398**	**10.253**	**8.410**	**11.382**

Year	**2017.18**	**2018.19**	**2019.20**	**2020.21**	**2021.22**	**2022.23**	**2023.24**	**2024.25**	**2025.26**	**2026.27**	**2027.28**	**2028.29**	**2029.30**
£'000	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**
FUNDING:													
Land receipt (Grant of Building Licence)	0.000	(23.459)	0.000	0.000	(8.444)	0.000	(11.290)	0.538	0.000	0.000	0.000	0.000	0.000
GLA Grant (Affordable)	0.000	0.000	0.000	(0.361)	(5.566)	(4.948)	(6.339)	(8.710)	(9.431)	(5.411)	(0.155)	0.000	0.000
GLA Grant (Shared Ownership)	0.000	0.000	0.000	0.000	(0.161)	(0.407)	(1.673)	(2.455)	(3.338)	(4.024)	(1.874)	(0.459)	0.000
1-4-1 RTB Funding (Affordable Housing)	(0.335)	0.167	(0.482)	(1.013)	(1.575)	(2.025)	(2.588)	(3.263)	(1.238)	(0.225)	0.000	0.000	0.000
1-4-1 RTB Funding (Buybacks)	(3.360)	(4.860)	(4.860)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
RTB Debt Repayment Reserve (16/17 Bal)	0.000	(3.537)	(3.537)	(3.537)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
RTB Attributable Debt Receipts	(2.566)	(1.865)	(1.865)	(1.865)	(1.052)	(1.052)	(1.052)	(1.052)	(1.052)	(1.052)	(1.052)	(1.052)	(1.052)
Shared Ownership receipts	0.374	(4.021)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
JV - Repay Equity	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	(21.140)	(18.172)	(3.569)
RCCO	0.000	9.632	0.243	0.000	(11.179)	(13.900)	(21.521)	(28.628)	(27.371)	(14.718)	0.000	0.000	0.000
MRR / Other	4.704	(4.956)	0.560	2.702	(4.337)	(1.207)	0.215	(1.512)	0.524	1.677	23.771	19.340	4.095
Borrowing	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
NET FUNDING IMPACT (12 ESTATES JV)	**(1.183)**	**(32.898)**	**(9.940)**	**(4.073)**	**(32.313)**	**(23.539)**	**(44.247)**	**(45.081)**	**(41.906)**	**(23.754)**	**(0.449)**	**(0.342)**	**(0.526)**
FEB 2017 FORECAST CAPITAL FUNDING	(41.659)	(26.370)	(16.266)	(6.023)	(6.351)	(5.876)	(7.485)	(5.976)	(8.279)	(9.645)	(9.804)	(8.068)	(10.855)
REVISED CAPITAL FUNDING PROFILE	**(42.842)**	**(59.268)**	**(26.206)**	**(10.096)**	**(38.664)**	**(29.414)**	**(51.732)**	**(51.058)**	**(50.185)**	**(33.398)**	**(10.253)**	**(8.410)**	**(11.382)**

Cabinet 15 November 2017

Appendix 4: HRA Risks Sensitivity Analysis

SENSITIVITY / RISK	JV COMP YEAR	TEST	REV IMPACT END YEAR £ MILLION	BORROWING END YEAR £ MILLION	HRA RESERVE END YEAR £ MILLION	MRR END YEAR £ MILLION	HEADROOM END YEAR £ MILLION	TOTAL RESOURCES END YEAR £ MILLION	MIN RESOURCES YEAR	MIN RESOURCES £ MILLION
BASE (12 ESTATES & BRIDGE CLOSE)	29/30 (YR 13)	N/A	0.000	(174.669)	(87.079)	(42.245)	(34.334)	(163.658)	25/26 (YR 9)	44.388
FINANCING:										
HRA BORROWING (REFINANCING)	29/30 (YR 13)	+ 1%	1.544	(174.669)	(85.535)	(42.245)	(34.334)	(162.114)	25/26 (YR 9)	(43.984)
JV BORROWING (THIRD PARTY)	29/30 (YR 13)	+ 1%	3.794	(174.669)	(83.285)	(42.245)	(34.334)	(159.864)	25/26 (YR 9)	(41.173)
INFLATION:										
INFLATION - HPI / BCIS (JV)	29/30 (YR 13)	+ 1%	(2.301)	(174.669)	(89.380)	(42.184)	(34.334)	(165.898)	25/26 (YR 9)	(44.461)
INFLATION - HRA	29/30 (YR 13)	+ 1%	(5.438)	(174.669)	(92.517)	(40.553)	(34.334)	(167.404)	25/26 (YR 9)	(43.763)
CAPITAL										
FIRE WORKS	29/30 (YR 13)	+ £1M PA	9.089	(176.050)	(77.990)	(38.514)	(32.953)	(149.457)	25/26 (YR 9)	(35.453)
HIGH VALUE VOIDS	29/30 (YR 13)	+ £1M PA	9.089	(176.050)	(77.990)	(38.514)	(32.953)	(149.457)	25/26 (YR 9)	(35.453)
JV PROFITS										
RECOGNITION	29/30 (YR 13)	CASH	(15.636)	(193.320)	(102.715)	(42.245)	(15.683)	(160.643)	25/26 (YR 9)	(18.282)
JV - SALES REVENUES (Private Sales)										
ROMFORD AREA	29/30 (YR 13)	£480 PSF	11.061	(186.515)	(76.018)	(35.262)	(22.488)	(133.768)	2025/26 (YR 9)	(25.043)
ROMFORD AREA	29/30 (YR 13)	£460 PSF	12.768	(193.605)	(74.311)	(32.118)	(15.398)	(121.827)	2025/26 (YR 9)	(17.955)
JV - SALES DELAY										
BY 1 YEAR	30/31 (YR 14)	+ 1 YEAR	10.453	(181.559)	(76.626)	(46.034)	(27.444)	(150.104)	26/27 (YR 10)	(30.019)
[programme completes by 2030/31]										
JV - SHARED OWNERSHIP										
CASH PAYMENT	29/30 (YR 13)	+ £42.1 M	(3.568)	(174.669)	(90.647)	(44.283)	(34.334)	(169.264)	25/26 (YR 9)	(40.160)

This page is intentionally left blank

CABINET

Subject Heading:	**Mercury Land Holdings (MLH) Annual Business Plan update**
Cabinet Member:	Councillor Ron Ower – Cabinet Member for Housing Development Company and oneSource
SLT Lead:	Steve Moore – Director Neighbourhoods
Report Author and contact details:	**Chris Hilton – Assistant Director of Development, 01708432201 chris.hilton@havering.gov.uk**
Policy context:	**Havering Housing Strategy** **Havering Economic Development Strategy** **Havering Proposed Submission Local Plan 2017**
Financial summary:	**The Council will increase its funding of Mercury Land holdings to £58.45 million from the Regeneration and Development budget within the approved Capital Programme via equity and loan funding and this will be financed from Council borrowing. The Council will generate income from fees, interest repayments and in time dividends. This will be reflected within the budget strategy over the medium term.**
Is this a Key Decision?	**Yes - Significant effect on two or more Wards**
When should this matter be reviewed?	**Summer 2018**
Reviewing OSC:	**Scrutiny Board**

The subject matter of this report deals with the following Council Objectives

Communities making Havering
Places making Havering
Opportunities making Havering
Connections making Havering

SUMMARY

This report seeks approval of Mercury Land Holdings Limited (MLH) Business Plan for 2017. It builds on Cabinet's decision to create a wholly owned arm's length company of the Council, the purpose of which was to develop a portfolio of homes for market rent (its prime focus) and sale. It was proposed that the Council will dispose of assets (land/buildings) to MLH at market value for this purpose, for which it will receive a market payment. The Council will provide finance to MLH through a combination of equity investment and loans.

This will constitute capital expenditure for the Council within its approved Capital Programme to be financed through Council borrowing. The overall financing arrangements will be subject to an assessment of State Aid compliance, long term affordability, risk and return on investment by the Council.

MLH aims to provide a long term revenue stream as a return on investment to the Council. This will be in the form of loan interest payments, and dividends from MLH to the Council. Repayment of the original loan principal will be set aside to repay the Council's borrowing.

MLH operates in a commercial manner in the same way as any other private sector company, driven by the requirement to generate commercial profits and returns to its shareholders. The Council's rights as a shareholder in MLH are set out in MLH's Articles of Association and the Shareholder's Agreement.

RECOMMENDATIONS

That Cabinet:

1. Agree that the Leader of the Council after consultation with the Cabinet Member for Housing Company Development & oneSource Management, Director of Legal and Governance, the s151 Officer and the Director of Neighbourhoods and following completion of all due diligence will review and approve the detailed business plan and viability assessments relating to individual schemes within the business plan to enable them to proceed.

2. Agree in principle to provide further capital funding to MLH up to a maximum of £58.45m in respect of North Street and Quarles projects through a combination of equity investment and state aid compliant loans. This expenditure to be met from the capital budget for Regeneration and Development within the Approved Capital Programme to be funded from prudential borrowing.

3. Note the estimated gross income, capital financing costs and net income to be generated for the Council in relation to delivery of the MLH business plan as set out in section 7 of this report; and that subject to completion of due diligence, these sums will be used to update the MTFS prior to 2018/19 budget setting in February 2018.

4. Agree that the Leader of the Council after consultation with the Cabinet Member for Housing Company Development & oneSource Management, the Director of Legal and Governance and the s151 Officer will agree the Heads of Terms of all loan agreements.

5. Agree that the negotiation and finalisation of the loan agreements, provided they are broadly consistent with the Heads of Terms, and the decision to release funding subject to satisfactory financial due diligence, be delegated to the Section 151 officer in consultation with the Director of Legal and Governance.

6. Agree in principle to the disposal of assets (land/buildings) to MLH for best consideration except where it is possible for the Council to accept less than best consideration in which case the sum to be paid will be not less than market rate and delegate to the Director of Neighbourhoods, following consultation with the Director of Asset Management, the Director of Legal and Governance, and the Section 151 officer, authority to determine the principles and processes by which the said assets shall be disposed of and the terms of disposal.

7. Delegate to the Leader of the Council after consultation with the Cabinet Member for Housing Development Company & oneSource Management, Director of Neighbourhoods and the s151 Officer, the exercising of the Council's rights as shareholder to give effect to the above recommendations.

8. Agree as a shareholder of MLH to the following changes to MLH's Board so it consists of the following Council officers, as well as an external unconnected individual who has relevant experience in the house building sector, alongside MLH's own staff:

    a. Mercury Land Holdings Development Manager
    b. Mercury Land Holdings Project Manager
    c. Mercury Land Holdings Finance Officer
    d. Chief Executive London Borough of Havering (Managing Director of MLH)
    e. Head of Property Services, oneSource.
    f. Independent expert with experience in the sector

REPORT DETAIL

1. BACKGROUND

Introduction

1.1 The Council's main objectives for entering into the private sector housing market are:

- To generate an acceptable financial revenue return to the Council by operating a business;
- To contribute to dealing with the housing supply issue in the borough which threatens the economic and social well-being of residents and is also a threat to the local economy. It will seek to avoid large tracts of buy-to-let housing characterised by fragmented ownership, poor management of families from outside the borough, who may place unsustainable pressures on local services;
- To ensure a mix of housing, in terms of type, size and tenure, best matched to the needs of Havering; and
- To support the Council's regeneration and growth aims, bringing forward high quality development on regeneration sites in key parts of the borough, notably though not limited to, Rainham along the A1306, and Romford Town Centre.

1.2 The Council's MTFS approved by Cabinet on 13 October 2017 has an annual net income budget of £0.300m in 2017/18 related to the development and operation of the Oldchurch site (Cathedral Court), having removed previous assumed income targets pending the preparation of the attached Business Plan. The estimated revised income budgets are set out in section 7 and will be used to update the MTFS prior to February 2018 subject to the completion of all due diligence and business case approval

Strategic Context

1.3 One of the most significant housing changes in the UK housing market in the past decade or more has been the rise in the private rented sector and the decline in owner occupation.

1.4 According to a Government review, ‘this trend seems likely to continue due to a combination of declining affordability, a requirement for more equity from purchasers, changes to how home purchase is financed and a relatively low supply of new housing. Further, the private sector rental market sector continues to meet housing need and this seems likely to continue’. According to the English Housing Review from the DCLG, In 2015-16 the private rented sector accounted for 4.5 million or 20% of households, rising from around 10% in the 90’s. Since 2002 the sector has doubled. This is set to rise to 5.79m (or 24%) over the next five years according to market analysis published by Knight Frank.

1.5 London’s population is forecast to grow from 8.3 million in 2012 to 9.5 million in 2020. Of this increase, one of the largest groups will be those in the 20 to mid-30s age bracket. This group is the key rental demographic whose aspiration for home ownership may not be satisfied until much later in life. There is now a growing demand from private sector tenants for quality, professionally managed accommodation and this demand is likely to continue to grow.

1.6 It is widely viewed that the relative immaturity of the Private Rented Sector (PRS) offers institutions and larger organisations such as local authorities an opportunity to shape the sector, and the Government is encouraging this activity.

1.7 Numerous local authorities are venturing into this market, include Kings Lynn & West Norfolk; Ealing, Waltham Forest, Barking and Dagenham, Bexley, Enfield and Newham through its Red Door Ventures. Other institutions, such as Registered Providers, are also seizing on opportunities primarily focused on London and the South East.

1.8 Increased competition has seen fierce competitive bidding for portfolios to the point where net yields in London’s Zones 1-3 are no longer attractive. As such, investors are now focussing on the outer London boroughs, where investors feel capital growth prospects are more favourable, coupled with acceptable rental yields which cover funding costs. Havering fits these criteria.

1.9 It is becoming increasingly difficult for Havering residents to afford homes. A quality rented sector targeting Havering residents would meet their criteria. Likewise, affordability, coupled with improved connectivity through Crossrail, will undoubtedly make towns such as Romford more attractive for tenants who are being priced out of more central London boroughs and increasingly some mid zone locations.

1.10 There is a real opportunity for Havering to take advantage of this anticipated tenant growth and deliver quality, well located and managed PRS development which will deliver a financial return to the Borough, as well as meet its regeneration objectives.

1.11 LB Havering as a provider of PRS homes would be housing a new generation of tenants who fall outside the traditional categorisation of those in need, who want to live knowing their landlord is holding the property for the long term, giving them peace of mind and security of tenure, but also providing a quality level of service.

1.12 Havering needs to make significant savings and generate additional income in order to meet the challenges presented by reductions in government funding and demographic growth pressures upon expenditure in statutory services in order to balance its General Fund budget over the medium term. The Council is therefore seeking to make a broader use of its asset base to generate long term revenue income streams. Traditionally, the Council has successfully sold land to housing providers and developers in order to obtain capital receipts, to provide market and affordable housing and to meet borough wide housing targets. Whilst this activity will still remain important in part, utilising a Havering Housing Company allows the Council to invest capital resources to generate a substantial income streams on suitable development sites to invest in protecting and supporting other services.

2 OPERATION OF MERCURY LAND HOLDINGS

2.1 The Company will primarily develop a portfolio of homes for market rent and sale. As discussed, these will not be affordable homes and will not be targeted at households towards whom the Council owes a housing duty.

2.2 The Company, on behalf of the Council, will own the market rent units, and will market and manage the rental of those homes.

2.3 Dwellings owned by the Company will be let on Assured Shorthold Tenancies and will not be subject to Right to buy, or to the allocations provisions of Part VI of the Housing Act 1996.

2.4 The Company will prepare a specification for the marketing and management of these units and outsource this activity. Procurement will be undertaken subject to legal opinion and regulations. The outsourcing of its housing management and maintenance services is likely to be the most efficient option at the commencement of its business. LBH Housing Services would be able to respond to the outsource tender.

2.5 It is envisaged that the following human resources will be required in terms of on-going management of the business:

- A commercially focussed development manager, with significant development appraisal experience, to assess potential development opportunities.
- A project manager to act as client in managing the delivery of schemes.
- A Finance resource, which would maintain and update the financial model for the Company.
- Other support services from oneSource as necessary and which is likely to include HR, Legal, Asset Management, IT, Finance and Transactional services.
- The Company will procure the services of relevant professionals, such as chartered surveyors to advise on values and experienced cost consultant/life cycle consultant with capability to ensure value for money in terms of product and supply chain.
- The Company will continue to produce an annual business plan.

3 GOVERNANCE

Council as Shareholder in MLH

3.1 The Council’s Cabinet are the prime body acting as the shareholder agreeing MLH’s business plan on an annual basis.

3.2 The Leader of the Council, after consultation with Cabinet Member for Housing Development Company & oneSource Management, and after consultation with the Director of Neighbourhoods, Director of Legal Services and the Section 151 officer to exercise the Council’s rights as shareholder; whose main role is to protect the council’s interests as owner of the company this group will be called the ‘Shareholder review group’

3.3 The above group to meet regularly to review MLH’s performance with MLH’s Managing Director. These meetings are to be attended by MLH’s Directors.

3.4 The above group will be provided with financial/technical assistance from the Council to assess MLH’s performance against its business plan, as well as its general commercial operations and advice on individual business cases.

MLH Director Roles

3.5 As MLH continues its journey of growing, and until it gets to an appropriate level of critical mass, the Council will continue to support MLH’s board through the secondment of the following Council officers, alongside MLH’s own staff and an external, unconnected individual who has relevant experience in the house building sector. It is therefore important to ensure they are not acting as officers of the Council for this purpose and are representing the board, so it is important to ensure there are no conflicts of interest within their roles:

- Chief Executive
- Head of Property Services, oneSource

3.6 The Council retains the right (under the Companies Articles and any Shareholder Agreement) to dismiss and appoint all of MLH's Directors.

3.7 The Directors have ultimate responsibility for directing the activities of MLH, ensuring that it is well run and delivering the outcomes for which it has been established. Its role includes:

- Setting and approving the MLH's annual business plan for presentation to the Council's Cabinet.
- Setting budgets, policies and plans and monitoring performance of MLH, and setting a framework for internal controls.
- Ensuring compliance with MLH's objects, purposes and values. Ensuring the financial strength, solvency and good performance of the HC.
- Ensuring MLH complies with all relevant regulation, laws as well as the requirements of the Council
- Dealing with the appointment and appraisal of staff.
- Procuring services necessary for the execution of MLH's objectives.

Council as Funder

3.8 The Council will act as a bank credit committee, whose primary task will be to assess MLH's viability (as an entity) and the viability of each project which loan funding will be used for and, using this analysis, to determine whether to release loan funding to MLH.

3.9 The Council will annually monitor and analyse financial information generated by MLH during the lifetime of each loan to ensure that MLH is not in breach of key financial requirements (which will be stipulated as funding conditions in each loan).

3.10 The key areas which the Funder Role will want satisfied prior to providing funding for a development are:

- That the financial metrics demonstrate that the loan will be repaid;
- There is confidence that the projected rental stream can be maintained;
- That base level sensitivities (which will trigger warning signals) for MLH's general performance and each proposed development are

properly set and that a sufficient margin is added to the base level to provide reassurance to the Funder Role. (This will form part of the HC's obligations under each loan); and

- That evidence is provided that the terms of financing for each project (loan and equity funding), is State Aid compliant. This will be required from an expert third party.

4 First Year of Operation

4.1 Mercury Land Holdings has been successfully up and running for over a year and has undertaken a number of initial activities.

4.2 During its first year work has progressed around the original approved business case in respect of Cathedral Court.

4.3 MLH has completed the development of the site at Cathedral Court with the aim of long term letting of the properties at market rent. In fact of the 65 flats developed all are currently let, well ahead of the assumptions in the business case for this scheme. The financial model developed to enable assessment demonstrates positive revenues after an initial period and a long term positive return.

4.4 MLH has also successfully got planning approval for 44 flats at the North Street site in Hornchurch.

4.5 The Company's business plan for the second year of its operation can be found at appendix A.

4.6 The plan is based on three schemes, a current rental scheme at Cathedral Court consisting of 65 flats, a further development opportunity at North Street Hornchurch which has planning approval consisting of 44 flats for PRS and Quarles Campus, circa 3.75 hectares for the potential delivery of around 99 homes for sale.

4.7 In financial terms, the rental scheme has funding consisting of equity and a short term development loan from the Council that is repayable in March 2018 and replaced by a 50 year repayment loan.

4.8 The development opportunity funding from the Council will again consist of equity and short term development loans that are again replaced by 50 year repayment operating loans once the schemes are completed and the flats rented in the PRS.

Rental

4.9 The plan shows that by year 4 (2019/20) MLH will have a total of 109 flats rented in the PRS market generating a gross annual rental of £1.6m and a net operating income before interest and fees of £1.1m available to service its debts and from year 14 (2029/30) onwards will have reserves available to declare dividends

Development

4.10 MLH is currently forecasting the development of 2 further sites in this business plan funded by equity and development loans from the Council, the development loans are on an interest only basis and repaid as each scheme moves to the operating phase and the flats are either rented or sold with a 50 year fixed term repayment loan. The peak debt is forecast to be £23.6m in year 7 (2022/23).

Council funding and financial return

4.11 The Council will fund the Company through a combination of share capital, short term development loans and fixed term operating loans.

4.12 Share capital – in return for its investment of £20.344 million the Council will be able to receive dividends from the Company and would benefit from the longer term growth of the PRS portfolio. Table 2 below provides details on the level and phasing of debt and equity provided to Mercury.

4.13 Loans – in return for its long term lending the Council will receive arrangement fees and agency fees that is forecast, based on the three schemes, to be worth £5.366 million over the life of the scheme.

4.14 Future developments will be subject to a full and detailed business case and viability assessment report to enable approval and sign off for funding. The company will own market rent units and will market and manage the rental of those homes.

REASONS AND OPTIONS

5 Reasons for the decision:

5.1 The proposition meets the objectives stated in 1.1.2 and the outline business plan contributes to the financial objectives of the Council.

6 Other options considered:

6.1 A review of the alternative options of do nothing, seeking to undertake the proposition in the General Fund or through the HRA, or establishing a formal joint venture either were not feasible or did not fulfil the objectives to the extent of the preferred option as discussed in this report.

IMPLICATIONS AND RISKS

7 Financial implications and risks:

7.1 MLH is 100% Council owned and will receive equity and loan finance from the Council (see 7.9 and 7.10 below). The financing structure will need to be state aid compliant. In particular, this means that the equity and loan mix will need to be at market levels, with market level interest rates. The Council will make a surplus in terms of the margin on the interest rate applicable to this borrowing. This income will contribute to delivering the income target within the Medium Term Financial Strategy. The Council will also receive dividends from profits generated by the company, although the business plan does not specify when these will be paid.

7.2 The investment of equity and/or the granting of loans to MLH will constitute capital expenditure within the Council's approved Capital Programme. The financial strategy intends for this expenditure to be financed from borrowing for which the Council will incur capital financing costs within its annual revenue budget representing the repayment of loan principal and/or interest, dependent upon the financing structure of debt to equity.

7.3 The approval of debt and/or equity finance for each of MLH schemes will be subject to the completion of satisfactory due diligence carried out upon the business case by officers of the Council, supported by external professional experts as required. This work will assess the scheme in terms of its deliverability, risk profile and projected income return on the investment to the Council. Further, the Council will need to be satisfied that its capital investment in agreeing the project finance is affordable in terms of the overall revenue impact and treasury management strategy on an annual basis and over the medium to long term and is state aid compliant.

7.4 The financial modelling undertaken by Council officers is based upon a number of key assumptions that have been signed off by the Director of Neighbourhoods as the lead client for MLH LTD and in liaison with MLH officers. The key assumptions are summarised below:

- Interest rates at 3% assumed PWLB borrowing
- Inflation at 2%
- Build costs assumptions (ranging from £0.191m for a one bed to £0.334m for a 3 bed)
- Potential sale prices £0.223m to £0.265m per unit for affordable sale, £0.226m to £0.483m for private sale
- Rental income achievable for each development assessed at between £986 per month for a one bed and £1,386 per month for a three bed
- Void and re-let rates (2% for each)

These assumptions are based on prudent analysis of the market and expert advice where applicable.

7.5 Each possible scheme should be subject to individual option appraisal.

Risks include the following:-

7.5.1 **Rent Levels** - changes in the market conditions of developing, selling and renting of homes could lead to a continuous reduction in property rental levels and sale prices. The impact would result in not being able to rent or sell homes for prices indicated, and may result in high working capital and insufficient asset cover for loans. This would be mitigated by the ability to reduce rental rates if need be, change tenure mixes and robust assessment of demand and supply before initiating phases of schemes.

7.5.2 **Development and Construction costs** - An Increase in development build costs, resulting in development schemes becoming more expensive and less viable leading to a reduction in viability of the portfolio. The impact on potential new developments would be tested as part of the viability assessment and may not be approved.

7.5.3 **The portfolio size fails to meet economies of scale**, with the result the Company is not able to carry level of overheads and therefore would be less viable. The pipeline of development in early years is being carefully identified and closely monitored by the Council and the future Company Board. Ongoing committed costs should be minimalised.

7.5.4 **The Company being unable to compete equally in the private market for land purchases**, resulting in the Company unable to deliver programme and returns. This is mitigated through the identification of land held by the Council which would be appropriate for the Company to develop.

7.5.5 **An increase in void turn round times/re-let times** greater than model assumptions, resulting in Income from rent is reduced and company's cash flow to service debt is compromised. This would be mitigated through a rigorous maintenance and management agreement, seeking to shift and mitigate this risk to a third party.

7.5.6 **An increase in the market cost of funding,** not offset by increase in rent inflation, the Council though, has tested the proposals with external advisors.

7.5.7 The impact of the above risks can be assessed by robust testing by both MLH and Council officers as part of the viability assessments of potential development schemes. For some schemes, adopting a risk sharing strategy through partnering arrangements with other private sector organisations with significant developer experience may prove beneficial to MLH and the Council, although may reduce the potential return.

7.5.8 **There is potential risk of changes to legislation in future**. The proposed Company is focussing on the private sector market and is not targeting the affordable market tenure. It would not be threatened, at present by recent announcements on affordable housing disposals or limitations on establishing companies by Councils to deliver housing. However future legislative changes will be kept under review.

7.5.9 An increase in interest rates which would increaser the cost of borrowing over the life of the project

7.5.10 Decreased demand for property to rent or a deceased in rent for Private sector leased properties so that there is a shortfall in rent required to repay debt.

7.5.11 The Government previously indicated the intention to extend Right to buy to Council housing companies – there have been no proposals to enact legislation to this effect.

7.5.12 In the event of a down turn, Mercury may be able to sell properties to mitigate potential losses.

7.6 The 2017 Business Plan is based on three schemes, a rental scheme at Cathedral Court consisting of 65 flats (fully let), and a further development opportunity at North Street for PRS consisting of 44 flats and the development and sale of properties on the Quarles site (subject to final approval by the Council).

7.7 The MLH business plan is supported by initial viability assessments that show all three projects appear to be viable for MLH based on existing assumptions as set out in section 7.4 above.

7.8 It will be necessary to determine that the proposed funding from LB Havering to MLH Ltd is compliant with State Aid legislation (that is the Council is not subsidising MLH to the disadvantage of other developers) and Transfer Pricing (charges to a Council subsidiary are not inflated to minimise tax paid requirements. This is achieved by commissioning an independent professional (Grant Thornton) expert to assess the commercial transaction against the existing market conditions, and will be in place before each project is authorised to proceed.

7.9 The MLH business plan indicates that they will require £58.453 million of funding from the Council, consisting both of share capital and loans.

Table 1 Profile of Capital Expenditure

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Total
	£ m	£ m	£ m	£ m	£ m	£ m	£ m
Oldchurch	16.31	0.63	-	-	-	-	**16.93**
North Street	-	5.87	6.59	-	-	-	**12.46**
Quarles	-	-	-	14.81	9.00	5.25	**29.06**
Total	**16.31**	**6.50**	**6.59**	**14.81**	**9.00**	**5.25**	**58.45**

7.10 This will be financed by the Council as set out the table below

Table 2 Funding for Mercury Land Holdings

	Oldchurch £ m	North Street £ m	Quarles £ m	Total £ m
Equity	8.615	3.738	7.991	**20.344**
Senior debt	8.319	2.492	17.435	**28.246**
Sub debt	0	6.230	3.632	**9.862**
Total	**16.934**	**12.460**	**29.059**	**58.453**

7.11 In 2016/17 the Council approved a total of £100m in the Capital Programme for Regeneration and Development. £16.934m has been previously allocated to the Oldchurch scheme above and a further £10m to Havering College via Cabinet in June 2017. This leaves a total of £73.066m to fund further regeneration and development schemes subject to Cabinet approval. The sum of £45.519m can therefore be met from within the approved Capital Programme, leaving an uncommitted budget of £27.547m to fund further regeneration and development schemes. The profile of capital investment is within the approved Treasury Management Strategy

7.12 The table below shows the projected annual net income to the Council's General Fund Budget based on the attached business plan, after meeting the Council's capital financing costs of borrowing.

Table 3 MTFS impact of investment in Mercury Land Holdings

		OLDCHURCH	**NORTH STREET**	**QUARLES**	
		Net Income	**Net Income**	**Net Income**	**Total Net Income**
		£m	**£ m**	**£ m**	**£ m**
	Year				
31-Mar-17	1	-0.255	0.000	0.000	-0.255
31-Mar-18	2	-0.488	-0.173	0.000	-0.661
31-Mar-19	3	-0.562	-0.377	0.000	-0.939
31-Mar-20	4	-0.560	-0.510	-0.371	-1.441
31-Mar-21	5	-0.143	-0.296	-0.309	-0.749
31-Mar-22	6	-0.144	-0.297	-0.406	-0.848
31-Mar-23	7	-0.146	-0.298	-0.208	-0.652
31-Mar-24	8	-0.147	-0.300	0.000	-0.446
31-Mar-25	9	-0.148	-0.301	0.000	-0.448
31-Mar-26	10	-0.149	-0.302	0.000	-0.450
Total to 25/26		**-2.742**	**-2.854**	**-1.295**	**-6.890**

7.13 Subject to the completion of due diligence on the business case, these forecasts will be used to update the forecast income budgets within the Medium term financial Strategy.

7.14 The Council is required to charge a minimum revenue provision on the equity investment and this has been reflected in the tables above. This is calculated on a 50 year life (2% per annum).

7.15 The Council will benefit from fees charged to MLH Ltd (set out in the table below)

Loan arrangement fee	1.25%
Commitment Fee (Debt standby reserve)	0.47%
Commitment Fee	0.50%
Lenders Agency Fee (per year)	£20,000

7.16 The three projects in the business plan (Cathedral Court, North Street and Quarles) will generate arrangement fees of £1.664m and £3.702m and are reflected in the totals at table 3.

8 Legal implications and risks:

8.1 General

Members established a wholly owned local authority company limited by shares. The company's business is the provision of homes for market rent and if required through compliance with planning obligations the construction of affordable homes. Agreement in principle is sought to provide funding to MLH in the form of either equity or loans, and other support and to dispose of council land to it. Delegations are sought to make such decisions and finalise the various documents that will be required to facilitate the above.

8.2 Section 1 of the Localism Act 2011 provides local authorities with the power to do anything an individual may do subject to a number of limitations (this is referred to as the General Power). A local authority may exercise the General Power for its own purpose, for a commercial purpose and/or for the benefit of others.

8.3 The operation of a business to let homes at market rent with the intention of making profits is a commercial purpose. Section 4 of the Localism Act 2011 requires that where a local authority exercises/uses the general power for a commercial purpose it must do this through a company.

8.4 Further Section 4 of the Localism Act 2011 prohibits the Council doing things for a commercial purpose in relation to a person if legislation requires the Authority to do those things in relation to that same person. This issue is unlikely to arise for MLH as it intends to lease or sell to a Registered Provider any affordable homes it may be required by planning to build.

8.5 Under Part V of the Local Government and Housing Act 1989, the council also has a power to establish companies which can be wholly controlled or influenced by the authority. MLH is wholly owned by the Council and under Part V will be subject to the Local Authorities (Companies) Order 1995.

8.6 Section 2 of the Localism Act 2011 limits the exercise of the new general power where it 'overlaps' with a power which predates it, such as Section 95 of the Local Government Act 2003. Whether the Council relies on the General Power and/or Section 95 it is prudent for it to comply with the requirements and limitations to which section 95 is subject.

8.7 These are set out in Regulation 2 of the Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009 (the **Order**) which requires a business case to be prepared and approved by the council before a company starts trading.

8.8 Regulation 2(4) of the Order defines "business case" "as a comprehensive statement of:-

- the objectives of the business;
- the investment and other resources required to achieve those objectives;
- any risks the business might face and how significant these risks are; and
- the expected financial result of the business, together with any other relevant outcomes that the business is expected to achieve

8.9 Before approving the business case Members should satisfy themselves that the document and its appendices) contain the relevant information required by the Order (see paragraph 5.6 above). The Leader of the Council after consultation with the Cabinet Member for Company Development and oneSource Management and other officers to whom finalisation of the business case has been delegated should also ensure that they ensure their due diligence includes compliance with the requirements of the Order

8.1 Section 95 of the Local Government Act 2003 (the 2003 Act) act also permits the council as a best value authority to establish a vehicle to carry out trading in any of its ordinary functions.

9 Finance

9.1 Section 24 LGA 88 provides the Council with the power to provide a wide range of financial assistance to MLH including making a grant or loan to it and as MLH is a body corporate the Council may under Section 24 (2)(d) acquire share or loan capital in it.

9.2 Section 111 of the Local Government Act 1972, provides councils with the power to do anything whether or not involving the expenditure, borrowing or lending of money or the acquisition of property rights which is incidental, conducive or calculated to facilitate the exercise of any of their functions. This would include the exercise of functions under section 1 of the Localism act and s.95 of the 2003 Act referred to above. The council could rely on this power to provide the company with loans and other support such as providing staff and the use of premises. Any support provided must be state aid compliant (see below) and will be the subject of agreements between the council and MLH.

9.3 If the Council intends to borrow to lend to MLH regulation 25 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146) treats the giving of a loan by a local authority to a third party (such as MLH) towards expenditure (e.g. works on a new buildings) as capital expenditure providing that if the local authority itself incurred that expenditure (it borrowed to undertake the works itself) it would treat that expenditure (under proper accounting practices) as capital expenditure. It should be noted that the Council borrowing to lend to MLH in connection with revenue funding is not permitted.

10 Land disposal and financial assistance

10.1 Section 32 of the Housing Act 1985 requires the Council to obtain the Secretary of State's consent for the disposal of land held under the Council's HRA. The Secretary of State has issued the General Housing Consents 2013 (the General Housing Consents) which set out circumstances in which he pre-approves/pre-consents to a local authority disposing of HRA land and property. Consent A 3.2 of the General Housing Consents permits the Council to dispose of vacant land. Members should note that vacant land means land where there are no dwellings and/or where any dwellings are no longer capable of human habitation and are due to be demolished.

10.2 The Council is entitled to dispose of land held by its General Fund (including buildings) to a third party provided it complies with Section 123 of the Local Government Act 1972. This requires it to obtain a consideration which is not less than the best it could reasonably obtain. If it disposes of a property at an "under-value" it does require the consent of the Secretary of State (except for limited circumstances such as short term leases).

10.3 If the Council was able to sell at an under-value (and remain State Aid compliant) the Council may be able to rely on Circular 06/03 (the Local Government Act 1972 – disposal of land for less than best consideration) which sets out circumstances in which the Secretary of State pre-approves/pre-consent to the disposal of General Fund land at an under-value. If this consent is to apply then the "under-value" (in relation to a disposal) must not exceed £2m and the Council's purpose in making such a disposal must be to contribute to the economic social or environmental well-being of the authority's area and/or its residents.

10.4 The finance which Members are requested to approve in principle (whether on commercial terms or otherwise) constitutes 'financial assistance' under the terms of Section 24 of the Local Government Act 1988 (the LGA 88) which permits the Council to provide financial assistance to any other person for the provision of "privately let accommodation". If the Council exercises its powers under this section then under Section 25 of the LGA 88 it must obtain the consent of the Secretary of State to do so. The Secretary of State has set out pre-approved consents in the "General Consents 2010" (July 2011 updated in 2014). If the circumstances of financial assistance meet one of the criteria in the General Consents then the Secretary of State's consent is given.

10.5 Section 24 LGA 88 provides the Council with the power to provide a wide range of financial assistance to MLH including making a grant or loan to it and as MLH is a body corporate the Council may under Section 24 (2)(d) acquire share or loan capital in it.

10.6 The current version of the General Consents 2011 contains Consent C. Under this consent the Council could provide financial assistance to any person.

10.7 When exercising its powers, the Council must, as with any other power, have regard to its own procedural rules, the Wednesbury principles of reasonableness and its fiduciary duties. It must also ensure that its powers are used for the proper purpose.

11 Fiduciary Duties

11.1 The Council's fiduciary duties could be briefly summarised as it acting as a trustee of tax and public sector income on behalf of its rate and tax payers. The Council in effect holds money but does not own it; it spends money on behalf of its business rate and council tax payers.

11.2 Members in making the decisions concerning MLH, whether making investment and or extending loans to that body (and similar activities) should give proper consideration to the risks and rewards of approving the recommendations. In practice Members will want to consider whether the Council will achieve an appropriate return for its risk and that the Council has minimised the risk and potential cost to it if MLH became insolvent and/or defaulted on its loan(s).

11.3 Consideration should also be given to whether the Council's involvement in this arrangement is proportionate and properly balanced against the anticipated benefit as well as the wider interests of its local business rate and tax payers. On a practical basis this means that Members should consider whether the monies they are requested to approve for investment/lending to HC could be better used by the Council for the wider interests of its local tax payers. This should include considering the impact on the Council (and therefore its local tax payers) if MLH became insolvent or otherwise defaulted on loans it had taken from the Council.

12 State Aid

12.1 The council is required to provide funding and ensure it and MLH operates in accordance with the state aid requirements. Article 107 (1) of the Treaty on the Functioning of the European Union (**Treaty**) declares that state aid, in whatever form, which could distort competition and affect trade by favouring certain undertakings or production of certain goods, is incompatible with the common market, unless the Treaty and in practice the European Commission (through regulations and decisions) allows otherwise.

12.2 It is important that any loans/credit or other support provided to MLH are state aid compliant. Loans/credit which the Council generally makes available to MLH must be made on commercial terms and at a commercial interest rate. If the Council subsequently chooses to make an equity investment into MLH its must ensure this is done on commercial terms. It will be necessary for the Council to obtain independent confirmation that such arrangements have been made on commercial terms prior to them being entered into.

12.3 In these circumstances it would be necessary for the Council and MLH to enter into as what is termed an ‘Entrustment Agreement’ to ensure compliance with State Aid requirements for SGEIs. This should be done when such funding is made available.

13 Human Resources implications and risks:

13.1 Consideration needs to be given as to whether the company’s employees should be directly employed by the company, or be agency workers/consultants engaged directly by the company or by the Council on behalf of the company or be employed by the Council and ‘seconded’ to the company either temporarily or on a permanent basis. Each option will be considered in the light of the needs of the company to be able to attract, recruit and retain their employees by paying an appropriate ‘private sector’ market rate salary and the possible risk to the Council of creating comparators from an equal pay perspective should the Council act as the employer.

13.2 In as similar manner the Company will need to establish suitable company infrastructure such as accommodation, ICT.

14 Equalities implications and risks:

14.1 An Equality Impact Assessment on the establishment of a private sector focussed Council Owned Housing Company, the results of which led the council to believe it’s’ operation will have a positive impact on local residents, businesses and staff.

14.2 As the Company was established by the Council, its development had to be compliant with the Public Sector Equality Duty (PSED) in the Equality Act 2010 (EA10).

14.3 Once established the Company will to be operating in compliance with the general duty of the EA10 and will be required to carry out Equality Impact Assessments on relevant projects and initiatives so as to ensure that positive equality outcomes are optimised and any potential/likely negative implications are mitigated.

BACKGROUND PAPERS

None

Appendix: MLH Business Plan Attached

This page is intentionally left blank

Mercury Land Holdings Limited

Business Plan – 1st April 2017

Contents

1. Summary

1.1. Introduction

The Company will undertake three separate activities, development of properties, sale on the open market and rental of PRS properties.

The plan is based on three schemes, a rental scheme at Cathedral Court consisting of 65 flats (fully let), a further development opportunity at North Street for PRS consisting of 44 flats and the development and sale of properties on the Quarles site.

In financial terms, the Cathedral Court scheme has funding consisting of equity and a short term development loan from the Council that is repayable in March 2018 and replaced by 50 year repayment loans.

Funding from the Council for the North Street opportunity will consist of equity and short term development loans that are again replaced by 50 year repayment operating loans once the schemes are completed and the flats privately rented.

Finally the Quarles scheme funding from the Council will again consist of equity and short term development loans that are repaid by sales proceeds with any residual equity and profit used employed in future schemes.

1.2. Rental

The plan shows that by year 4 the company will have a total of 208 flats in the PRS market generating a gross annual rental of £1.6m and a net operating income before interest and fees of £1.1m available to service its debt.

1.3. Development

The Company is forecasting the development of 2 further sites funded by equity and development loans from the Council, the development loans are on an interest only basis and repaid as each scheme moves to the operating phase and the flats are rented with a 50 year fixed term repayment loan. The peak debt is forecast to be £23.6m in year 7.

1.4. Council funding and financial return

The Council will fund the Company through a combination of share capital, short term development loans and fixed term operating loans.

- Share capital – in return for its investment of £8.7m the Council would benefit from the longer term growth of the PRS portfolio.
- Loans – in return for its long term lending the Council will receive interest, arrangement fees and agency fees that is forecast, based on the three schemes, to peak at £2.7m in year 6 and generate a gross return of £58m over 54 years.

2. Background

Since 2014, Council Officers supported by specialist consultants, assessed the potential of the Council participating in the development of market rent 'PRS' (its prime focus) and market sale homes in the borough. On 13th May 2015 the Council's Cabinet agreed in principle to the establishment of the Housing Company, Mercury Land Holdings, which would be a wholly Council owned, arms-length commercial entity to pursue this activity.

The Council's main objectives for entering into this market are:

- To generate a financial return to the Council from the business.
- To make use of existing Council capital assets and /or funding sources, by way of investment in housing to deliver value to the Council over the long term, whilst helping meet short term housing need.
- To contribute to dealing with the housing supply issue in the Borough which threatens the economic and social well-being of residents and is also a threat to the local economy. It will seek to avoid large tracts of buy-to-let housing characterised by fragmented ownership, poor management of families from outside the Borough, who may place unsustainable pressures on local services.
- To ensure a mix of housing, in terms of type, size and tenure, best matched to the needs of Havering; and improve management standards
- To support the Council's regeneration and growth aims, bringing forward high quality development on regeneration sites in key parts of the borough, notably, though not limited to, Rainham along the A1306, and Romford Town Centre.

3. Company

3.1. Development

The company will be developed in accordance with the Business Plan. The principle for the growth of the company is to organically evolve, matching staff resource with work load associated with the development contracts.

The business currently has only small scale, core staff essential to enable its development to a fledging commercial operation. This business plan has made an allowance for staffing costs to enable this development. Currently certain appointments within MLH are a shared resource between the Council and the Company, the company compensating the Council for the cost of their time.

The following posts are currently occupied:

- Development Manager – commercially focused with development appraisal experience.
- Financial Manager – to maintain the financial modelling for business cases, business planning & statutory records and accounts as well as operating as the company secretary

Future appointments are proposed as follows:

- Project Manager – to act as client in managing delivery of schemes (it is likely this resource will be from ED and charged time at an appropriate market rate)
- Procure professional individuals as required, e.g. chartered surveyors and Employers Agents. These posts are a mix of temporary and part time staff. Once the company has become established the intention is to recruit market experienced staff to fulfil specialist functions such as housing management.

The Housing Company will also benefit from the resource available to it from the appointed board directors who bring expertise and valuable senior management resource. We have charged considerable time allocations from the directors into the overhead structure of the model.

3.2. Rental

The Company will primarily develop a portfolio of homes for market rent. These will not be affordable homes and will not be targeted at households towards whom the Council owes a housing duty.

The Company has completed the development of the site at Cathedral Court with the aim of long term letting of the properties at market rent. In fact of the 65 flats developed all are currently let, well ahead of the assumptions in the business case for this scheme. The financial model developed to enable assessment demonstrates positive revenues after an initial period and a long term positive return.

Future developments will be subject to a full and detailed business case and viability assessment report to enable approval and sign off for funding. The company will own market rent units and will market and manage the rental of those homes via letting agents or others with market specialisms

Dwellings owned by the company will be let on Assured Tenancies of 1 to 5 years initially. The company's aspiration will be to retain good tenants and incentivise them to stay. As such this will be reviewed with the potential for longer terms to meet the Council's objectives of promoting sustainable communities. The longer term tenancies offer security to tenants and hence help stabilise communities. From the Housing Company's perspective, the longer term also gives some certainty for revenue flows as it provides contracted intent for longer periods. It also reduces the void cycle and letting costs, and thus potentially increases returns.

The market rent dwellings are not subject to Right to Buy or to the allocations of Part VI of the Housing Act 1996. Market rent homes will be let at market rents, which during the tenancy will rise in line with RPI plus 1% per annum. They will generally reflect good quality offers that are currently emerging in the market and supported by institutional investors.

The company has prepared a specification for the marketing and management of the units at Cathedral Court and outsourced this activity along with housing management and maintenance services. This is considered to be the most efficient option at the commencement of its business.

3.3. Sales

On occasions the company will develop homes for sale on sites including Quarles. This will bring capital into the Company and reduce future equity requirements thus improving the returns to funding ratio to the Council.

3.4. Council funding and financial return

The Council will provide loans priced for a commercial rate of return which will be in line with prevailing market rates, and terms and conditions. The funding profile of each loan will be tailored to the requirements of that project.

The loans will be provided on a per project basis and will be fully State Aid compliant and provided on a commercial basis. Initially a State Aid Report was provided by Savills Corporate Finance for the Cathedral Court Development. A new report based on the current financial climate post EU referendum and the Company's proposed portfolio has been produced by Savills.

Standard funding principles are proposed with weighting assumed against the higher risk loans/investment levels and lower cost funding for the lower risk loans. Loans to the company for developments will be provided for the funding of specific assets. As it is the intention of the company to hold the properties for the long term, and as the loans are secured against the assets, the majority of loans will be provided as long term commitments. Should there be a requirement within a scheme to fund over a shorter period, shorter term funding arrangements can be applied provided the basis of repayment is assured, and the financial model evidences viability.

MLH will be involved in both the development of properties and the operational letting of properties, accordingly, both development funding and operational/investment funding terms will be provided. The repayment profiles will be set and contracted within the respective loan agreements. The tenor of Operational/Investment period loans will need to be sufficient to ensure full repayment of the Councils loan commitment.

The Council will provide the senior and sub debt funding to the development projects on a fixed rate basis in order to protect against exposure to interest rate risk. There will be a new loan for each new facility, and potentially staged draw downs. Tranches of loans to the company will relate to specific schemes over time. Havering Council as the provider of equity funding will receive dividends on the equity invested through share subscription, subject to performance. Any sub debt facility provided will generate interest and repayment of capital during the operating period. Once invested equity will remain within the company for the long term.

Havering Council as funder will receive security. Funds provided for the funding of projects will be secured on assets via a debenture. Final sign off for each development will be through the submission of a detailed appraisal of the project inclusive of a funding request, prepared by the company – the viability assessment.

In addition to loan facilities the company will require at least for the first few years a working capital facility. This facility will provide funds to the company to cover costs until such time as the rental income from developments is such that the company will be self-sufficient.

In arriving at a suitable funding arrangement a number of factors have been taken into consideration:

- The Council's objectives of generating a revenue return

- The need to establish the company as a sound and viable long term business
- State aid regulations
- HMRC considerations.

The principals of the lending outlined above are set out in a three documents developed by the Council in conjunction with Mercury Land Holdings. These are as follows:

- Overarching agreement
- Senior and sub debt agreement
- Working capital facility.

The following is a summary of the facilities which the business will require:

Facility	Purpose	Type	Repayment	Comment
Working capital	To fund day to day operations.	Floating rate chargeable on outstanding balance.	From cash flow, priority above dividends in the cash cascade.	365 day facility, annually renewable. Limit and servicing in accordance with the company business plan.
Equity	As equity investment within the business, and apportioned/provided as investment into development projects on a per project basis.	Shareholder investment in exchange for shares.	From dividends, or in certain circumstances from repurchase of shares, or sale of shares to a third party.	
Sub debt	Ranks below senior debt loans and above equity. Attracts interest and therefore enables a regular income return. Fully amortises.	Proposed as fixed rate	Service of interest and capital. Profiled within the financial model.	
Senior debt	Highest ranking loan. Fully amortises in a straight line.	Fixed rate. Lowest rate of the products.	Service of Interest and capital profiled within the financial model.	

4. Market Commentary

4.1. Overview

MLH at this point remains confident in market sale and the rental market in Havering. However a number of issues determine that caution is required.

London house price growth is slowing and prices could well start to fall if the economy slows significantly ahead of Brexit and risinginflation that puts pressure on household finances. The prime central London market has seen price falls of c 5% over the past 12 months which is mainly due to the impact of changes to stamp duty land tax on £1.2m + properties, although there is some evidence that the decrease in value of sterling has encouraged some overseas purchasers. However more affordable areas of London are seeing significantly more activity e.g. areas outside travel zones 1 & 2, where demand is supported by domestic buyers underpinned by a continued low interest rate environment and low supply.

The downside risks to the housing market are milder than the events that led to the 2008 financial crisis. However, political and economic uncertainty may curtail housing market activity as discretionary buyers exercise caution following the referendum and the June 2017 election. The potential for banks to tighten lending criteria further presents a longer term risk to market activity, especially among first-time buyers and second steppers. This could mean that UK housing transactions, which reached a post credit crunch high of 1.3 million transactions over the past year, fall back. It is likelyhowever that any resultant slow down in the sales market would lead to an even further increased demand for rental properties than exist at present.

4.2. Romford/Havering Housing Market

Property website Rightmove's House Price Index shows that buyers are widening their net in a bid to find more affordable housing, with increased demand pushing prices up on the outer edges of London in places such as Havering. Havering saw the biggest annual London house price increase in 2016, with the average house price increasing by £40,000 to £392,000 whilst still £200k less than the London average. Buyers are also being drawn by the new Crossrail stations under construction in Romford, Gidea Park and Harold Wood – which are due to open in 2018. A summary of typical current prices is set out below:-

Type	price	psf
Romford - 1 bed new build flat	£250,000	£460 psf
Romford - 2 bed new build flat	£330,000	£440 psf
Romford - 2nd hand 3 bed house	£450,000	£360 psf
Harrold Wood - 1 bed new build flat	£300,000	£510 psf
Harrold Wood - 2 bed new build flat	£380,000	£500 psf

One of the features of the Romford town centre market is the lack of significant new build starts. This is primarily because completed development values need to achieve c £425/450 psf + for major projects to move into profitability - given the existing use value of development sites and the cost of new build construction. This tipping point has now been reached.

<u>Recently Completed schemes</u>

Hexagon – permitted development – 80 flats
Oldchurch – Swan housing completed final phase of 65 flats in 2017

Schemes Under construction

Kings Park, Harold Wood – Countryside – 1000 units through phased completions. Successful scheme, has driven up values.

Planned schemes

Crow Lane, Romford – 150 units
143 North Street, Romford – 40 flats
Dovers Corner, Rainham – 396 units. Has planning permission.
23–25 North Street, Romford – 100 flats
Decathon Site, Angle Way, Romford – 350 units. Old planning permission, but still live.
St Georges Hospital – 279 units
Broadway Parade, Hornchurch – 70 units
89 New Road, Rainham – 59 units
35-87 New Road, Rainham – 248 units

Havering Housing Supply

Year	Total	Private	Affordable
08/09	678	377	301
09/10	515	196	319
10/11	254	161	93
11/12	592	592	445
12/13	497	182	305
13/14	962	645	317
14/15	748	419	329
15/16	1,155	778	401

4.3. Build to rent market

The Build to Rent market is an expanding sector where operators, often backed by financial institutions, are competing with the traditional buy to let landlords by offering professionally managed homes designed with their tenants needs in mind. Knight Frank predict that £50 billion will be invested by institutions in the sector over the next 5 years. The majority of the existing stock is in London (c 13,000 units) and developers are now focusing more in the regional cities such as Manchester and Birmingham where the yields are higher. Schemes are getting larger, with 100 + units being the norm offering the potential to provide other services to tenants.

The fundamentals of the buy to rent sector are strong. People need somewhere to live. There is a desire to live in cities in areas with good transport connections, there is a shortage of accommodation and many cannot afford to buy. In addition, there are an increasing number of employees whose contracts or visas are temporary, so many individuals prefer to rent rather than buy.

Developers vary the level of service and amenities provided within their schemes depending on their target tenant market and their ability to charge increased rents, so will consider concierge, gyms, free wifi, break out spaces, cycle repair facilities, cafes etc., but will also be focusing on anticipated occupancy levels and gross to net income efficiencies.

The design of the accommodation needs to increasingly reflect the demographics of the demand – whether individuals, sharers, and/or families etc. For example a family may prefer a two bed one bath, sharers a two bed two bath and others an enclosed kitchen.

Operational efficiencies are really important. Every £1 of operational savings equates of £25 in value. Opportunities to reduce costs include providing the optimum level of amenities, fitting out the accommodation with durable fixtures which need little or no maintenance, efficient parcel delivery, rubbish systems that cope with recycling demands, minimise staffing, energy efficiencies etc. Rent collection technology and automated letting and tenancy renewal procedures will further improve efficiencies and reduce costs.

MLH is adapting to this market place and in purpose built schemes such as North Street, Hornchurch is tailoring its proposed schemes to the rental market.

From the tenants perspective, flexibility on the length of tenancy, streamlined contract administration, immediate responses to queries and repairs, transparent procedures, a clear understanding of their responsibilities (i.e. no hidden fees), an understanding of the deposit protection process and reasonable rent increases are important areas to focus on to achieve an outstanding level of customer care and corresponding satisfaction. If the property is managed efficiently there will less tenant turnover, it will increase the number of tenant referrals and enhance the operational brand.

In summary MLH remains confident in the Havering rental and sale market. It is cognisant of potential economic uncertainty but with infrastructure spending and the regeneration effect impacting East London, it is felt that housing sale and rental prices will continue to increase

5. Company structures and administration

5.1. Introduction

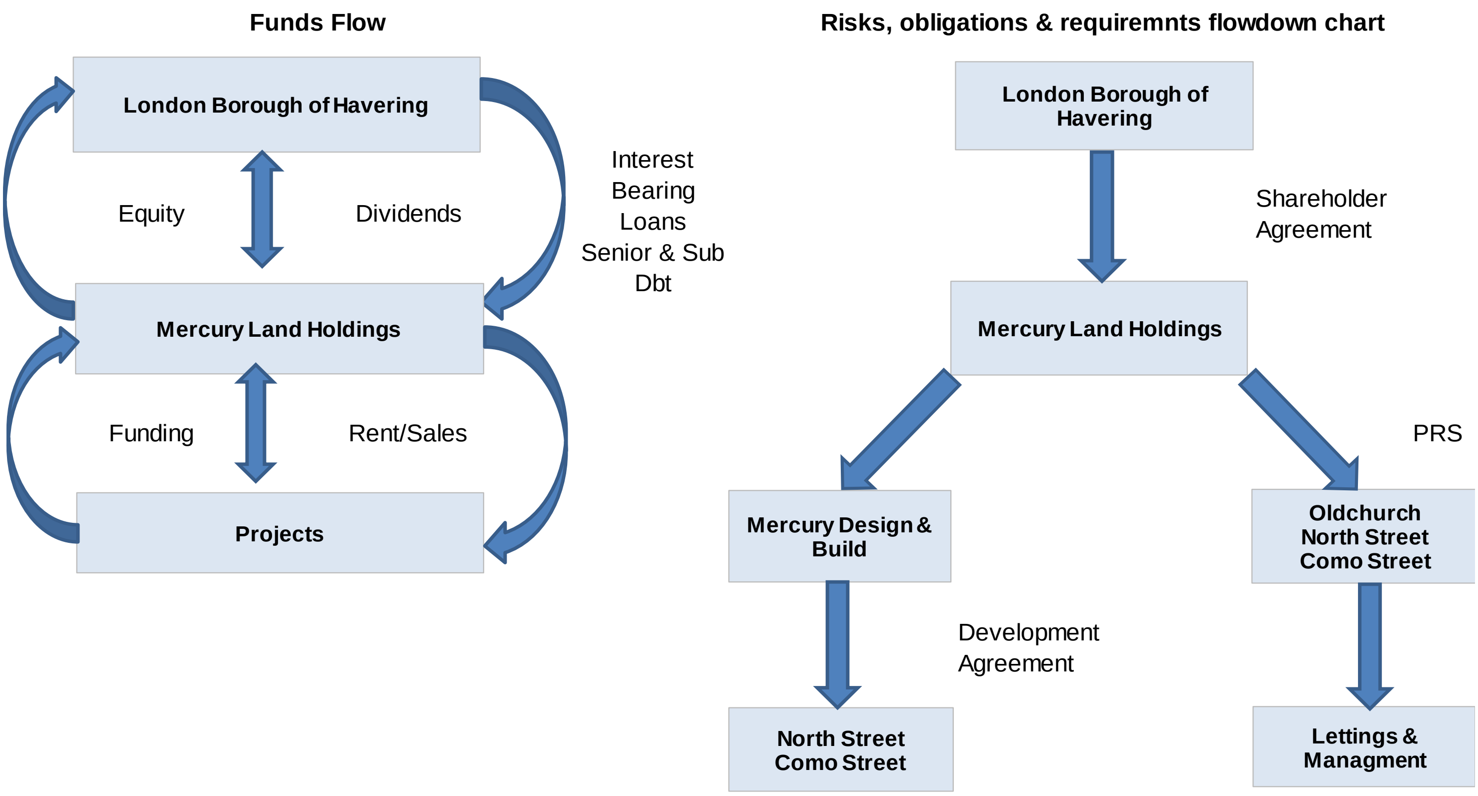
The company was incorporated on the 18th November 2015 as a private limited company wholly owned by the London Borough of Havering.

The Company's purpose is set out formally in its Articles of Association and Memorandum of Agreement. These form the Company's constitution and set out its objectives.

The company operates through its own management board (appointed by the shareholders). The Memorandum and Articles define the responsibilities of the directors, the kind of business to be undertaken, and the means by which the shareholders exert control over the board of directors. It also sets out the arrangements by which proceeds will be redistributed back to the shareholder.

5.2. Contractual structure and relationships

The following diagram is intended to illustrate the current structure in place for the projects and the risk flow-down.



MLH is a single company owned by the Council. MLH will take out loans and request investment from the Council in its role as funder and enter into the developments. MLH through its wholly owned subsidiary (Mercury Design and Build) will develop properties, to maximise potential tax savings. Resources are provided to the company through the Council and through MLH on the basis of full costs incurred. Developed properties will be let and managed by Mercury Land Holdings and it will be this company that will receive rents.

5.3. Company status as a commercial operation

The Housing Company is a 100% subsidiary of the London Borough of Havering operating in an arms- length capacity operating in a commercial manner and reporting to its shareholders.

The company has a commercial corporate governance structure, which includes Council officers and includes appointments from outside of the Council so as to bring in experienced market expertise. The Company will comply with UK Company accounting and operating requirements, appoint auditors, pay tax, and complete annual returns.

As the business of the company is for the long term ownership and letting of homes for market rent, and to develop homes for sale, the business will need to engage with partner suppliers including building contractors, letting agents & consultants. The company may also from time to time have a requirement to sell assets predominately units for sale.

The Council are the shareholders and have control of the company and its assets. This also means that the shareholders are responsible for its liabilities and are able to benefit from profits and ultimately any value accumulated through the assets.

The Council also fulfils the separate role as funders of the business and funders of the development projects. As funder the Council will have different and specific interests relating to its role as a lender.

There are therefore two different business relationships with the Council which will form part of the future ongoing business arrangements each with its own governance. The Council's two roles are separate, and are managed within the Council separately. The relationship to the Housing Company is arms-length for both roles.

The key financial considerations from the respective interests include:
a) The returns to the Council as shareholders and funders
b) The performance of the Company, so that it is projected to be viable and operate profitably over the longer term.
c) The funding requirements, for both the operation of the company, and the funding of projects.

5.4. Company costs and budget

Although the company so far only has the Cathedral Court development of 65 properties it requires a minimum level of resource to operate as a coroprate body and to enable the development of future schemes.

The company will be developed in accordance with the Business Plan. The principle for the growth of the company is to organically evolve, matching staff resource with work load associated with the development contracts.

The business has only a small scale operation of core staff essential to enable its development to a fledging commercial operation. This business plan has made an allowance for staffing costs to assist this development. Currently certain of the appointments are staff who will are a shared resource between the Council and the Company, the company compensating the Council for the cost of their time.

The following posts are currently occupied:

- Development Manager – commercially focused with development appraisal experience.
- Financial Manager – to maintain the financial modelling for business cases, business planning & statutory records and accounts as well as operating as the company secretary

Future appointments are proposed as follows:

- Project Manager – to act as client in managing delivery of schemes (it is likely this resource will be from ED and charged time at an appropriate market rate)

- Procure professional individuals as required, e.g. chartered surveyors and Employees Agent.

These posts are a mix of temporary and part time staff. Once the company has become established the intention is to recruit market experienced staff to fulfil specialist functions such as potentially those relating to housing management. The budget below allows for the costs of the current and proposed staffing required.

The other costs included allow for the running costs associated with running a company. It should be noted that the budget below does not include any of the running costs of current or proposed developments.

	2017-18 £'000	20018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000
Wages and Salaries	226	251	258	266	274
Office Rent and services	3	3	3	3	4
IT	10	11	11	11	12
Post, Printing and Stationery	0	0	0	0	0
Travel and subsitence	1	1	1	1	1
Conferences and training	2	2	2	2	2
Professional Fees	24	24	25	26	27
Insurances	1	1	1	1	1
Bank	1	1	1	1	1
Contingency	12	12	13	13	14
VAT	56	61	63	65	67
	337	**368**	**379**	**390**	**402**

5.5. Tax and Accounting

Specialist tax and accounting advice has been sought including general advice in respect of the company, and which is relevant to the projects. Advice has been received from the Company's appointed advisors Mazars. Further and more specific advice will be procured as the company and individual schemes progress. This is required to ensure compliance and consideration of tax liabilities within the Business Plan. It is noted that tax considerations are subject to change dependent on prevailing HMRC requirements.

Where possible, and in accordance with market practice the company will seek to use tax and accounting advice to ensure that it operates in line with market convention, and is not disadvantaged by deal structure and associated costs relevant to tax and accounting practices. This will also ensure that the company is protected from challenge and operates in a professional and compliant basis.

Advice as relevant to each scheme will form part of the development of a scheme and the assumptions with advice (where relevant) will form part of the respective viability assessment report.

As the company development has progressed further advice has been sought in respect of (amongst other matters):

- The impact on the Councils accounts, and any matters that require consideration for the Council in respect of audit,
- Effective tax and accounting, such as for SDLT, and other taxes, relevant to the company and in relation to the treatment of the debt and equity finance.
- Treatment of VAT, timing and eligibility for VAT registration.
- The potential cost of irrecoverable VAT and appropriate treatment.
- The creation of Mercury Design and Build Ltd and associated tax issues

The intent is to be prudent, ensure compliance, and to build the business going forward on an informed and efficient basis, giving consideration to the impact of the business on the accounts of the Council.

6. Sites acquisition and development

6.1. Introduction

The company buys land from the Council at market value in order to satisfy the Council's best value requirement, state aid requirements and to ensure it is compliant with the Councils general consent to dispose of land at best value, so no special consent would be needed

In terms of a financial payment from the company to the Council for land it is proposed that funding is satisfied through a mix of share issued to the Council, and a loan from the Council.

This business plan is based on three developments. These developments are:

- Cathedral Court, Romford which has already been developed and is partially let
- North Street, Hornchurch which has current planning permission and is in the business case development stage
- Quarles Campus which is still at the design stage.

6.2. Cathedral Court Wideford Drive, Romford

The freehold interest of Cathedral Court – a residential block of 65 flats - was purchased off plan by MLH for £16.5m ie £345 psf from the developer - Swan Housing. Completion was in April 2017. The flats are let at the open market rent on standard residential tenancy agreements. The estimated rental value is £930k pa – which equates to a gross yield of 5.5% before operating expenses. The business plan is to hold the units as a long term investment. Occupancy is significantly ahead of forecasts, and capital growth is likely to be c£3m this year, given market evidence of £420 psf is the current market level for new build properties close to the ring road.

Cathedral Court is located in the Oldchurch residential district of south east Romford circa 10 minutes walk from Romford Station and 5 minutes from Queens Hospital. Access will improve in the short to medium term with a new crossing planned across the ring road. Vehicular access is via Oldchurch Road and an internal estate road known as Crown Drive. The building is adjacent to Jubilee Park as well as a cleared development site fronting Union Road, which has planning consent for a four storey school building – to be operated by Concordia Academy.

The property is a 5 story rectangular shaped brick clad residential building completed in April 2017 comprising 65 flats. (13 one beds, 36 two beds & 16 three beds) which are accessed via 4 lift cores. The flat roof is arranged as a terrace for the use of the occupiers of the building.

<u>Accommodation</u>

Beds	No.	Av. Flat Size (Sq.Ft.)
1 Bed Units	13	538
2 Bed Units	36	763
3 Bed Units	16	968
Total	65	49,945

In addition there are 65 car spaces, both Wideford Drive and underground spaces in the communal car park below block C.

Cathedral Court was designed as a 'for sale scheme' by the vendor – and there was limited opportunity for contract variations. In summary the specification is mid range and entirely appropriate for the target market, including wood laminate flooring in living rooms, carpets in bedrooms, laminate kitchen surfaces, AEG kitchen appliances, recessed lights in the living and bathrooms, pendent lights in bedrooms, wall mounted radiators, video entry system, hyperoptic internet etc. Fitted wardrodes in the 2nd bedrooms, wifi, curtains, sockets with integrated USB power outlets and kitchen carosels were added following MLH's purchase.

Mercury Land Holdings owns the freehold interest of Cathedral Court and a 999 year long leasehold interest from the 18th July 2016 on 50 covered allocated car parking spaces.

There are no legal or planning restrictions on the use of the accommodation or claw back provisions if any of the flats are sold in due course.

The accommodation is let on an Assured Shorthold Tenancy Agreement compiled by Freeths LLP. At the time of preparing this business plan all flats are let. This is significantly ahead of schedule. Our financial plan was assuming the development would have been 50% let by the end of June.

A summary of the key information for Cathedral Court is shown below.

PRS		Per Unit			Total site	
	Total Units No.	Monthly Rent £	Build Cost £000's	Market Price £000's	Build Cost £000's	Market Price £000's
1 Bed Units	13	975	185	208	2,411	2,799
2 Bed Units	36	1,273	263	278	9,479	10,361
3 Bed Units	16	1,368	334	308	5,340	5,102

6.3. North Street Hornchurch (Proposed)

MLH has been working on this scheme for over one year, following the LBH decision to dispose of this site. MLH has prepared and successfully acheived a resolution to grant planning permission for 44 flats. MLH has prepared and successfully achieved planning permission for 44 flats on this 0.7 acres developmentsite, subject to signing of the S106 Agreement. The plan is for MLH to purchase the site, implement the consented scheme and hold as a long-term investment. MLH has begun the tender process for construction partners, and following return of tenders will submit for Board and shareholder approval to deliver the scheme.

After the approval of this buiness plan a full business case will be provided to the Council to approve the go ahead on the scheme and appoint its contruction partners.

The property is situated between Emerson Park BR Station (Romford to Upminster line) to the north and Hornchurch High Street to the south both circa 10 minutes walking distance from the site. Immediately adjacent is the Queen's Theatre (a 500-seat purpose built theatre), Menthorne Place (a four storey purpose built block of 18 flats – built in 1970s) and the Billet Lane surface car park (94 spaces). Langtons Registry Office and Hornchurch Library are also nearby.

The square shaped slightly sloping 0.7 acre site comprises circa 13 local authority operational public car spaces and the demolished and fenced off former Nalgo social club. There is a substation on the northern boundary and a public recycling facility on the southern boundary fronting the Queen's Theatre.

Application (ref P0960.16) was submitted by MLH for the construction of a three and five storey building comprising 44 residential units and 42 car spaces. The Committee resolved to grant detailed planning consent at the meeting held on 28 April 2017 subject to the signing of the section 106 Agreement. The Section 106 Agreement will be signed by MLH following purchase of the site. The main payment is a payment for education provision of £264,000 (index linked) payable in instalments – 50% prior to commencement and 50% prior to occupation. There no affordable housing provision as long as the units are to be used as private rented housing for 15 years. If sold within this period a disposal viability appraisal will need to be undertaken to ascertain the provision of affordable provision that is required.

Proposed accommodation is shown in the table below.

Beds	No.	Av. Flat Size (Sq.Ft.)
1 Bed Units	11	548
2 Bed Units	33	871
Total	44	34,766

The heating system is self contained with individual gas boilers – otherwise the proposed specification will be similar to Cathedral Court – i.e. wood laminate or similar flooring in the living rooms, carpets in the bedrooms, fitted ward rodes, laminate kitchen surfaces, wifi enabled.

Other information for the scheme is shown below

PRS	Per Unit				Total site	
	Total Units No.	Monthly Rent £	Build Cost £000's	Market Price £000's	Build Cost £000's	Market Price £000's
1 Bed Units	11	1,000	196	248	**2,161**	2,725
2 Bed Units	33	1,300	312	382	**10,299**	12,618

Depending on the timescale for approval of this business plan and the proceeding business case the proposed timescales for this develeopment are set out as below.

Complete detailed design	May 17
Release tender packages	Jun 17
Tender returns expected	Aug 17
Purchase site	Oct/Nov 17
Start on site	Jan 18
Complete construction	Mar 19

6.4. Quarles

MLH has been working with the Council to deliver an opportunity to develop a site on the old Quarles campus site in Harold Hill to deliver in the region of 99 units for resale both into the private (65%) and the affordable (35%) housing market.

Currently the site comprises the main college building, 2 and 3 storeys, and various single storey and two storey buildings spread over the site. The buildings are set within a 9.28 acre site, with a field to the rear, part line-marked as sports pitch, and a number of car parks throughout.
It should be noted that the proposals for this scheme are still under consideration so the numbers of properties assumed and the financial detail are subject to change. At this stage the Quarles campus numbers used in the business plan are indicative only to enable the plan to be completed.

The site is located approximately 3 km north of Harold Wood Train Station, with direct services of 35m to London Liverpool Street. Harold Wood Station will become a Crossrail station, which will see direct trains to Bond Street in 42m and Heathrow 68m as well as more frequent services and improved capacity.

A summary of the proposed scheme detail is shown below:

Beds	No.	Av. House Size (Sq.Ft.)	No. Baths
3 Bed Units	40	936	1
4 Bed Units	50	1302	2
5 Bed Units	9	2002	2
Total	99	56,180	

The key financial information assumed in this plan is as below.

		Per Unit			Total site	
	Total Units No.	Monthly Rent £	Build Cost £000's	Market Price £000's	Build Cost £000's	Market Price £000's
Private Sale						
3 Bed Units	19	N/a	226	400	4,287	7,600
4 Bed Units	36	N/a	314	475	11,298	17,100
5 Bed Units	9	N/a	483	550	4,343	4,950
Affordable Sale						
3 Bed Units	21	N/a	226	223	4,738	4,680
4 Bed Units	14	N/a	314	265	4,394	3,705

6.5. Development Funding

Development funding for the three schemes Cathedral Court, North Street and Quarles campus is set out below.

The funding is a mixture of equity, mezzanine and senior debt, debt attracting interest at fixed commercial rates, arrangement fees and commitment fees.

The peak debt is £23,648k and equity investment of £16,726k.

For Cathedral Court a senior debt interest rate of 6.11% has been used whilst for both North Street and Quarles a senior debt rate of 4.91% and a mezzanine debt rate of 8.00% have been assumed with all rates in line with the prevailing interest rates and relevant state aid funding requirements that are affordable to the company.

Development funding interest costs are capitalised as the company does not have relevant rental income for the relevant scheme during the development period. Within 12 months after the completion of the scheme the development costs and capitalised interest are refinanced with operational finance loans. These loans are annuity based with principle being repaid over the loan life.

6.6. Pipeline Schemes

MLH continues to review opportunities reactively and proactively. However no assumptions have been made in this business plan for any potential schemes other than those above.

LBH are authorised to negotiate suitable arrangements with appropriate developers including MLH, who will be acting in a commercial capacity, to deliver the Council's vision and delegate approval of the terms of such arrangements to the Portfolio Holder for the Romford Housing Zone.

7. Rental business

7.1. Introduction

This chapter provides a summary of the data and assumptions that have informed this business plan for Mercury Land Holdings (the Company).

The key objectives are to assure that the Company is able to meet its financial obligations in terms of interest and principle repayments of the total development costs over a 40 year period.

The modelling has been undertaken using a comprehensive model on a scheme by scheme basis and an aggregated set of financial statements.

The following table shows the aggregate number, cost & value of flats across both PRS and its build to sell schemes.

		Per Unit			Total site	
	Total Units No.	Monthly Rent £	Build Cost £000's	Market Price £000's	Build Cost £000's	Market Price £000's
PRS						
1 Bed Units	24	986	191	230	4,572	5,524
2 Bed Units	69	1,286	287	333	19,778	22,979
3 Bed Units	16	1,368	334	319	5,340	5,102
Private Sale						
3 Bed Units	19	N/a	226	400	4,287	7,600
4 Bed Units	36	N/a	314	475	11,298	17,100
5 Bed Units	9	N/a	483	550	4,343	4,950
Affordable Sale						
3 Bed Units	21	N/a	226	223	4,738	4,680
4 Bed Units	14	N/a	314	265	4,394	3,705

The above market values are correct at the time of refinancing and rental levels are based on those currently being achieved at the Cathedral Court development.

7.2. Development of properties

The table below identifies the key development information of the three schemes.

	Total	2016-17	2017-18	20018-19	2019-20	2020-21	2021-22
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Development							
Land	10,779	-	2,572	-	8,207	-	-
Development	47,675	16,306	4,193	6,324	6,604	8,999	5,249
Capitalised Interest	4,759	153	422	377	781	1,046	1,542
	63,212	16,459	7,187	6,701	15,592	10,045	6,792
Funding							
Share Capital		8,615	8,735	8,735	16,726	16,726	16,726
Mezzanine Debt		-	6,034	6,330	10,293	10,595	10,889
Senior Debt		7,844	9,066	15,425	19,053	28,394	34,493
		16,459	23,835	30,489	46,072	55,715	62,108

The land costs are based on market value at the time of purchase and development costs are based on either contractor actuals or estimates verified by independent quantity surveyors and cost consultants.

Development costs have been spread to reflect actual valuations on the completed scheme and evenly across the anticipated development period on the others.

It has been assumed that at the point of taking out operational financing loans that the amounts above are used for the relevant scheme at the appropriate time. Any terms finally agreed will need to be in line with State Aid requirements applicable at the time the financing is undertaken

An arrangement fee of 1.25% applies to each loan taken out as well as a Commitment Fee of 0.47% per quarter and a lenders agency fee of £20,000 per annum. These fees are in line with the commercial sector and therefore in line with state aid.

7.3. Rental income & operating costs

Once completed the flats are leased on the private rental market on either one to five year agreements.

The average rentals used in this plan are shown in the table below

PRS	Per Unit Total Units No.	Monthly Rent £
PRS		
1 Bed Unit:	24	986
2 Bed Unit:	69	1,286
3 Bed Unit:	16	1,368

The modelling has to make provisions for the loss of rental income for when a property is void inbetween lettings. Obviously with demand being high in the Borough for quality market rented properties the void period would expect to be on the low side.

Therefore void loss as percentage of gross rents has been modelled at 2.0% for the properties. In addition a provision has been made of 2% of annual gross rent income to place in a bad debt reserve in case of the need to write-off bad debts. Within the model certain assumptions have been made, it is assumed that the flats will be re-let annually, the fee is assumed to be 5% for a new let and 1% for a continued let.

MLH currently has a contract with HERA for the provision of housing management services including general management and rent collection costs, repairs management and letting costs. This amount is set at 5% of rental income exc. the re-let costs shown separately above.

To ensure that all rental properties are maintained at an appropriate standard in terms of day to day repairs and minor void repairs an annual net allowance of £550 per property has been made. In addition an allowance for lifecycle costs has been made on each scheme. This amount varies for each scheme each year but aims to provide an average of £1500 per annum per property.

Costs of communal services provided are included. Such costs include landscape maintenance, lift maintenance, communal lighting and Wi-Fi provision.

Bank fees and interest costs are payable to the Council on the basis of the loan agreements. In addition the provision of the working capital facility to the company attracts an interest rate of 6% per annum when utilised.

As the Company will be a separate legal entity to the Council there are some unavoidable operating costs. In summary, these cover the cost of external audit of the accounts, Board expenses and external accountancy support. These costs are summarised below are charged to each scheme on a per rented unit basis. More detail on these figures is shown in Chapter 3 of this business case.

	2016-17	2017-18	20018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-2031	2031-36	2036-41	2041-46	2046-51	2051-56	2056-61	2061-66
	1	2	3	4	5	6	7	8	9	10	11-15	16-20	21-25	26-30	31-35	36-40	41-45	46-50
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Wages and Salaries	222	226	251	258	266	274	279	285	291	296	1,573	1,737	1,918	2,117	2,338	2,581	2,850	3,148
Office Costs	16	17	17	18	18	19	19	19	20	20	107	119	131	145	160	176	194	215
Professional Fees	23	24	24	25	26	27	27	28	28	29	153	169	186	206	227	251	277	305
Other	69	70	76	78	81	83	85	86	88	90	477	526	581	641	708	782	863	955
	330	**337**	**368**	**379**	**390**	**402**	**410**	**418**	**427**	**435**	**2,310**	**2,550**	**2,816**	**3,109**	**3,432**	**3,790**	**4,184**	**4,623**

The above costs will be allocated against schemes as and when the scheme becomes operational. An assumption has been made for this plan that there will be 4 PRS schemes to which these cost will apply therefore the total overhead allocation in this plan does not fully recover the overhead.

The table below summarises the overall income and expenditure, the first 10 years are presented on an annual basis and thereafter in 5 year blocks. The table below makes no assumption of dividends distributable to the Council as shareholder.

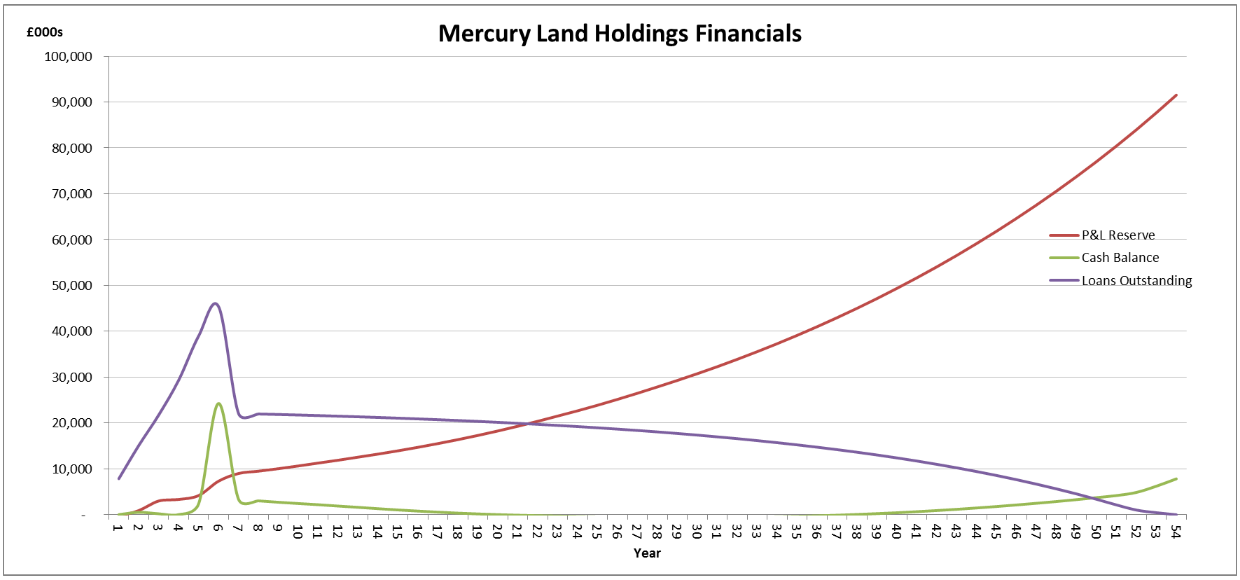
	2016-17	2017-18	20018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-2031	2031-36	2036-41	2041-46	2046-51	2051-56	2056-61	2061-66	2066-71
	1	2	3	4	5	6	7	8	9	10	11-15	16-20	21-25	26-30	31-35	36-40	41-45	46-50	51-55
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	
Income																			
Revenue From Rent	-	828	964	1,642	1,675	1,708	1,742	1,777	1,813	1,849	9,815	10,836	11,964	13,209	14,584	16,102	17,778	19,628	17,164
Non Recurring Revenue	-	-	-	-	481	3,081	1,412	-	-	-	-	-	-	-	-	-	-	-	-
Expenditure																			
Letting Fees	-	38	44	30	30	31	32	32	33	34	178	196	217	239	264	292	322	356	311
Property Management Fees	-	50	58	99	100	102	105	107	109	111	589	650	718	793	875	966	1,067	1,178	1,030
Maintenance Costs	-	-	37	38	65	66	68	69	70	72	380	420	464	512	565	624	689	761	665
Lifecycle Costs	-	-	-	-	12	12	12	13	13	13	422	672	847	1,101	1,216	1,343	1,482	1,637	1,431
Service Charges	-	153	172	225	230	235	239	244	249	254	1,347	1,488	1,643	1,814	2,002	2,211	2,441	2,695	2,356
Bank Fees	172	54	44	80	72	73	52	53	54	55	292	323	357	394	435	480	530	585	323
Interest Costs	153	592	753	1,351	1,332	1,327	1,321	1,316	1,310	1,304	6,413	6,193	5,899	5,503	4,969	4,246	3,262	1,916	347
Overheads	-	88	89	153	156	159	162	165	169	172	913	1,009	1,114	1,229	1,357	1,499	1,655	1,827	1,597
Profit Before Taxation	(325)	(147)	(234)	(334)	159	2,784	1,164	(221)	(194)	(165)	(721)	(115)	707	1,624	2,900	4,442	6,330	8,675	9,103
Taxation	-	-	-	-	-	342	210	-	-	-	-	-	-	165	522	800	1,139	1,561	1,639
Net Profit	(325)	(147)	(234)	(334)	159	2,441	954	(221)	(194)	(165)	(721)	(115)	707	1,460	2,378	3,642	5,191	7,113	7,465
Revaluation Reserve	-	1,378	2,323	673	687	701	715	729	743	758	4,025	4,444	4,907	5,418	5,982	6,604	7,291	8,050	7,039
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained Income	(325)	1,231	2,089	339	846	3,142	1,669	507	550	593	3,304	4,330	5,614	6,877	8,359	10,246	12,482	15,164	14,504
Cumulative Retained Income	(325)	906	2,995	3,334	4,180	7,322	8,991	9,499	10,048	10,642	13,946	18,275	23,889	30,767	39,126	49,373	61,855	77,019	91,523

Assumptions for inflation have been applied to the profit and loss statement above as follows.

- Rent in the business plan assumed is in line with the long term national assumption on inflation i.e. CPI at 2%. No assumption is made for real growth over the term of the business plan. However, rents will in reality fluctuate around this assumption. Actual rents will be set at the market rate applicable at the time.
- Retail price inflation 2% applied to all costs including development costs where relevant
- House price inflation 2% (for use on balance sheet)

From the P&L account it can be seen that the company does not start to make an operating profit until 2020/21 however under FRS 102 property revaluation reserves flow through the P&L into retained income. This is due in main to the delay in rental income flowing through until schemes are completed against the company overheads costs, bank interest and bank fees on an annual basis.

The P&L account position is summarised by the chart below:



7.4. Cash Flow

The table below summarises the overall cash flow of the Company, the first 10 years are presented on an annual basis and thereafter in 5 year blocks.

	2016-17 1	2017-18 2	20018-19 3	2019-20 4	2020-21 5	2021-22 6	2022-23 7	2023-24 8	2024-25 9	2025-26 10	2026-2031 11-15	2031-36 16-20	2036-41 21-25	2041-46 26-30	2046-51 31-35	2051-56 36-40	2056-61 41-45	2061-66 46-50	2066-71 51-55
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Inflows																			
Rental Income	-	828	964	1,642	1,675	1,708	1,742	1,777	1,813	1,849	9,815	10,836	11,964	13,209	14,584	16,102	17,778	19,628	20,021
Sale Proceeds	-	-	-	-	3,485	23,056	11,494	-	-	-	-	-	-	-	-	-	-	-	-
Sr Debt Drawdowns	7,691	9,704	6,230	10,054	8,999	5,249	-	-	-	-	-	-	-	-	-	-	-	-	-
Mezzanine Debt Drawdowns	-	6,017	94	6,538	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Working Capital Facility	200	200	-	270	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity Investment	8,615	8,735	-	11,729	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Inflows	16,506	25,484	7,287	30,233	14,159	30,014	13,236	1,777	1,813	1,849	9,815	10,836	11,964	13,209	14,584	16,102	17,778	19,628	20,021
Outflows																			
Developer Costs	16,306	6,765	6,324	14,811	8,999	5,249	-	-	-	-	-	-	-	-	-	-	-	-	-
Selling Costs	-	-	-	-	61	404	201	-	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses	-	241	311	392	438	446	455	464	474	483	2,917	3,427	3,888	4,459	4,923	5,435	6,001	6,625	6,758
Overhead Costs	-	88	89	153	156	159	162	165	169	172	914	1,009	1,114	1,229	1,357	1,499	1,655	1,827	1,863
Bank Fees	172	195	81	599	258	114	60	53	54	55	293	323	357	394	435	480	530	585	597
Sr Debt Interest	-	161	464	576	811	807	892	799	794	789	3,863	3,697	3,482	3,206	2,848	2,388	1,793	1,026	847
Mezzanine Debt Interest	-	72	289	365	520	519	539	517	516	515	2,550	2,496	2,416	2,297	2,121	1,859	1,469	890	745
Sr Debt Repayment	-	8,841	41	6,691	76	80	19,156	89	93	98	573	739	954	1,230	1,588	2,048	2,643	3,410	3,589
Mezzanine Debt Repayment	-	1	6	2,895	12	13	4,480	15	16	17	111	164	244	363	539	802	1,191	1,770	1,916
Equity Withdrawl/Reallocation	-	8,615	-	3,738	-	-	7,991	-	-	-	-	-	-	-	-	-	-	-	-
Taxation	-	-	-	-	-	342	210	-	-	-	-	-	-	165	522	800	1,139	1,561	1,658
WC Facility Repayment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Outflows	16,478	24,979	7,605	30,220	11,331	8,135	34,147	2,102	2,116	2,130	11,219	11,854	12,455	13,343	14,333	15,310	16,421	17,695	17,972
Net Cash Movement	28	505	(318)	13	2,828	21,879	(20,911)	(325)	(303)	(281)	(1,405)	(1,018)	(491)	(134)	251	792	1,357	1,933	2,048
Opening Balance	-	28	533	215	228	3,056	24,935	4,024	3,699	3,396	3,115	1,711	692	202	68	319	1,111	2,468	4,401
Movement	28	505	(318)	13	2,828	21,879	(20,911)	(325)	(303)	(281)	(1,405)	(1,018)	(491)	(134)	251	792	1,357	1,933	2,048
Closing Balance	28	533	215	228	3,056	24,935	4,024	3,699	3,396	3,115	1,711	692	202	68	319	1,111	2,468	4,401	6,450

The Internal Rate of Return based on the above values is calculated as 8%.

An overall working capital facility of £3m currently exists and there is no need in this plan to increase that figure.

7.5. Long term value of business

	2016-17 1 £000	2017-18 2 £000	20018-19 3 £000	2019-20 4 £000	2020-21 5 £000	2021-22 6 £000	2022-23 7 £000	2023-24 8 £000	2024-25 9 £000	2025-26 10 £000	2026-2031 11-15 £000	2031-36 16-20 £000	2036-41 21-25 £000	2041-46 26-30 £000	2046-51 31-35 £000	2051-56 36-40 £000	2056-61 41-45 £000	2061-66 46-50 £000	2066-71 51-55 £000
Total Assets	16,134	24,941	33,684	45,001	65,145	69,430	39,799	40,203	40,643	41,121	43,742	47,168	51,584	56,868	63,100	70,497	79,145	89,129	91,292
Total Liabilities	7,844	15,300	21,954	24,940	44,239	45,382	22,073	21,969	21,860	21,745	21,061	20,158	18,960	17,367	15,240	12,389	8,555	3,375	(8,965)
Net Assets	8,290	9,641	11,730	20,060	20,906	24,048	17,726	18,233	18,783	19,376	22,680	27,010	32,624	39,501	47,861	58,107	70,590	85,754	100,258
Equity	8,615	8,735	8,735	16,726	16,726	16,726	8,735	8,735	8,735	8,735	8,735	8,735	8,735	8,735	8,735	8,735	8,735	8,735	8,735
P&L Reserves	(325)	906	2,995	3,334	4,180	7,322	8,991	9,499	10,048	10,642	13,946	18,275	23,889	30,767	39,126	49,373	61,855	77,019	91,523
Shareholders funds	8,290	9,641	11,730	20,060	20,906	24,048	17,726	18,233	18,783	19,376	22,680	27,010	32,624	39,501	47,861	58,107	70,590	85,754	100,258

The loan balances initially increase as the schemes are fully developed and then gradually reduce as loan repayments are made.

The initial cost of building the properties is shown on the balance sheet in the first line revalued to open market value where currently available and on an annual basis and shown as the revaluation reserve in Shareholders funds. An inflation rate of 2% per annum is assumed for property values

The Equity input from the Council is not officially repaid and is shown as an investment set against the property values.

Market Values are forecast to increase by 2% long-term with the properties potentially being worth £79 million in 45 years' time.

In the above tables no dividends have been forecast.

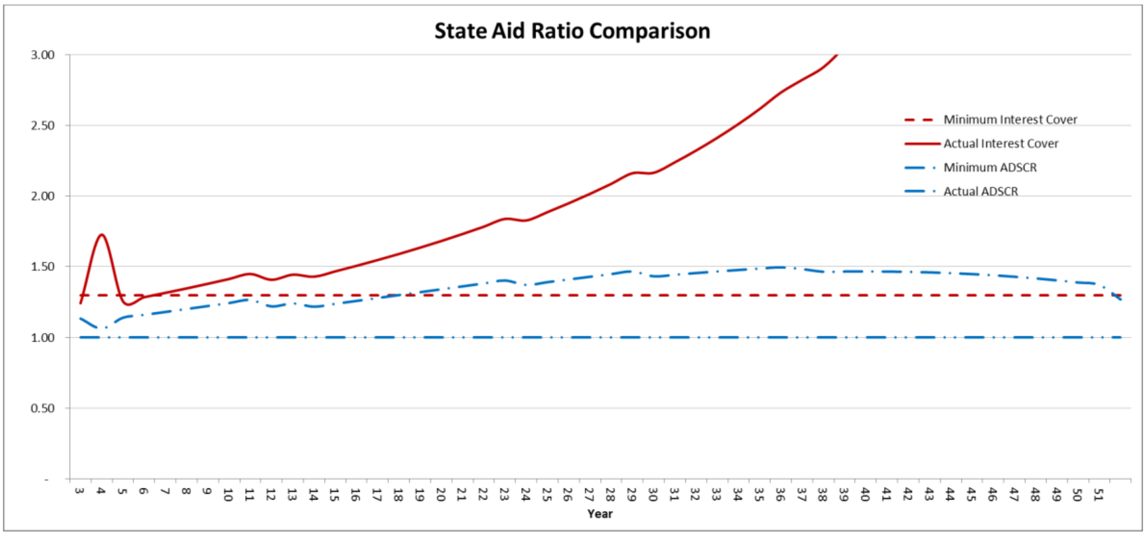
7.6. Interest Cover ratios

Any commercial lender would require MLH to meet a minimum requirement for interest cover. The two measures are the Minimum Interest Cover ratio and the ADSCR (Average Debt Service Coverage Ratio). In effect both of these ratios measure whether the company has sufficient income to cover its debt servicing requirements.

The usual required rates are as flows:

- Minimum Interest Cover 1.30
- ADSCR (Average Debt Service Coverage Ratio). 1.00

The chart below identifies the ratio performance for MLH for the three combined schemes. The minimum interest cover performance is slightly below the required amount for the first 5 years whilst the schemes reach maturity.



8. Council financial return

8.1. Introduction

The Council is committed to funding the Company by way of equity and a series of development and operating senior and mezzanine debt. The loans are secured against the properties in order to receive revenues from agency fees, commitment fees and interest. The rates have been set by reference to the latest State Aid Report prepared by Savills in March 2017. The table below shows the rates applied for each development.

Loan Arrangement Fee	1.25%
Commitment Fee (DSRF)	0.47%
Commitment Fee	0.50%
Lenders agency Fee per loan	£20k per annum
Senior Debt Development Phase APR	4.9% (Libor + 3.75%) (exc. Cathedral Ct)
Senior Debt Operational Phase APR	5.13% (PWLB 50 yr. fix + 2.20%)
Mezzanine Debt Development Phase APR	8.00%
Mezzanine Debt Development Phase APR	8.00%

8.2. Shareholder/investor

The company will operate in the same way as any other private sector company, driven by the requirement to provide a return to its shareholders and to operate in a commercial manner. The London Borough of Havering is both shareholder/investor and lender to the company.

8.3. Lender

The Company borrows on commercial terms from the London Borough of Havering Council acting in its capacity as lender at terms that are compliant with the advice in the State Aid Report prepared by Savills.

8.4. Projected financial return for the Council

The table below sets out the forecast returns to the Council - the first 10 years annually and thereafter in 5 year blocks.

	2016-17	2017-18	20018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-2031	2031-36	2036-41	2041-46	2046-51	2051-56	2056-61	2061-66	2066-71
	1	2	3	4	5	6	7	8	9	10	11-15	16-20	21-25	26-30	31-35	36-40	41-45	46-50	51-55
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Profit & Loss Account																			
Retained Income	(325)	1,231	2,089	339	846	3,142	1,669	507	550	593	3,304	4,330	5,614	6,877	8,359	10,246	12,482	15,164	14,504
Cumulative Retained Income	(325)	906	2,995	3,334	4,180	7,322	8,991	9,499	10,048	10,642	13,946	18,275	23,889	30,767	39,126	49,373	61,855	77,019	91,523
Investment Return																			
Arrangement Fees	152	154	40	536	193	48	15	7	7	7	39	43	47	52	58	64	70	77	49
Agency Fees	20	41	42	64	65	66	45	46	47	48	254	280	309	342	377	416	460	507	273
Interest Payment Receipts	153	611	1,131	1,527	2,064	2,562	1,758	1,316	1,310	1,304	6,413	6,193	5,899	5,503	4,969	4,246	3,262	1,916	347
Total Return on Investment	**325**	**806**	**1,212**	**2,126**	**2,322**	**2,677**	**1,818**	**1,369**	**1,364**	**1,359**	**6,705**	**6,516**	**6,255**	**5,897**	**5,404**	**4,726**	**3,792**	**2,501**	**670**

The returns to the Council figures are shown as a return on senior and mezzanine debt only. It should be noted that these figure include an assumed increase in value of the properties and reflected in the profit and loss in accordance with FRS102.

9. Risks & Sensitivities

9.1. Financial sensitivities and risks

Project and funding risks are shown in the risk matrix below.

The company operates a risk register and the management will be responsible for risk management, risk reporting, and reporting regularly to the board. The risk register will include mitigation measures as part of the operational processes of the business.

9.2. Risk and sensitivity analysis results

A number of scenarios have been run to test the assumptions in the plan and to identify the potential issues. These are shown below. Following on from this is a table looking at other possible risks / sensitivities from a financial view point.

Baseline Position

	2016-17 1	2017-18 2	20018-19 3	2019-20 4	2020-21 5	2021-22 6	2022-23 7	2023-24 8	2024-25 9	2025-26 10	2026-2031 11-15	2031-36 16-20	2036-41 21-25	2041-46 26-30	2046-51 31-35	2051-56 36-40	2056-61 41-45	2061-66 46-50	2066-71 51-55
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Profit & Loss Account																			
Retained Income	(325)	1,231	2,089	339	846	3,142	1,669	507	550	593	3,304	4,330	5,614	6,877	8,359	10,246	12,482	15,164	14,504
Cumulative Retained Income	(325)	906	2,995	3,334	4,180	7,322	8,991	9,499	10,048	10,642	13,946	18,275	23,889	30,767	39,126	49,373	61,855	77,019	91,523
Investment Return																			
Arrangement Fees	152	154	40	536	193	48	15	7	7	7	39	43	47	52	58	64	70	77	49
Agency Fees	20	41	42	64	65	66	45	46	47	48	254	280	309	342	377	416	460	507	273
Interest Payment Receipts	153	611	1,131	1,527	2,064	2,562	1,758	1,316	1,310	1,304	6,413	6,193	5,899	5,503	4,969	4,246	3,262	1,916	347
Total Return on Investment	325	806	1,212	2,126	2,322	2,677	1,818	1,369	1,364	1,359	6,705	6,516	6,255	5,897	5,404	4,726	3,792	2,501	670

Rent increase 1% per annum (rather than 2%) Case 1

	2016-17 1	2017-18 2	20018-19 3	2019-20 4	2020-21 5	2021-22 6	2022-23 7	2023-24 8	2024-25 9	2025-26 10	2026-2031 11-15	2031-36 16-20	2036-41 21-25	2041-46 26-30	2046-51 31-35	2051-56 36-40	2056-61 41-45	2061-66 46-50	2066-71 51-55
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Profit & Loss Account																			
Retained Income	(325)	1,224	2,072	295	786	3,103	1,593	398	423	449	2,293	2,787	3,462	4,195	5,243	6,508	8,065	10,015	9,844
Cumulative Retained Income	(325)	899	2,971	3,266	4,052	7,155	8,749	9,147	9,570	10,019	12,311	15,098	18,560	22,755	27,998	34,507	42,572	52,587	62,431
Investment Return																			
Arrangement Fees	152	154	40	536	193	48	15	7	7	7	39	43	47	52	58	64	70	77	49
Agency Fees	20	41	42	64	65	66	45	46	47	48	254	280	309	342	377	416	460	507	273
Interest Payment Receipts	153	611	1,131	1,527	2,064	2,562	1,758	1,316	1,310	1,304	6,413	6,193	5,899	5,503	4,969	4,246	3,262	1,916	347
Total Return on Investment	**325**	**806**	**1,212**	**2,126**	**2,322**	**2,677**	**1,818**	**1,369**	**1,364**	**1,359**	**6,705**	**6,516**	**6,255**	**5,897**	**5,404**	**4,726**	**3,792**	**2,501**	**670**

If the rent increase is limited to 1% per annum for the lifetime of the plan profits will be reduced as expected as rental income is the largest number in the plan. In reality rental inflation is unlikely to remain at this level for 50 years and would more likely go in cycles. 2% reflect the long term average for CPI measure of inflation. If rental income was to be below forecast for any reasonable amount of time the company would look to reduce operational costs or need to negotiate with the Council regarding financing costs or potentially sell some properties depending on the sales market at the time.

Interest rate (operational) 1% increase Case 2

	2016-17	2017-18	20018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-2031	2031-36	2036-41	2041-46	2046-51	2051-56	2056-61	2061-66	2066-71
	1	2	3	4	5	6	7	8	9	10	11-15	16-20	21-25	26-30	31-35	36-40	41-45	46-50	51-55
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Profit & Loss Account																			
Retained Income	(325)	1,199	1,961	186	619	3,052	1,482	278	320	362	2,139	3,149	4,427	5,864	7,742	9,876	11,764	14,702	14,411
Cumulative Retained Income	(325)	874	2,836	3,022	3,641	6,693	8,175	8,453	8,773	9,135	11,274	14,423	18,850	24,713	32,455	42,331	54,095	68,797	83,207
Investment Return																			
Arrangement Fees	152	154	40	536	194	49	16	8	8	8	45	49	55	60	67	74	81	90	57
Agency Fees	20	41	42	64	65	66	45	46	47	48	254	280	309	342	377	416	460	507	273
Interest Payment Receipts	153	643	1,258	1,679	2,290	2,789	1,985	1,544	1,539	1,534	7,572	7,367	7,079	6,673	6,100	5,287	4,128	2,468	453
Total Return on Investment	**325**	**838**	**1,340**	**2,279**	**2,549**	**2,905**	**2,047**	**1,598**	**1,594**	**1,590**	**7,871**	**7,696**	**7,443**	**7,075**	**6,544**	**5,777**	**4,668**	**3,065**	**784**

Under this scenario the rate of return is greater for senior a mezzanine debt as expected with the interest rate being higher. Any further increase in interest costs would have a greater effect. This demonstrated below. In reality increases in interest rates are likely to lead to a slowdown in the housing market and therefore a potential increase in the private sector rental market.

Interest rate (operational) 2% increase Case 3

	2016-17	2017-18	20018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-2031	2031-36	2036-41	2041-46	2046-51	2051-56	2056-61	2061-66	2066-71
	1	2	3	4	5	6	7	8	9	10	11-15	16-20	21-25	26-30	31-35	36-40	41-45	46-50	51-55
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Profit & Loss Account																			
Retained Income	(325)	1,167	1,834	34	392	2,962	1,294	49	89	131	971	1,960	3,221	4,655	6,554	8,880	11,793	14,654	14,305
Cumulative Retained Income	(325)	842	2,676	2,710	3,102	6,064	7,359	7,407	7,497	7,628	8,598	10,559	13,780	18,435	24,989	33,869	45,663	60,317	74,621
Investment Return																			
Arrangement Fees	152	154	41	537	195	50	18	9	9	10	51	56	62	69	76	84	93	102	65
Agency Fees	20	41	42	64	65	66	45	46	47	48	254	280	309	342	377	416	460	507	273
Interest Payment Receipts	153	675	1,385	1,831	2,516	3,016	2,213	1,772	1,768	1,764	8,734	8,549	8,276	7,874	7,278	6,392	5,069	3,083	574
Total Return on Investment	**325**	**869**	**1,467**	**2,432**	**2,776**	**3,132**	**2,275**	**1,828**	**1,824**	**1,821**	**9,039**	**8,885**	**8,648**	**8,284**	**7,731**	**6,892**	**5,621**	**3,693**	**913**

If interest rates at the time of refunding at operational asset stage should be 2% higher than now the company and Council would need to look at potentially refinancing over a shorter period of time, say 5/6 years and using 3 month LIBOR + the relevant margin which would be lower than using the PWLB 50 year fixed rate and refinancing later on.

Development costs 10% greater Case 4

	2016-17	2017-18	20018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-2031	2031-36	2036-41	2041-46	2046-51	2051-56	2056-61	2061-66	2066-71
	1	2	3	4	5	6	7	8	9	10	11-15	16-20	21-25	26-30	31-35	36-40	41-45	46-50	51-55
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Profit & Loss Account																			
Retained Income	(325)	1,231	786	278	494	1,470	833	450	493	537	3,025	4,059	5,355	6,798	8,305	10,087	12,355	15,080	14,480
Cumulative Retained Income	(325)	906	1,692	1,970	2,464	3,934	4,767	5,217	5,710	6,247	9,271	13,330	18,685	25,484	33,789	43,876	56,231	71,311	85,791
Investment Return																			
Arrangement Fees	152	168	43	589	212	53	17	7	8	8	41	45	50	55	61	67	74	82	53
Agency Fees	20	41	42	64	65	66	45	46	47	48	254	280	309	342	377	416	460	507	273
Interest Payment Receipts	153	613	1,169	1,604	2,194	2,743	1,858	1,373	1,367	1,360	6,690	6,461	6,155	5,744	5,189	4,437	3,414	2,014	373
Total Return on Investment	**325**	**822**	**1,254**	**2,257**	**2,471**	**2,862**	**1,920**	**1,426**	**1,421**	**1,416**	**6,985**	**6,787**	**6,514**	**6,140**	**5,627**	**4,921**	**3,947**	**2,603**	**699**

Any movement in development costs has a minimal effect on the plan. This is because the development costs are refinanced and spread over 50 years. Development costs would have to increase massively to have any real effect.

9.3. Overall financial risk analysis

Risk	Related Sensitivity Analysis	Mitigation
Increase in the cost of funding, not offset by increase in rent inflation.	Case 2, increases of 1% and 2% above current rates.	Housing Company (HC) Could develop to sell, sell existing stock or halt development for rent
Increase in voids	Not shown	Marginal impact. If arising because of lack of demand for accommodation, the company could re-structure the operating model to include other options such as offer short term rental deals to manage the market fluctuation.
Increase in land costs above the rate of increase modelled	Not sensitised, but increase in construction costs has been sensitised.	The impact on potential new developments would be tested as part of the viability test. Typically expect increase in land costs to flow through to increase in rents which would offset the impact. A market increase in rents would also benefit the existing portfolio bringing a net gain.
Increase in build costs	Case 3. Increase of 10%.	This only affects projects up to FC, or where the cost is considered as an overrun. The impact on potential new developments would be tested as part of the viability assessment. The impact could potentially be offset by a market increase in rents. Or determine not to proceed. Increase in build costs may also have impact of increasing market values.
Increase in operating costs	Not run.	This is likely to be an area of cost which the business can manage as appropriate.
Increase in costs of life cycle	Not shown	Business is structured to operate with a maintenance reserve which would help manage the impact of cost rises. Likely to be an area of cost which the business can manage.
Reduced rent inflation, or fall in rent.	Case 1 Case 5, Reduction in rental income by 10%.	Existing agreements protected by contracted requirement for annual increase of RPI+1. On renewal will be reset to market rent levels. In part can be addressed through the management of the business by a corresponding reduction in costs. If rent does not increase over a period this is likely to be a response to demand. Ongoing and persistent reduction in rent could otherwise be addressed by reduction of exposure through effective management of the portfolio, selected disposals and crystallising of value. The HC could also offer units at affordable rates with support of the council. If this problem developed early on, the vehicle would not continue developing and if it came later would have enjoyed benefit of previous inflation.
Decrease in assumed growth of property prices	Not shown	Provided rent levels are not also adversely affected then there is no short term impact on the company. Over the longer term property prices are expected to increase and there is therefore opportunity to recover any lost value. The wider scheme carries the benefit of portfolio built over time. Therefore generating a build up of equity value in the assets across the portfolio,enabling down turn periods in property values to be managed. Sales could be perceived in the event of failure to let.
Failure to deliver programme on time – timing risk affecting cash flow	Not shown	Outcome shows marginal impact. Business would need to adjust its growth plan and manage its overheads budget accordingly. The HC's obligation to make contractual loan payments would need to be met. Some protection may be available through the construction insurance packages if the event has arisen at the fault of the contractor.

9.4. Other risks

Risk	Related Sensitivity Analysis	Mitigation
Lack of available sites/opportunities	Not a sensitivity	HC will need to compete for land as it becomes available. An option would be
Increase in competition	Not a sensitivity	The majority of private rent landlords (relative to the number of units) typically own just a single or small number of properties. Currently there is only limited corporate competition in the Borough, but larger scale investment is now being seen. In order to compete in the market,
Lack of public sector funding- cap on Council borrowing capability	Not a sensitivity	The policy of using Council funds is to: a) help establish the company, so that it adds value, b) To enable a flow of income into the Council by way of interest margin, and returns.
Withdrawal of PWLB	Not a sensitivity	As per response directly above. Council finance also has additional Treasury
Political risk affecting the sector	Not a sensitivity	Considered unlikely in the current environment with significant demand for housing. In the event of a change, the business could decide to sell units or
Funding terms at transfer pricing requiring adjustment to meet market	Not a sensitivity	In the event that transfer pricing recommends an adjustment, the model would be updated accordingly. This could either reduce or increase the overall level of return, and/or the number of units. The impact will be seen on a per
H.M. Treasury intervention	Not a sensitivity	As per response for withdrawal of PWLB, dependent on the nature of the intervention. If there is intervention to restrict the size of financial exposures
Change in tax environment- Higher tax levels	Not a sensitivity	Higher tax levels would be included in any viability assessment and their impact flowed through into the business plan. It may reduce returns or
Change in law risk	Not a sensitivity	Could be additional cost, use of maintenance budget would be redirected in first instance. Or sale of units used to fund more major cost requirements if
Design risk	Not a sensitivity	Risk is that the design does not meet purpose, or is insufficient to attract tenants. Use of professional advisors and architects should mitigate this. The
Portfolio size fails to meet required economies of scale	Not a sensitivity	There are fixed overheads for operating and managing the vehicle. Certain of these overheads are committed as a result of the Cabinet commitment to a Housing Company, generating set up and development costs. Given the fixed nature of these costs, until the portfolio has reached a global mass it is not economic to run the vehicle without reducing costs. The HC will build up the business with each scheme assessed in order to manage other risks. If global mass is not achieved the mitigation is to reduce the overheads.
No investor willing to purchase the portfolio, if the council needs to fully or partially exit.	Not a sensitivity	While the intention is to hold the portfolio in the long term, a mitigant to some of the risks outlined above is for the council to sell all, or a part of its interest in the vehicle to an investor landlord. At present there is an emerging market amongst institutional investors for rental housing products. In addition to institutional investors, some more commercially minded Registered Providers are also starting to move into the private rental market.

Agenda Item 6

CABINET **15 November 2017**	PUBLIC AGENDA REPORT
Subject Heading:	**Bridge Close – Entering into a Limited Liability Partnership**
Cabinet Member:	Councillor Ramsey, Leader of the Council Councillor Damian White - Deputy Leader of the Council and Cabinet Member for Housing
SLT Lead:	Steve Moore Director of Neighbourhoods
Report Author and contact details:	Neil Stubbings Programme Director Regeneration Neil.stubbings@havering.gov.uk 01708 433747
Policy context:	*National Planning Policy Framework 2012* *London Plan 2011* *Havering Local Development Framework and Romford Area Action Plan 2008* *Romford Development Framework 2015* *Havering Proposed Submission Local Plan 2017*
Financial summary:	The report seeks Cabinet approval in principle to invest a maximum of £75.1m of capital expenditure into a Limited Liability Partnership to deliver the regeneration of Bridge Close including a school, health centre and affordable housing. This investment is in excess of the available budget within the Approved Capital Programme and falls outside the approved Treasury Management Strategy. It will therefore require consideration and approval by Full Council. Therefore, subject to Cabinet approval of the recommendations within this report, the scheme will be included in the proposed

capital programme to be considered as part of the 2018/19 budget process and will be subject to approval of the Capital Programme and Treasury Management Strategy in February 2018.

A total revenue surplus for the Council of £10.591m is forecast as a result of this regeneration scheme after meeting capital financing costs of borrowing, although a deficit of £1.611m will be incurred over the first five years and will require General Fund revenue resources to support it until net income streams are generated. An estimated capital receipt of £3.1m is expected to be realised at the end of the scheme.

The financial details are contained within the exempt agenda report.

Is this a Key Decision?	**Yes**
When should this matter be reviewed?	November 2018
Reviewing OSC:	Towns and Communities

The subject matter of this report deals with the following Council Objectives –

Communities making Havering [✓]
Places making Havering [✓]
Opportunities making Havering [✓]
Connections making Havering [✓]

SUMMARY

1. In June 2016, Cabinet agreed that Bridge Close, including the houses fronting Waterloo Road and Oldchurch Road, should be brought forward as a residential led development and authorised officers to negotiate suitable arrangements with developers to deliver the Council's vision, and begin the process of acquiring land.

2. In order to ensure the highest quality development it is proposed that the Council should enter into a joint venture limited liability partnership ("JV

LLP") with First Base Bridge Close Regeneration LLP. The latter is a special purpose vehicle established by Savills Investment Management and First Base Ltd.

3. This report summarises the rationale, intended outcomes and the legal and financial implications. More detailed information is contained within the Council's Business Case which is appended to this report.

4. Cabinet is asked to recommend to Council the Council's contribution to the cost of delivering the scheme, noting the significant regeneration for Romford town centre, the contribution towards Havering's target for housing delivery, and the expected financial returns.

RECOMMENDATIONS

That Cabinet:

1. **Approve** the inclusion of the scheme with a budget of £75.1m within the proposed capital programme that will be considered by Cabinet in December 2017 and recommended to Council for final approval in February 2018.

2. **Note** that a further report addressing the governance framework and staff resources required to develop and deliver the Bridge Close scheme and other economic development schemes will be presented for consideration and approval by Cabinet in December 2017.

3. **Authorise** the Head of Procurement to publish a Voluntary Ex Ante Transparency notice in the Official Journal of the European Union in respect of the appointment of First Base Bridge Close Regeneration LLP as development partner

4. **Agree** to waive the Contract Procedure Rules and Contract Standing orders to the extent necessary to give effect to these decisions.

Subject to the approval of the required budget and funding at recommendation 1 above, that Cabinet:

5. **Agree** to establish a Limited Liability Partnership for the purpose of meeting the Council's regeneration objectives for Bridge Close by entering into a Members' Agreement with First Base Bridge Close Regeneration LLP (company registration number OC413480 (and called FB BCR LLP)) on the basis of the appended Business Case and the Legal Summary appended to the exempt agenda report.

6. **Agree** to delegate to the Leader, after consultation with the Deputy Leader and Director of Neighbourhoods, the authority to agree the name of the JV LLP, negotiate the final detailed terms of the agreements being entered into, and authority to agree that the Council enter into the following agreements:
   - Members' Agreement;
   - Land Agreement;
   - CPO Indemnity Agreement;
   - Any ancillary agreements or documents necessary to give effect to the setting up of the JV LLP in accordance with this Report and its appendices (all as described in the Legal Summary appended to the exempt agenda report).

7. **Authorise** the JV LLP to enter into the Development Management Agreement with First Base Ltd (company registration number 04541136) when in agreed form.

8. **Agree** to delegate to the Leader, after consultation with the Director of Neighbourhoods, authority to agree the terms of the Development Management Agreement referred to in recommendation 7 on behalf of the Council as Member of the JV LLP established in accordance with recommendation 5.

9. **Agree** to delegate to the Leader, after consultation with the Director of Neighbourhoods, authority to approve the first Business Plan of the JV LLP on behalf of the Council.

10. **Agree** to delegate to the Deputy Leader, after consultation with the Director of Neighbourhoods, authority to approve the consultation and communication plans for the regeneration of Bridge Close.

REPORT DETAIL

1 Background

1.1 Bridge Close is a 2.97 hectare site currently occupied by mixed industrial, warehouse and ancillary units under multiple ownerships, an ambulance station, Islamic Cultural Centre and a number of terraced properties which front onto Waterloo Road and Oldchurch Road.

1.2 The site is close to Romford Station but access to the Station and the rest of the town centre is poor as the site is bordered by the railway to the north, the River Rom to the east, and the Road Ring on the other two sides, creating an island effect.

1.3 Cabinet in June 2016 agreed that the Council should work with landowners and developers to acquire land at Bridge Close, including the houses fronting Waterloo Road and Oldchurch Road, and authorised officers to negotiate suitable arrangements with developers to deliver the Council's vision. At the same meeting Cabinet also agreed to accept Housing Zone status with funding available to support Bridge Close subject to agreement with the Greater London Authority.

Summary of previous decisions

1.4 The regeneration of Bridge Close is established Council policy as set out below.

Local Development Framework and Romford Area Action plan 2008

1.5 The Romford Area Action Plan adopted in 2008 as part of the Local Development Framework for Havering (also adopted in 2008) contained a specific site allocation for residential development at Bridge Close (reference ROMSSA2).

Romford Development Framework 2015

1.6 The Romford Development Framework approved by Cabinet in July 2015 forms part of the evidence base for the emerging Havering Local Plan. It confirmed Bridge Close as a "priority regeneration area for immediate action". The Framework identified parameters for the development, including the East-West link and River Rom, which have informed all subsequent work. The Framework indicated delivery within five years, i.e. by 2020.

Havering Draft Local Plan 2017

1.7 Council approved a draft Local Plan in July 2017 which retains Bridge Close as a site for regeneration and housing delivery. The Local Plan emphasises the importance of ensuring infrastructure, including education and local health facilities.

Romford Housing Zone June 2016

1.8 Cabinet agreed to accept Housing Zone status for Romford from the Greater London Authority (GLA) with £12.4m grant (£6.5m recoverable) in respect of Bridge Close to support land assembly, an east-west link bridge and improvements to the River Rom.

Bridge Close June 2016

1.9 A report on Bridge Close was presented to Cabinet in June 2016. The Cabinet's decisions can be summarised as:

- a vision for Bridge Close encompassing a comprehensive development, quality of design, an East-West link and improvements to the River Rom. The east-west link in particular will benefit the regeneration of the whole of West Romford;
- agreement to enter into direct negotiations with land owners to purchase sites on Bridge Close and delegating the authority to approve the terms of acquisition of sites by private treaty and any financial arrangements for relocation;
- delegation of authority to take reasonable steps to identify land which cannot be acquired by negotiation and appoint the relevant consultants in order to assess the need for a potential Compulsory Purchase Order (CPO);
- authorising officers to negotiate suitable arrangements with appropriate developers to deliver the Council's vision.

2 Rationale for the proposed JV LLP and for the partner selection

2.1 A number of options for delivering the regeneration of Bridge Close have been considered. The 'do nothing' option of relying on the market is discounted because the fragmented land ownership makes it unlikely that a single party would be able to gain control of the whole of the site creating a risk of parcels of land being developed with no benefit for the wider town centre.

2.2 The evaluation of delivery options concluded that the Council should enter into a partnership with an experienced and well-resourced developer. The primary advantages of this approach are to:

- ensure a comprehensive development which delivers infrastructure for the new residents of the new development and for the whole of Romford;
- a level of direct Council control over the quality, timing, and implementation of development (separate from and in addition to its role as planning authority); and
- a greater influence and control over support given to businesses, community groups and residents displaced or seeking relocation.

2.3 Having reached that conclusion, the evaluation of options concluded that the preferred approach is a joint venture limited liability partnership ("JV LLP") with First Base Bridge Close Regeneration LLP ("First Base BCR") which, via subsidiaries, is owned 50% by Savills Investment Management and 50% by First Base Ltd. A reason is that as well as being a vehicle established by a developer and funder of residential and mixed-use developments, First Base BCR holds conditional sale agreements to acquire a significant part of the Bridge Close site including the access road.

2.4 The proposed JV LLP will be set up for the specific purpose of developing the Bridge Close site in order to meet the Council's regeneration objectives. The London Borough of Havering and First Base BCR will each have a 50% membership.

2.5 The JVLLP formed between the Council and First Base BCR will be the 'master developer' for Bridge Close and be responsible for undertaking land assembly, obtaining planning permission, meeting land acquisition and CPO costs, bringing forward viable phases of the development, and the overall management of the scheme once completed. Separate special purpose vehicles, which will be wholly owned and controlled by the JV LLP, may be established to deliver the development subject to prior approval by the Council.

2.6 In addition to being an investor via its stake in First Base BCR, it is proposed that First Base Ltd will provide project and development management services to the JV LLP via the Development Management Agreement.

3 Development Parameters

3.1 Work will begin on the detailed development proposals once funding for the JV LLP is agreed. It is anticipated that a planning application will be submitted in mid-2018.

3.2 Although the detailed design process is yet to commence, it has been essential to set indicative parameters in order to undertake the financial appraisal which underpins the business case for entering into the JV LLP. The key outcomes based on current modelling are envisaged to be:

- 1,070 new homes (including at least 30% affordable homes);
- a 3 form entry primary school;
- a local health facility;
- commercial floor space, likely to be flexible workspace and small retail/ leisure;
- a new pedestrian and cycle bridge from Bridge Close to near Romford station;
- environmental improvements to the River Rom; and
- a site of religious worship (on or off-site). Support to the provision of ambulance service facilities to serve the Havering area.

4 Ensuring delivery of infrastructure

4.1 The Council's involvement in the decision making of the JV LLP provides the ability to ensure that the delivery of social infrastructure is a prime objective of the developer (i.e. the JV LLP) as well as a planning requirement.

4.2 The baseline appraisal for Bridge Close would not deliver the level of affordable housing that the Mayor of London would require. This would be a major risk to the project so agreement has been reached that the Council will use Housing Revenue Account resources to purchase 106 units to increase the level of affordable housing to at least 30%. Financial provision has been made in the Housing Revenue Account business plan reported to this meeting of the Cabinet.

4.3 The use of Housing Revenue Account resources is a cost-effective way of delivering affordable housing. The Housing Revenue Account will retain all income from the properties.

4.4 Whilst the JV LLP does not gain financially from this arrangement, it does reduce risk in terms of planning and by guaranteeing a purchaser for a significant number of properties.

4.5 The Council has also used its role in the JV LLP to negotiate inclusion of a 3 form entry primary school. The JV LLP will not fund the school but will make a s106/CIL contribution of £9.3m. This does not all relate to education provision but the total anticipated contributions from Bridge Close and nearby residential schemes is projected to be in excess of £15m. The allocation of these resources is a separate decision making process by the Local Planning Authority.

4.6 The nature and location of a facility to meet rising demand for primary health services in Romford will be a matter for the Clinical Commissioning Group to consider as part of its Primary Care Capacity Plan for Havering. However, the JV LLP's Business Plan will allocate space for a Primary and Community Care Hub at Bridge Close. External capital and revenue funding will be required; the capital funding could include a s106/CIL contribution.

4.7 In the longer term, there is an expectation that the Council, (GF and HRA subject to where the affordable housing is located), will be the freeholder of the entire development and therefore have a greater level of control over the future stewardship of the new development.

5 Programme

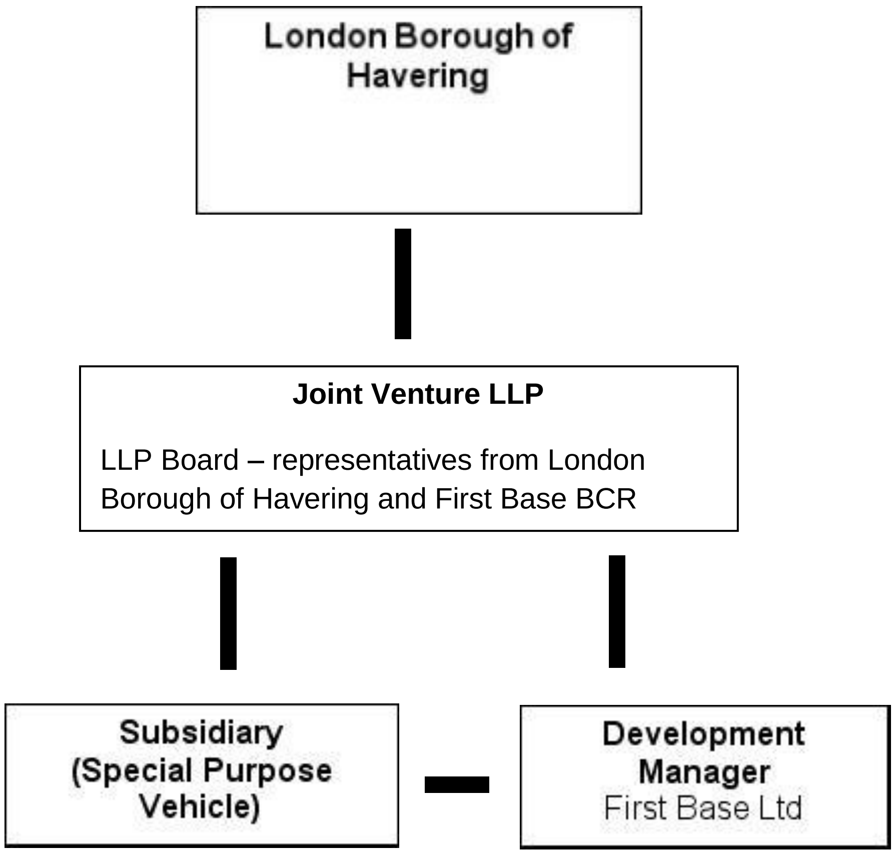
5.1 The key milestones are set out in the table below. The detailed project programme, including public engagement and consultation, will be reported regularly through both the Council's and the JV LLP's governance arrangements.

Key anticipated milestones

Milestone	Anticipated Date
Cabinet approval to establish a joint Venture Limited Liability Partnership.	November 2017
Council approval of Capital funding	February 2018
Approval of legal agreements including JV LLP Business Plan	by February 2018
Cabinet approval of Compulsory Purchase Order resolution	June 2018
Submission of 1st planning application	Summer 2018
Determination of 1st planning application	January 2019
Appointment of main construction contractor (phase 1)	August 2019
Potential Start on Site	January 2020
First completions	May 2022
Scheme complete	January 2027

6 Joint Venture Limited Liability Partnership Structure

6.1 The overall JV LLP structure and governance arrangements are represented in the diagram below and summarised in the Legal Summary appended to the exempt agenda report. Proposals for the Council's own governance arrangements across the regeneration programme will be made in a subsequent report to Cabinet.



6.2 This structure means that the JV LLP will be owned, funded, and managed on a 50/50 basis by the Council and First Base BCR. Decision-making will be by consensus, and where there may be disagreement by escalation or reference to a suitable expert. The relationship between the two corporate members of the JV LLP (i.e. the Council and First Base BCR) will be regulated by a Members' Agreement (equivalent to the Articles of a company). The Council, the JV LLP, and First Base BCR will also enter into an agreement to regulate land assembly. The third key agreement is the Development Management agreement, under which First Base Ltd will provide development management services to the JV LLP (against a specification of services and agreed payment terms). Finally, the JV LLP will indemnify the Council for its CPO costs under a CPO indemnity agreement; these costs being met by the JV LLP, and therefore 50% funded by the Council.

6.3 The legal agreements reflect how similar arrangements between councils and development partners have been structured and detailed. Both the parties to the JV LLP (the Council and First Base BCR) will be obliged to work together to pursue the regeneration objective for Bridge Close, supported by the development manager. The obligations of First Base BCR are to be guaranteed by Savills. The Members' Agreement ensures that conflicts of interest are declared and that neither member is able to deliberately frustrate the partnership. As private sector partner, First Base BCR are unable to sell their interest in the JV LLP to a third party without first offering that opportunity to the Council (and may not sell to persons unsatisfactory to the Council). The legal agreements all incentivise the partnership to operate in a manner designed to further the regeneration objectives of the Council.

7 Risk Management

7.1 The financial and legal risks associated with the decisions requested in this report are addressed in sections below. Moving forward, there will be a number of means by which the Council, as JV LLP member, will be able to ensure robust and effective risk management including, but not limited to, financial and legal matters.

7.2 The JV LLP Board will be responsible for ensuring that project risks are being properly assessed, monitored, and mitigated. The Development Manager will provide services in support of that, including the risk register. The Board will also be responsible for establishing any strategic risks that impact on the activities of the project, and ensuring that these are reflected in the project risk register where appropriate. Risks may be escalated to the JV LLP Members (the Council and First Base BCR).

7.3 The Council will also have its own arrangements for monitoring and reporting risks at different levels of detail:

- via reports to Members relating to Bridge Close and the JV LLP including the periodic review of the Business Plan;
- by the Council's client function and Bridge Close officer project group;
- under the Council's performance monitoring system; and through other governance and financial reports to Members as advised by the Council's s151 and monitoring officers.

REASONS AND OPTIONS

8 Reasons for the Decision

8.1 By entering into the JV LLP, the Council secures significant investment and specialism from the private sector whilst acquiring a degree of control over the scheme. The Council is therefore better placed to secure its regeneration objectives for the site than if it relied solely on its role as planning authority and its land assembly powers.

9 Other options considered

9.1 A detailed options appraisal of the following options was undertaken:

- Developer led - Council adopts a ‘do nothing’ approach
- JV LLP with First Base BCR
- Commence an OJEU process to select a developer
- Commence an OJEU process to select a JV LLP partner

9.2 The following criteria were used:

- Ensuring a comprehensive development
- Direct influence over design and management standards
- Ensuring delivery of infrastructure
- Meeting deadlines to retain GLA Housing Funding
- Minimising investment and risk
- Obtaining a financial return from the scheme
- Cost of procurement

IMPLICATIONS AND RISKS

10 Financial implications and risks

10.1 The report seeks Cabinet approval in principle to invest a maximum of £75.1m of capital expenditure into a Limited Liability Partnership to deliver the regeneration of Bridge Close including a school, health centre and affordable housing. This investment is in excess of the available budget within the Approved Capital Programme and falls outside the approved Treasury Management Strategy. It will therefore require consideration and approval by full Council. Therefore, subject to Cabinet approval of the recommendations within this report, the scheme will be included in the proposed capital programme to be considered as part of the 2018/19 budget process and will be subject to approval of the Capital Programme and Treasury Management Strategy in February 2018.

10.2 A total revenue surplus for the Council of £10.591m is forecast as a result of this regeneration scheme after meeting capital financing costs of borrowing. Although a deficit of £1.611m will be incurred over the first five years and will require General Fund revenue resources to support it until net income streams are generated. An estimated capital receipt of £3.1m is expected to be realised at the end of the scheme.

10.3 The financial information is detailed in the Exempt Agenda Report.

11 Legal implications and risks

11.1 The Council entered negotiations with First Base BCR, with a view to forming a limited liability partnership to carry out a comprehensive redevelopment of Bridge Close. The Council is acting lawfully under the Public Contracts Regulations 2015 ("the PCR") because First Base BCR have the legal right to acquire (including by way of transfer into the proposed joint venture LLP) land interests in a major portion of the proposed development site.

11.2 The Council may therefore rely on Regulation 32 of the PCR because First Base BCR's land interests negate the requirement to carry out a tender exercise. Under this regulation, the Council may lawfully make a direct award where "the works, supplies or services can be supplied only by a particular economic operator" for "the protection of exclusive rights, including intellectual property rights".

11.3 The Council may justify not going out to competitive tender under the PCR because "no reasonable alternative or substitute" approach exists. In applying this test, the Council must not "artificially narrow the parameters" for proceeding with First Base BCR. This requirement is satisfied because:

i. even if it were to pursue a CPO, and be successful in doing so, the potential compensation payable to First Base BCR, extra CPO process costs, probable timetable delays, and extra procurement costs in undertaking a competitive process, would be an unreasonable alternative/substitute;

ii. to meet the regeneration objectives of the Council for Romford arising from the regeneration opportunity at the proposed development site, no reasonable alternative or substitute site exists;

iii. First Base BCR would not voluntarily relinquishing its legal interests in the proposed development site; and

iv. a development on the land not held by First Base BCR would not represent a reasonable alternative/substitute means for delivery of a comprehensive development of Bridge Close.

11.4 The agreements entered into by First Base BCR, and the chronology of how such agreements were made, as well as the historic discussions between the Council and First Base/SIM Have been reviewed. Having regard to all factors and history members are advised that these land interest may be classed as "exclusive rights" because:

i. First Base BCR has an absolute right to acquire these land interests. Although the agreements will expire on longstop date the landowners would retain the deposit monies paid; this puts First Base BCR under commercial pressure to reach completion, and means they have an exclusive right they will seek to protect.

ii. The agreements are such that the landowners cannot unilaterally terminate the agreements in order to facilitate a competitive tender process by the Council, except by being in breach of the agreements and therefore triggering a claim for compensation by First Base BCR.

11.5 The joint venture LLP will not be a contracting authority for the purposes of the PCR because it will not meet the definition of a "body governed by public law". This means that the LLP will not itself be required to comply with the PCR in placing contracts for services or works; meaning that such contracts do not necessarily need to be procured by way of OJEU under the PCR. However, to give assurance that the redevelopment is conducted in a way which ensures value for money, the LLP will adopt a procurement policy with value for money objectives.

11.6 Under the Council's constitution, there is a general requirement to follow EU competitive tendering requirements. However, paragraph 14.6.5 of the Council's Contracts Procedure Rules exempts the Council from compliance where there is a specific exemption under EU law (as there is in this case).

11.7 A Voluntary Ex Ante Transparency notice ("VTN") will be published in the Official Journal of the European Union to mitigate any procurement risk. In brief, a VTN involves publication of a notice describing the nature of the contracts to be entered into and the reasons (by reference to the Directive/PCR, and facts) for not publishing an OJEU and conducting a competition. Once published, any contractor/developer seeking to object and raise challenge, would need to do so within 10 days (after which any such challenge would be out of time).

Powers

11.8 Members are advised that the Council may rely upon the General Power of Competence ("general power") provided for in Section 1 of the Localism Act 2011 to pursue the proposed development scheme and related contractual structure with First Base BCR. Other statutory powers enable the making of the CPO. The general power is a wide power which allows the Council to do anything that an individual may do (subject to public law principles), but it is subject to certain statutory limitations.

11.9 Section 4 of the Localism Act 2011 provides that if the Council is exercising the general power for a commercial purpose then it must do so using a company. For this project the Council is proposing to enter into a joint venture arrangement with First Base BCR by way of the LLP. This approach is permissible because the Council's primary purposes in being a corporate member in the LLP are non-commercial and socio-economic in nature. The primary purpose behind the joint venture, and setting up of the LLP, is to deliver the Bridge Close regeneration project, by way of housing development (to include affordable housing).

11.10 There is no current case law on the parameters of section 4 and what amounts to a "commercial purpose" in the circumstances, although many other local authorities have, on legal advice (including by way of Counsel's opinion), established LLPs on the basis of a regeneration purpose. There is currently a legal challenge against another Local Authority on their use of an LLP, although the facts are not the same as this matter. The outcome of that case is awaited and any implications will be evaluated.

11.11 Sections 8 and 9 of the Housing Act 1985 impose a duty on local authorities to review housing needs in their district and provides them with related powers to provide housing accommodation by building and acquiring houses or by converting other buildings into houses. These powers can include provision via third parties.

11.12 Section 123 of the Local Government Act 1972 provides the Council with the power to dispose of non-housing land for best consideration. The Council will therefore need to demonstrate its compliance with section 123 when transferring, if any, land into the LLP. In order to demonstrate full compliance with section 123, the Council will need to take any necessary further independent valuation advice where necessary throughout the delivery of the project. However, the agreed position with First Base BCR is that land will transfer a full value and therefore in accordance with section 123.

11.13 The Members' Agreement will allow for the LLP to set up subsidiaries to undertake site developments, by the agreement of the LLP members. This approach may be beneficial for the purposes of raising finance in a cost-efficient way. Any such subsidiary would be subject to prior approval of both LLP members (i.e. by the Council and First Base BCR). The establishment of subsidiaries will be lawful for both the Council and the LLP, where supported by a Business Plan in furtherance of the regeneration of Bridge Close and therefore the purpose for which the LLP is established.

State aid

11.14 State aid legal compliance will be managed on an ongoing basis. All land transfers from the Council to the LLP will need to be for full value so as to avoid a transaction being deemed to include the grant of state aid. Transfer at an open market value based on an independent valuation will comply with these guidelines.

11.15 The Council intends to invest on commercial terms that would be acceptable to a prudent private sector investor in the same circumstances. In doing so, the Council may rely upon the Market Economy Investor Principle and the proposed structure (contractual and investment) should be kept under review as the project progresses to make sure that the Council's investment (by way of either land or finance), is always State aid compliant.

11.16 GLA funding will be used to support Bridge Close and it will be for the Council to ensure that (i) the GLA funding is only used in accordance with any specific requirements in the funding agreement (for example, to only apply the funding to any specified permitted costs), and (ii) that all such funding is State aid compliant (as required by the GLA). The LLP will be under a parallel obligation to ensure such compliance.

General

11.17 The Council has taken external legal advice regarding its overall approach to the project and has been advised that the Council is acting lawfully, and that the legal structure is appropriate for the transaction. Public law constraints will apply to the project, including the Council's fiduciary duty to act prudently with public monies entrusted to it. The Council therefore must establish (and maintain a full audit trail to support) that the project and its various components are 'intra vires' and that the decision to undertake the project is made after having given due and proper consideration to all relevant factors (disregarding irrelevant factors) and in accordance with normal public law considerations.

11.18 The LLP is a separate legal entity and as such has legal capacity to make planning applications and appeal adverse decisions. However, the Council will need to be mindful of the essential need to separate its decision-making (in its capacity as a member of the LLP) from its functions as a planning authority. This also has bearing on the appointment of nominees to the LLP's board.

Risks

11.19 The principle risks in the project are as follows.

a) Other forms of legal challenge – It is always possible for third parties to make challenge under judicial review to attempt to halt progress with projects of this kind, and this risk cannot be ruled out entirely. However, the legal advice that the Council has obtained confirms the lawfulness of the proposed arrangement and the statutory powers being relied on.

b) Commercial – The project is structured as a joint venture and, as such, the Council should recognise that it will be acting as a stakeholder in the LLP, and taking a share of the development risk in the project. These risks would include the normal development risks, such as LLP or joint venture partner defaults or insolvency, market collapse, delay in land assembly, planning and CPO delay (including highways, stopping up, etc.). The Council's exposure to these types of risks will be limited to the extent of its investment in the LLP. Also, the decision making and business planning structure of the LLP enables the Council to participate in decisions at both board and corporate member level.

11.20 Any joint venture arrangement, especially where parties establish a joint venture vehicle, involves complex and detailed legal commitments, which are intended to last the duration of the development scheme. Were one of the Parties to withdraw or alter the arrangement without agreement this would have considerable complex legal consequences that would almost certainly involve irrecoverable costs.

11.21 The exempt agenda report contains a detailed legal summary on the JV LLP relationship that contains information that is of a commercial and financially sensitive basis.

12 Human Resources implications and risks:

12.1 The Bridge Close project will require continued involvement of officers from the Development team and other Council services. Bridge Close forms part of the Council's overall regeneration programme and a separate report setting out the Director of Neighbourhood Services' proposed arrangements will be presented to Cabinet in December 2017.

13 Equalities implications and risks:

13.1 The public sector equality duty under section 149 of the Equality Act 2010 ("PSED") requires the Council when exercising its functions to have due regard to: (i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010; and (ii) the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it and to foster good relations between those who have protected characteristics and those who do not. 'Protected characteristics' include: gender, race and disability, sexual orientation, age, religion or belief, pregnancy and maternity and gender reassignment. The Council is committed to improving the quality of life for all, and supports wider social and economic growth through social and physical regeneration.

13.2 The Equality Impact Assessment for Bridge Close flows from the Council's Equality Impact Assessments for the Havering Estate Renewal Programme and the Local Lettings Plan. To inform the Bridge Close Equality Impact Assessment, engagement with affected residents and businesses has been undertaken, alongside a review of the wider Romford Town ward to establish a demographic profile of those affected. This broadly considered the impact of the proposal on these stakeholders, within the context of the protected characteristic. The Equality Impact Assessment will continue to be monitored and updated as part of a process of continuous engagement with stakeholders.

13.3 Overall, there will be some adverse impact from the redevelopment of Bridge Close, particularly as a result of the displacement and disruption caused to existing businesses, staff, residents and their families, and some religious groups. To reduce this impact, the Council is working closely with those affected and offering a full package of support, through access to dedicated advice and assistance, through the offer of financial compensation, by offering a range of options to help residents move to a new home and providing businesses and other groups with help in finding and relocating to new premises, as well as additional support to encourage business improvement and sustainability in the future.

13.4 The Council believes that the benefits of the Bridge Close redevelopment will outweigh some of the adverse impacts identified. The redevelopment of Bridge Close is predicted to be largely positive, presenting far reaching benefits and opportunities for Romford, Havering and its diverse communities. This includes making a significant contribution to the provision of new and high quality mixed tenure housing, which will be well managed, and sustainable, helping to reduce fuel poverty and contributing to the quality of life for people of all ages, genders, ethnicities and faiths/beliefs. Regeneration of the area will also support economic growth and prosperity across Havering, through creating new mixed workspace and community facilities, which will support business growth, enterprise and inward investment, as well as local jobs, apprenticeships and wider employment opportunities. The development will also help to create a greater sense of place and platform for learning, creativity and culture, whilst also supporting education, health, leisure and recreation. The introduction of robust estate management services across the development will also aid in preventing crime and social disorder, whilst the new neighbourhood will encourage social inclusion, community cohesion and equality, helping to foster positive relations amongst existing and new communities.

13.5 The development will also improve the local environment by helping to reduce the barrier effect of the Ring Road, creating a safer and more welcoming environment. The introduction of a new east-west pedestrian and cycle bridge will provide greater access and connectivity to the town centre and rail station, encouraging use of public transport, walking and cycling. A rejuvenated public realm and enhanced River Rom will create an improved blue and green amenity, both for the enjoyment of local people and visitors alike. The development will reintegrate Bridge Close with Romford town centre and in doing so will complement the town centre and help the areas expansion as retail and residential quarter, providing more choice and opportunity for the future and new health and education facilities as well as affordable housing for local people.

BACKGROUND PAPERS

There are none

This page is intentionally left blank

London Borough of Havering

Business Case for a LLP to regenerate Bridge Close, Romford

1 Background

1.1 This document sets out the business case for the Council to intervene in order to deliver its regeneration objectives for Bridge Close, considers a number approaches to delivery, and sets out the associated legal and financial implications.

1.2 This business case is structured on the 'Five Case Model' including procurement and contractual elements as stipulated in Government guidance.

2 The Strategic Case

a) Introduction - Strategic Objectives

2.1 The regeneration of Bridge Close is established Council policy. The strategic objective is therefore to ensure delivery and to maximise the overall quality of a new development.

2.2 The policy background and Cabinet decisions are summarised below.

<u>Local Development Framework and Romford Area Action plan 2008</u>

2.3 The Romford Area Action Plan adopted in 2008 as part of the Local Development Framework for Havering (also adopted in 2008) contained a specific site allocation for residential development at Bridge Close (reference ROMSSA2).

<u>Romford Development Framework 2015</u>

2.4 The Romford Development Framework approved by Cabinet in July 2015 forms part of the evidence base for the emerging Havering Local Plan. It confirmed Bridge Close as a key regeneration site. The Framework identified parameters for the development, including the East-West link and River Rom, which have informed all subsequent work. The Framework indicated delivery within five years, i.e. by 2020.

<u>Romford Housing Zone June 2016</u>

2.5 Cabinet agreed to accept Housing Zone status for Romford from the Greater London Authority (GLA) with £34.9m grant (some recoverable) including £12.4m in respect of Bridge Close to support land assembly, an east-west link bridge and improvements to the River Rom.

<u>Bridge Close June 2016</u>

2.6 A report on Bridge Close was presented to Cabinet in June 2016. The Cabinet's decisions can be summarised as:

- a vision for Bridge Close encompassing a comprehensive development, quality of design, an East-West link and improvements to the River Rom. The east-west link in particular will benefit the regeneration of the whole of West Romford.

- agreement to enter into direct negotiations with land owners to purchase sites on Bridge Close and delegating the authority to approve the terms of acquisition of sites by private treaty and any financial arrangements for relocation

- delegation of authority to take reasonable steps to identify land which cannot be acquired by negotiation and appoint the relevant consultants in order to assess the need for the use of CPO.

- authorising officers to negotiate suitable arrangements with appropriate developers to deliver the Council's vision

Havering Draft Local Plan 2017

2.7 Council approved a draft Local Plan in July 2017 which retains Bridge Close as a site for regeneration and housing delivery. The draft Local Plan emphasises the importance of ensuring infrastructure including education and local health facilities.

c) The case for intervention

2.8 The most important reasons for considering intervention by the London Borough of Havering are:

i) Ensuring a comprehensive development

ii) Quality of development and provision of infrastructure

iii) Land assembly

i) Ensuring a comprehensive development

2.9 The Council's policy objective of a comprehensive development is to ensure consistency of quality and design, good standards of access, and allow cross-subsidisation of infrastructure contributions and affordable housing. A comprehensive approach is particularly important for a site where there are multiple land owners and thus an increased risk of a number of small developments 'cropping up' in an uncoordinated way. Whichever route to delivery is taken the Council would wish to see a Masterplan for the whole of Bridge Close even if it is delivered in phases and even if ultimately delivered by more than one party.

2.10 The importance of a comprehensive redevelopment, and the prospects of achieving a Masterplanned approach, has been a consideration in the preparation of the business plan and options appraisal.

ii) Quality of development and provision of infrastructure

2.11 The prominence of Bridge Close means that the nature and quality of development is of paramount importance. The development must set a benchmark quality standard for future development in Romford and in doing so, help overcome strongly held negative perceptions (by Members and the public) of development based on the relatively poor quality of some nearby schemes that have met planning requirements but are unpopular.

2.12 If Bridge Close was not to be of the highest standard of design and accompanied by a strong management plan, development across the whole of Romford might be jeopardised with a knock on implication for the Council's approach to housing delivery and thus the Local Plan policies of protecting other parts of Havering.

2.13 The Council is also committed to ensuring provision of facilities such as schools, health facilities and affordable housing. Whilst local and London planning policy sets a framework and requirements, developers will frequently make the case that infrastructure is not affordable or should be provided elsewhere with a s106 contribution instead. The pattern of developers' inability or reluctance to provide infrastructure can create major problems for residents and the local authority. In the case of Bridge Close, the Council is also seeking infrastructure (such as the East-West link) which developers might challenge as not essential.

2.14 Ensuring the delivery of infrastructure at Bridge Close is therefore another key factor in determining the best approach.

iii) Land assembly

2.15 There are 18 freehold commercial premises within the industrial area (some occupied by the owners with the majority leased) and 37 residential properties comprising owner occupiers, private tenants and Council tenants. Occupants of the commercial properties include community/ faith groups and an ambulance centre.

2.16 Over the years that Bridge Close has been earmarked for redevelopment a number of owners of property interests sought to sell their interests to private sector developers. This process has typically broken down due to the developers' inability to secure agreements on enough land to be able to proceed. Other parties have expressed an interest without owning or acquiring land or demonstrating any relevant experience. For the type of comprehensive development described above and reflected in planning policy to come forward, it is very likely that some form of intervention of the London Borough of Havering will be required. Moreover, for the reasons described below, the Council wishes to ensure the highest quality development possible.

3 The Economic Case

a) Quantative and qualitative cost/ benefit analysis and outputs

i) Non-financial benefits

3.1 Based on current modelling the scheme is expected to deliver:

- 1,070 new homes (including at least 30% affordable homes).
- a 3 form entry primary school
- a local health facility
- commercial floor space, likely to be flexible workspace and small retail/ leisure.
- a new pedestrian and cycle bridge from Bridge Close to near Romford station

- environmental improvements to the River Rom
- an average of 205 jobs during the construction period *
- a net increase in employment of 500 direct and indirect jobs once the development is complete *
- a site of religious worship (on or off-site). Support to the provision of ambulance service facilities to serve the Havering area.

b) Financial benefits

- Council Tax income of £1.9m once the development is complete.
- Increased NNDR - to be calculated.
- A projected total revenue and capital return to the Council of £13.691m.
- Housing Zone grant of £12.4m of which £6.5m is repayable loan.
- Significant s106/ CIL and s278 contributions.
- significant construction spend, some of which must be spent in the local economy
- an estimated £4.0m spend in the local economy annually *

note: source of information marked * is from an Economic Benefits assessment undertaken by Savills' economic team. Other information is from the scheme appraisal.

c) Options appraisal

3.2 A detailed options appraisal of the following options has been undertaken:

- Developer led - Council adopts a 'do nothing' approach
- A Limited Liability Partnership (LLP) with First Base BCR
- Commence an OJEU process to select a developer.
- Commence an OJEU process to select a LLP partner

3.3 The following criteria were used;

- Ensuring a comprehensive development
- Direct influence over design and management standards
- Ensuring delivery of infrastructure
- Meeting deadlines to retain GLA Housing Funding
- Minimising investment and risk
- Obtaining a financial return from the scheme
- Cost of procurement

3.4 A primary reason for considering a partnership with First Base Bridge Close Regeneration LLP (a partnership between Savills Investment Management and First Base Ltd) is that it has secured a significant land interest at Bridge Close. This evaluation however does not presume that a partnership with First Base BCR is preferable

3.5 The options, including the advantages and disadvantages, are summarised below.

Option 1 – developer led, Council adopts a 'do nothing' approach

i) **Summary**

- The Council awaits a planning application (or applications) for all or part of the site.
- The Council may wish to produce its own Masterplan so that any applications are consistent with the Council's vision, or it may require the first applicant to submit a Masterplan.
- The Council seeks on-site infrastructure and s106/ CIL contributions
- Land assembly is for the developer(s) to deal with; the Council does not seek to use Compulsory Purchase Order powers

ii) **Main advantages**

- No capital investment by the Council is required and the risk to the Council is low
- Development may commence earlier as a CPO process is not required
- Potential competition between developers
- The Council can distance itself from unpopular proposals

iii) **Main risks/ disadvantages**

- The past failure by other parties to secure the whole site, or even the entirety of any part of the site, suggests that without some form of intervention a comprehensive development that meets the Council's objectives could not be delivered.
- Unlikely to meet the deadline for GLA Housing Zone funding or be eligible.
- Developer(s) must meet minimum planning requirements for a social infrastructure but school and health less likely to be on-site and may not include the East-West link or improvements to the river.
- Unlikely to meet the deadline for GLA Housing Zone funding or be eligible.
- The Council's control over design is limited to its role as planning authority
- Increased risk of no development happening meaning the site deteriorates further.
- Potential damage to the Council's reputation in the development market, with the GLA, residents and businesses.
- The Council would have little to show for project costs incurred to date.
- May suggest that the Council lacks confidence in its own vision for Romford.
- Uncertainty for businesses and residents including some who have accepted offers or are making alternative arrangements.
- No financial return to the Council

Option 2 – JV LLP between the Council and First Base BCR

i) Summary

- Cabinet agrees to enter into a legal agreement to establish a Limited Liability Partnership and to invest equity. The legal agreements include a Business Plan which includes development parameters and a financial model.
- The Council establishes its own governance and 'client' function.

- The LLP seeks to acquire land by negotiation. The Council agrees the use of Compulsory Purchase Order Powers with an indemnity from Bridge Close BCR.
- A detailed planning application is submitted either for the whole site or part of the site with an outline application for the remainder.
- The LLP is the developer and takes responsibility for the delivery of the scheme governed by its owners.

ii) Main advantages

- Greater Council influence/ control over quality and timing of the development within a comprehensive Masterplan.
- Infrastructure is an element of the LLP agreement as well as the planning process.
- The Council has a 50% vote on how and when the project is pursued at each stage.
- Continuity – First Base BCR has accumulated knowledge, a relationship with landowners and control over a significant proportion of the site.
- The Council has more influence over support given to businesses, community groups and residents displaced/ seeking relocation.

iii) Main risks/ disadvantages

- The Council assumes development risk
- The Council and First Base BCR may disagree within the LLP at detailed planning application stage.
- The Council as planning authority may disagree with the Council as a development partner.
- The Council has not tested the market

Option 3 - Council appoints a developer following an OJEU competition

i) Summary

- The Council instigates an OJEU process to select a developer. A Development Agreement (or similar) is entered into - not a LLP.
- A Masterplan is set in advance by the Council including infrastructure such as a school and the East-West link. The Council could seek outline planning permission in advance (recognising the advantages and disadvantages associated with this approach).
- Alternatively, overall parameters are set for the competition and the detailed Masterplan is agreed through negotiation with the preferred development partner.
- The developer acquires land by negotiation (including the Council as landowner and MNO/First Base). The Council agrees to use CPO powers subject to a suitable indemnity and Masterplan
- Developer responsible for on-site infrastructure and s106/CIL.
- The Council may receive an overage payment but risk and reward is vested with the developer.

ii) Main advantages

- No capital investment required form the Council with limited risk
- Members are able to compare developers and make a selection.
- A reduced risk of challenge
- Delay would mean it would be easier to assess the impact on values of Crossrail.

ii) Main risks/ disadvantages

- As First Base BCR is holding conditional sale agreements under which it has paid, albeit at its own risk, it might strongly contest the Council taking the scheme to market at this stage.
- Potential damage to Council's reputation in the development market which could deter companies taking part in a procurement exercise, or indeed investing elsewhere in Havering.
- Potential damage to the Council's reputation with the GLA, residents and businesses
- Cost of procurement process
- Delay and consequential loss of Housing Zone funding
- The underlying viability and design challenges remain unchanged.
- Council has less direct control than under an LLP option

Option 4 - Council selects a JV LLP partner following an OJEU process

i) Summary

- The Council seeks an orderly exit strategy with First Base BCR
- The Council instigates an OJEU process to select a LLP partner.
- A Masterplan is set in advance by the Council including infrastructure such as a school and the East-West link. The Council could seek outline planning permission in advance (recognising the advantages and disadvantages associated with this approach).
- Alternatively, overall parameters are set for the competition and the detailed Masterplan is agreed through negotiation with the preferred partner.
- The LLP acquires land by negotiation (including the Council and MNO/ First Base). The Council agrees to use CPO powers subject to a suitable indemnity and Masterplan
- LLP responsible for on-site infrastructure and s106/CIL in addition to the infrastructure in the Masterplan.
- The Council is an investor and shares risk and reward.

ii) Main advantages

- Members are able to compare developers and make a selection.
- Reduced risk of challenge
- Delay would mean it would be easier to assess the impact on values of Crossrail.

iii) Main risks/ disadvantages

- Capital investment required by the Council with associated risk
- As First Base BCR is holding conditional sale agreements under which it has paid, albeit at its own risk, it might strongly contest the Council taking the scheme to market at this stage.
- Potential damage to Council's reputation in the development market which could deter companies taking part in a procurement exercise, or indeed investing elsewhere in Havering.
- Potential damage to the Council's reputation with the GLA, residents and businesses
- Cost of procurement process
- Delay and consequential loss of Housing Zone funding
- The underlying viability and design challenges remain unchanged.

3.6 The outcome of the evaluation was as follows:

1st **JV** LLP between the Council and First Base BCR

2nd Council selects a JV LLP partner following an OJEU process

3rd Council appoints a developer following an OJEU competition

4th Developer led - Council adopts a 'do nothing' approach

3.7 The remainder of this business case is therefore predicated on the preferred option of a LLP between the London Borough of Havering with First Base BCR LLP to be called Bridge Close Regeneration LLP.

4 The Commercial Case

a) Procurement

4.1 In 2016 the Council was approached by Savills Investment Management and First Base Ltd which was in the process of establishing an LLP (First Base Bridge Close Regeneration LLP) for the specific purpose of developing Bridge Close. Savills Investment Management had entered into legal agreements with the owner of several parcels of land at Bridge Close including the single access road. It is known that the landowner chose Savills Investment Management following a competitive exercise.

4.2 These agreements gave Savills Investment Management exclusive negotiating rights over that land – the owner cannot deal with any other party as long as the agreements are in place. Savills Investment Management transferred the benefit of these agreements to First Base BCR which in December entered into conditional sale agreements with the owner

4.3 It was suggested that First Base BCR and the Council should establish a Limited Liability Partnership. The Council is mindful however of the importance of considering other options available and of ensuring full legislative compliance. The options appraisal is addressed above in section 3 of this business case. In order to address the legal implications, the Council appointed Browne Jacobson to advise on procurement and all matters arising.

4.4 Browne Jacobson has provided detailed legal advice regarding procurement, vires (e.g. statutory powers); State Aid and the Council's Contract Procedure Rules. The legal advice is reported in the Cabinet report which accompanies this business case and is therefore not replicated in this document. The recommendations in the Cabinet report, including the recommendation to establish **an** LLP with First Base BCR are entirely consistent with Browne Jacobson's legal advice.

b) Service requirements

4.5 The Council will ensure that there is an adequately resources client function to support Members to monitor the work of the LLP and take decisions reserved from the Council. This will include liaison and negotiation with the LLP and its professional advisers.

4.6 To be updated with proposals for the overall regeneration programme.

c) Charging Mechanism

4.7 The LLP does not charge the Council but instead spending presents proposals to its Members as set out the legal agreements.

d) Risk Transfer

4.8 As a partner in the Limited Liability Partnership, the Council is electing to assume risk in order to meet its strategic objectives. There are however ways in which risk will be transferred, notably;

- Savills Investment Management must enter into a deed of guarantee in favour of the LLP in respect of First Base BCR's obligations under the Members agreement, i.e. if the latter defaults or its obligations become unenforceable, invalid or illegal.
- The LLP will indemnify the Council in respect of the Compulsory Purchase Orders. The Council itself will bear 50% of any payments under the indemnity agreement as a LLP partner with First Base BCR also assuming 50% of the risk.
- As Development Manager, First Base Ltd will be required to ensure comprehensive insurance arrangements on behalf of the LLP including requiring all contractors and consultants to have a required minimum level of insurance. First Base Ltd itself must have professional indemnity insurance for at least £10m.

e) Accounting Treatment

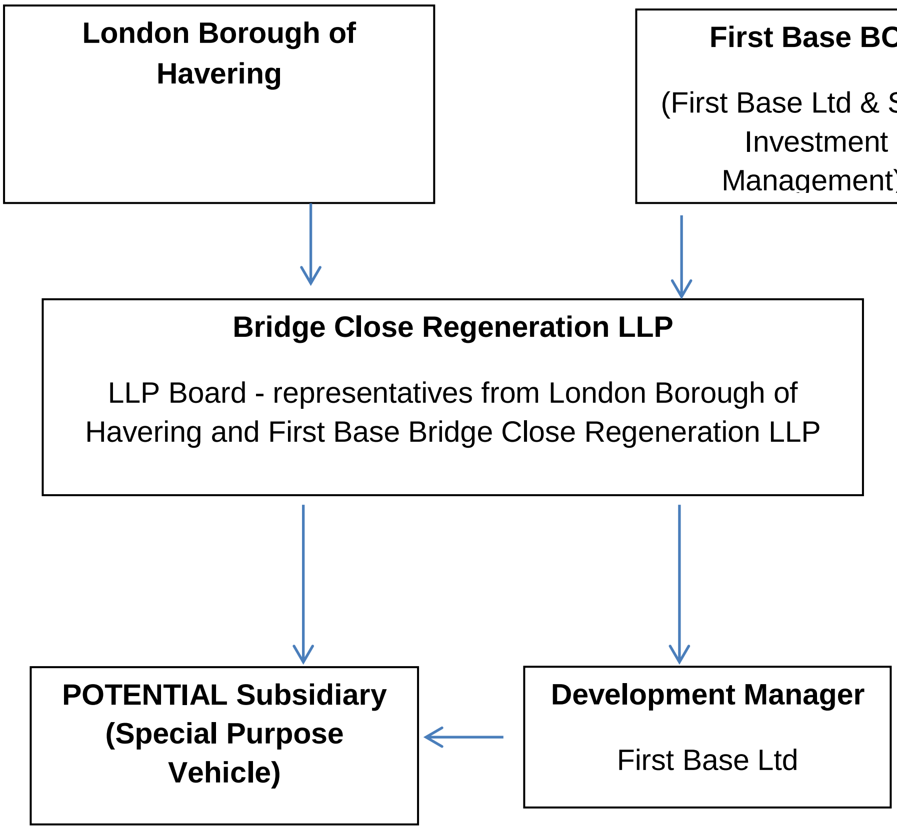
4.9 International Accounting Standard 28 governs the accounting for an organisation's investment in a joint venture. The method prescribed by the standard means that the council must show in its accounts, the carrying value of its share of the net assets of the joint venture. The group accounts will consolidate the Council's share of the profit/loss of the joint venture with the Council's overall surplus/deficit.

4.10 The company status of the JV as a Limited Liability Partnership (LLP) means that it is not subject to Corporation Tax. Distributions from the LLP will be taxed "in the hand" of the recipient. The Council is exempt from Corporation Tax and therefore will not pay tax on the distribution.

f) Key Contractual Arrangements

4.11 The report to Cabinet accompanying this business case sets out the legal implications and the advice provided by Brown Jacobson (legal advisers) in relation to procurement, vires (i.e. statutory powers), State Aid, and the Council's Contract Procedure Rules. That legal advice is not replicated in this document.

4.12 The overall structure of the LLP is shown below:



4.13 The Council will also enter into a contractual funding agreement with the Greater London Authority in respect of Housing Zone Grant the principle of which was approved by Cabinet in June 2016.

g) TUPE implications

4.14 None – no Council staff will transfer to the LLP

5 The Financial Case

5.1 The detailed financial implications for the Council are set out in the Exempt Cabinet report which accompanies the Business Case and not replicated here.

6 The Management Case

a) Deliverability

6.1 The redevelopment of Bridge Close is a considered and deliverable and realistic objective. Key elements of this assessment are:

i) Land assembly

The level of ownership and control of land by the LLP partners together with the land assembly strategy within the LLP's Business plan and the intention to adopt Compulsory Purchase Order makes it very likely that the whole site can be secured.

ii) Planning

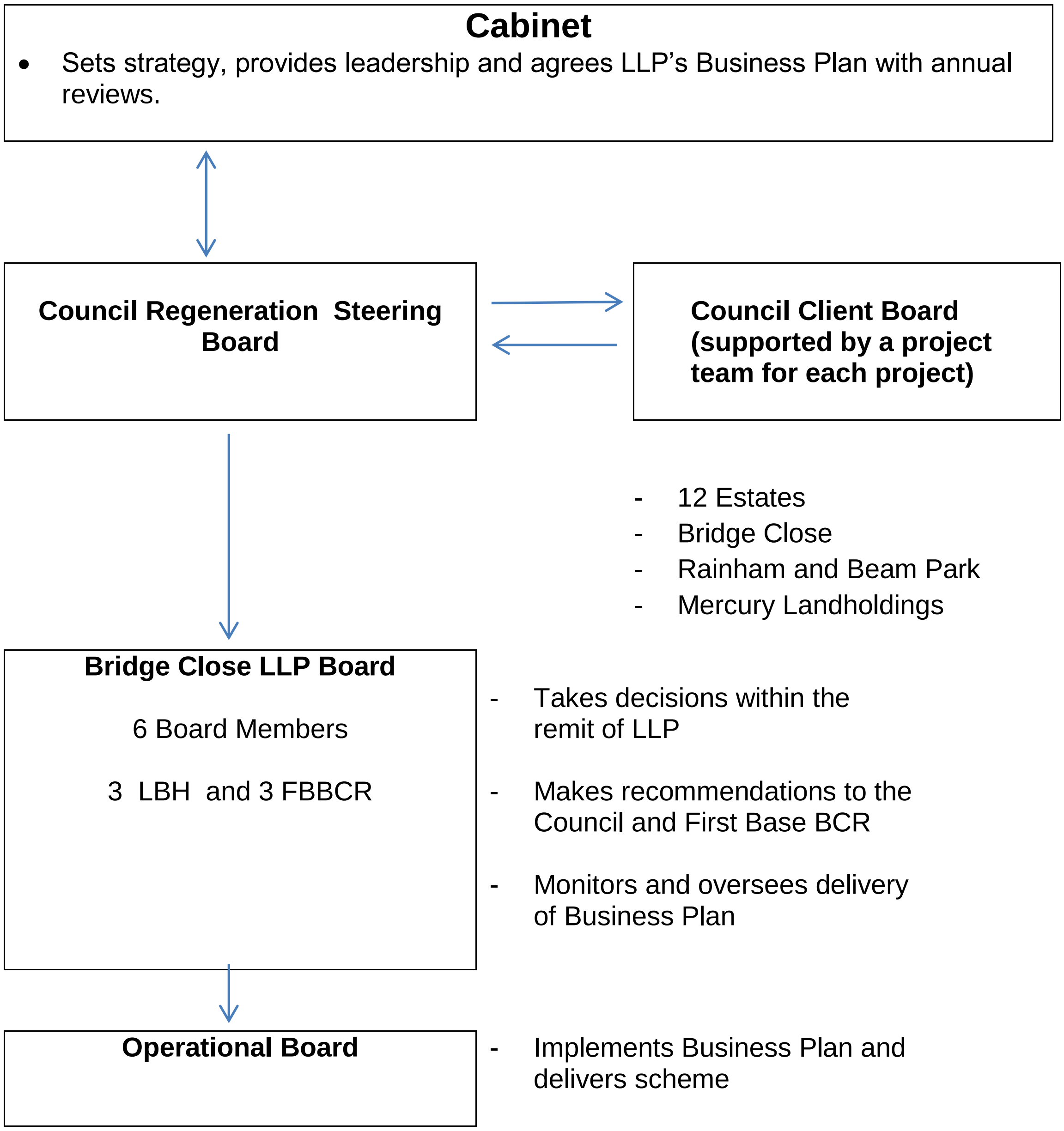
A sound policy framework already exists as described in section 2 of this business case. The approach to secure planning permission will be based on compliance with local and London plan requirements, early and continued involvement of the Local Planning Authority including a Planning Performance Agreement, a programme of public, Member and stakeholder engagement, and a commitment to high quality design and management standards.

iii) Viability

The financial business case is referred to in section 5 above and set out in detail in the Cabinet report which accompanies this Business Case.

b) Programme & Project Management Structure

6.2 In addition to the governance of the LLP described in section 4 and set out the Business Plan, the Council must have its own arrangements. The Director of Neighbourhood Services will present proposals for a new client function to support the Council's regeneration programme to Cabinet in December 2017. The diagram below is indicative of arrangements for Bridge Close.



6.3 A monthly Development Management report will be produced by the Development Manager summarising progress against the key project milestones, and the JV Board will meet on at least a six weekly basis to review the report.

c) Programme & Project Management Plans

6.4 The table below sets out key milestones. The detailed timetable will be kept under continual review by the Joint Venture Board and reported to Members through [to be updated with SM/CH's of the Regeneration Board.

Cabinet approval to establish a Limited Liability Partnership subject to approval of Council capital funding and finalisation of legal agreements.	November 2017
Council approval of capital funding	February 2018
Approval of legal agreements including LLP Business Plan	by February 2018
Cabinet approval of Compulsory Purchase Order resolution	June 2018
Submission of 1st planning application	Summer 2018
Determination of 1st planning application	January 2019
Appointment of main construction contractor (phase 1)	August 2019
Potential Start on Site	January 2020
First completions	May 2022
Scheme complete	Jan 2027

d) Use of Specialist Advisers

6.5 The Council has taken independent advice during the formulation of proposals as well as utilising in-house expertise across a number of disciplines. The advisors have been:

- Browne Jacobson – Legal
- Glenny – Property and valuation
- Grant Thornton - Tax and accountancy

6.6 External advice will continue to be sourced as required.

6.7 In order to assess the development potential of Bridge Close and prepare the Business Plan, First Base BCR and the Council agreed to appoint a professional team of advisers by competition. Most were appointed following a joint selection process with First Base BCR with the Council sharing costs. The formal appointments were made by First Base BCR with the intention of novating contracts to the LLP once established.

6.8 The professional team will include:

- Masterplanning consultants
- Planning consultants
- Architects
- Quantity Surveyors

- Structural and Services Engineers
- Technical survey consultants
- Environmental

e) Change & Contract Management Arrangements

6.9 The Members' Agreement for the LLP stipulates the decision making process including matters, such as material changes to the LLP's Business Plan, which must be referred to the Members for agreement.

6.10 The Development Management Agreement stipulates the LLP Board's responsibilities for managing the Development Manager. it also stipulates the Development Manager's responsibilities for managing consultants and contractors.

f) Benefits realisation

6.11 The anticipated benefits to Havering of the LLP (financial and non-financial) are stipulated in the LLP's Business Plan, this Business Case and the accompanying report to Cabinet. The nature of the scheme and the benefits will evolve, for example through the planning and land acquisition process. This business case describes the monitoring and decision making processes; distinguishing between monitoring undertaken within the LLP and by the council independently, and the separation of decision making.

g) Risk Management

6.12 Risks will be monitored and managed in a number of ways within the LLP and independently within the Council:

- all reports to Members relating to Bridge Close and the LLP including the review of the LLP Business Plan
- detailed reports to the LLP Board prepared by the Development Manager which will be independently scrutinised by the Council's client team
- the Council's Execview performance monitoring system
- other governance and financial reports to Members as advised by the Council's s151 and monitoring officers.

6.13 The risks considered to be most significant are set out in the Appendix

LLP procurement arrangements

6.14 The LLP's Business Plan will include a Procurement Strategy. As the LLP is not a public sector body, it is not strictly governed by the laws associated with procurement of services for public sector bodies. However the Council and thus the LLP must demonstrate value for money. The Council also wishes to ensure that the LLP's procurement policy delivers significant benefits to local residents and businesses including employment, training and supply chain initiatives. Also, that all contracts set high standards in terms of environmental management and other policy objectives.

6.15 The criteria and weighting given to each procurement process will be made clear in any requests for quotes or tender documentation prior to their issue and absolutely prior to any evaluation of returns. The policy stipulates that all LLP employees, directors and agents shall demonstrate a high standard of transparency and integrity in regards to purchasing decisions. Awards shall be made to the supplier whose bid or offer is most economically advantageous to the LLP considering price, relevant experience, proposed team, quality and lifetime cost.

h) Monitoring during implementation

6.16 The Development Manager will report progress to the LLP monthly using a format prescribed in the Development Management Agreement. These reports will be considered by Council representatives on the LLP Board and independently by the Council's own client function.

6.17 Council Members will also receive regular progress reports in line with the new governance and client arrangements (see 6.2 above).

6.18 The LLP's business plan will be subject to an annual formal review by each of the LLP partners including Cabinet and the relevant Scrutiny Commission on behalf of the Council.

6.19 The Council's corporate financial, audit and risk management reporting mechanism will also address regeneration projects including Bridge Close.

i) Post Implementation Evaluation

6.20 The development manager will undertake a post-evaluation review which will be considered by the Joint Venture Board and reported to the Member Stakeholder Board. The Council will also undertake its own post-implementation review in accordance with its methodology and structure at the time

j) Contingency Arrangements

6.21 In the event that the LLP is not formed or for any reason is discontinued, the Council will review the alternative options set out in section 3. It is likely that the Council will instigate an OJEU process.

Bridge Close Regeneration – Summary of most significant risks at November 2017

As described in section 6, risks will be monitored and managed in a number of ways within the LLP and independently within the Council:

- all reports to Members relating to Bridge Close and the LLP including the review of the LLP Business Plan
- detailed reports to the LLP Board prepared by the Development Manager which will be independently scrutinised by the Council's client team
- the Council's Execview performance monitoring system
- other governance and financial reports to Members as advised by the Council's s151 and monitoring officers.

The risks considered to be most significant are summarised below in a format consistent with Execview

Risk	Description	Severity (i.e. impact)	Mitigation
1. Planning	Planning permission is not obtained or there is a significant delay.	Red	The project plan allows for a detailed design process which will include Member, public and stakeholder engagement. The latter will include the GLA and other statutory bodies. A Planning Performance Agreement will formalise consultation with the Local Planning Authority throughout the process.

			Pre-planning consultation will be undertaken in addition to statutory consultation requirements. The Council must give its approval to each planning application The planning application for the first phase will include a Masterplan for the whole site and seek at least outline approval for subsequent phases.
2. Economic Conditions	Economic conditions deteriorate leading to slower sales rates or lower sales values. This reduces sales receipts and/or delays receipts thereby increasing financing costs. Interest rates rise thereby increasing the Council's and/ or the LLP's borrowing costs.	Amber	Each stage of development is subject to a detailed 'gateway' process so that the LLP's proposals reflect market conditions and provide the owners with the LLP with a detailed assessment for decision making. The Council's business case models a more pessimistic 'red book' scenario so that the implications of lower than expected sales values are understood. The average sales rate in the LLP Business Plan is below that originally proposed by the developer, is comparable with other projects and should be achievable even with a downturn scenario. Negotiated land transactions will as far as possible be phased to ensure that land is only acquired when required thereby partly compensating for any delay in sales. Phased planning applications provides some flexibility to adjust outputs in response to economic conditions (e.g. mix of 1/2/3 beds or residential/ commercial space).

			Additional sources of funding for all forms of infrastructure will be sought throughout the project. Bidding processes often require evidence of delivery within a short timescale so once established the Council will be able to present strong case.
3. Legal Challenge to LLP	A third party applies for a Judicial Review or instigates another form of legal action. even if unsuccessful, this would cause delay and incur expenditure .	Amber	The Council has taken external legal advice which is reported to Members in the Cabinet report. The advice confirms the lawfulness of the proposed arrangement and the statutory powers being relied on. A VEAT notice will be issued to provide any party with the opportunity to challenge. Legal advice will continue to be taken as the project progresses.
4. Land acquisition	Land cannot be acquired or the process causes delay	Red	The LLP partners already control a substantial part of the site. The LLP's Business Plan includes a Land Acquisition Strategy. There will be continual engagement with landowners, businesses and residents with the intention of securing land by private treaty and assisting relocation where feasible. This includes the Council's agreed Regeneration Plan and Local Lettings Plan in respect of the residential properties.

			The Council and the LLP will work with the Ambulance Services and the Islamic Cultural Centre to secure off-site provision; alternatively provision will be made on-site. Cabinet in June 2018 will be asked to approve the in-principle use of Compulsory Purchase Orders which will be followed by a formal resolution to make compulsory Purchase Orders. The Council will take external legal advice at all stages of the CPO process.
5. GLA Housing Zone funding	Agreement not reached with the Greater London Authority regarding the terms of Housing Zone Funding due to the level or mix of affordable housing, or timescales for delivery.	Amber	The Council will complete the GLA's due diligence process. The Council's investment to increase affordable housing to 30% forms the basis of discussions regarding future funding streams to meet a level of 35%. A review of the scheme design and financial model will be required if funding is not secured.
6. School and Health Facilities	The LLP's business plan assumes that the school and health facilities will be funded by parties other than the LLP.	Red	A Capital bid will be submitted to Cabinet and Council in February 2018. Whilst external funding will be sought and it is expected that s106 payments from Bridge Close and nearby schemes will total over £15m, approval by Council will provide security of delivery.

7. Client role	Risk of insufficient client capacity and expertise to support and advise Members including monitoring the work of the LLP	Amber	The Director of Neighbourhood Services is undertaking a review of resourcing and skills requirements across the Council's regeneration programme and will present proposals to Cabinet. The effectiveness of the client function will be kept under review.
8. Conflict of Interest	There may be situations where the interests or views of the Council differ from those of the LLP.	Amber	The Legal Agreements and the LLP's Business Plan set objectives and parameters which are reflected in the Cabinet report and the Council's Business Case. Any significant changes in the LLP's Business Plan will require Cabinet approval so this alignment is maintained. The Director of Neighbourhood Services' review will distinguish the roles of those representing the Council on the LLP and the client function to ensure transparency. The independence of the Council's statutory roles means that there may be differences on matters such as planning; these are common to all development projects and the joint working should reduce the likelihood of such situations arising.

LLP Business plan

Structure

1. Overview
2. Vision
3. Development Objectives and Parameters
4. Resources & Services
5. Legal Structure and Funding
6. Project Governance
7. Site Assembly
8. Planning and Stakeholder Consultation
9. Design and Construction Procurement
10. Marketing, Branding & Communications
11. Sales and Leasing
12. Estate Management
13. Programme
14. Risk Management
15. Budgets
16. Financial Returns

Appendices

A. Market Reports
B. Masterplan Overview
C. Financial Model Summaries
D. Development Programme
E. Planning Strategy & Obligations
F. Cost Report
G. Risk Schedule
H. Site Acquisition Strategy
I. Communications Protocol
J. Stakeholder Engagement Strategy
K. Pre-Approved Supplier/Consultant Schedule
L. Procurement Policy & Procedures
M. Governance Structure
N. Affordable Housing Strategy

Appendix 3

INDICATIVE Gateway Process

Gateway 1	Feasibility	This Gateway will approve; • Proposed targets for acquisition • A resume of land assembly proposals including access • Outline appraisals that will indicate commercial targets including acquisition, construction and sales target costs within a financial summary • Assessment of the planning position • Proposals to aid relocation of existing businesses • A budget for any due diligence on the site required at this stage, including surveys • The design team and budget to prepare concept schemes for appraisal • The proposed supply chain and structure to deliver the development • Confirmation that commercial targets taken from the LLP Business Plan are capable of being achieved
Gateway 2	Exchange	This Gateway will approve; • The updated development appraisal (financial summary) and any mitigation that might be required to demonstrate that the agreed land cost, including land value and any compensation, can be recovered as part of any return from the development. • Approach to funding of infrastructure requirements • Timetable for the development Communication and Consultation Strategy • Branding Strategy • A conditional agreement with that will oblige the LLP to draw down land on agreed triggers • Conditional support and approval from each of the Members to capital investment proposals • The design team and budget to progress the design and to make the planning application, including the Planning Fee. • Assessment of the planning position • Commercial targets for the design team including housing densities and construction costs • Confirmation that commercial targets taken from the LLP Business Plan are capable of being achieved

		• Authority to proceed with the land acquisition
Gateway 3	Planning	This Gateway will approve; • The updated development appraisal and any mitigations that might be required to satisfy commercial success measures taken from the LLP Business Case and previous Gateways • Communication and Consultation Strategy pre and post planning application submission • The Procurement strategy • The list of Contractors to be invited to tender • The Planning Application (including design and survey information)
Gateway 4	Build Contract and Construction Finance	This Gateway will approve; • The updated development appraisal and any mitigations that might be required to satisfy commercial success measures taken from the LLP Business Case and previous Gateways • Receipt of the Planning Consent and proposals for any Planning Agreements • Funding proposals, including in principle commitment letters where the proposal is dependent upon a third- party debt finance facility • Equity requirements from the Members of the LLP • The facility required to manage Cost Over-run risk • Forecast development proceeds • Market tested construction costs in sufficient detail to demonstrate Value for Money • Value for Money assessment (to include options appraisal of alternative delivery approaches if necessary) • Appointment of the Building Contractor • A detailed programme, including Construction and sales
Gateway 5 Can happen out of sequence - as early as it needs to	Sales and Marketing	This Gateway will approve; • The updated development appraisal and any mitigations that might be required to satisfy commercial success measures taken from the LLP Business Case and previous Gateways • Proposed sales prices and pricing strategy • Sales phasing and launch strategy • Off plan sales requirements • Facilities Management requirements during the sales period • Marketing Strategy • Appointment of sales agents and proposals for

		any show homes
Gateway 6	Handover	This Gateway will approve; • The completed development appraisal and any programme impacts requiring board response • Feed-back collected from the previous Gateways • Confirmation that commercial success measures taken from the LLP Business Case and previous Gateways have been satisfied • Customer and tenant satisfaction and any actions required • A project review • Any process update or refinements required • Any mitigation that may be required

Havering
LONDON BOROUGH

CABINET

CABINET	15 November 2017
Subject Heading:	Update on the SLM Contract and financial implications.
Cabinet Member:	Councillor Melvin Wallace
SLT Lead:	Sarah Homer
Report Author and contact details:	Guy Selfe, Health and Wellbeing Manager, guy.selfe@havering.gov.uk – 01708 433866
Policy context:	The Council's Culture Strategy 2013-2015
Financial summary:	This report details the updated financial position as at October 2017 regarding the above contract with SLM Ltd. The contract is expected to deliver net income to the Council of £13.528m over the 20 year term after meeting the Council's capital financing and operational costs of new and refurbished facilities. This achieves substantial savings to the Council given the previous arrangements would have resulted in a net cost to the Council in the region of £16.5m. This delivers savings of £1.1m a year which have been factored into the MTFS. However, there is a need to smooth operational financial performance over the period to 2022/23 until the business model reaches maturity by a total of £2.111m.
Is this a Key Decision?	Yes
When should this matter be reviewed?	November 2018
Reviewing OSC:	Towns and Communities O&S

The subject matter of this report deals with the following Council Objectives

Communities making Havering [X]
Places making Havering [X]
Opportunities making Havering [X]
Connections making Havering []

SUMMARY

On 12 July 2016 following a competitive procurement process, Cabinet agreed to award the Council's Sports and Leisure Management Contract for a period of 20 years from 1st October 2016 to the company Sport and Leisure Management Ltd (SLM). The award of contract included: investment in new health and fitness facilities at Central Park Leisure Centre, the building of a new Hornchurch Sports Centre, the operation of the new Sapphire Ice and Leisure and delegated responsibilities to Officers to negotiate a variation to the contract for the operation of Chafford Sports Complex subject to the costs to the Council being mitigated as far as possible. This also included future investment in the Noak Hill Sports centre as a part of the overall contract.

This report sets out progress made during the first year of the Sports and Leisure Management Contract (October 2016 to September 2017) and the resulting financial implications.

RECOMMENDATIONS

That Cabinet:

1. Note the progress made under the new contract with SLM;

2. Note the updated revenue financial implications, for inclusion in the Medium Term Financial Strategy;

3. Note that whilst the capital investment is planned to be financed from borrowing, the capital financing costs will be met in full from the net savings to be realised across the lifespan of the contract within the leisure service budget;

4. Approve a contribution of £2.111m from the Business Risk Reserve to set up an earmarked Leisure Contract Reserve that will be utilised to support the financial performance of the service until business maturity is achieved in 2023/24;

5. Agree that all budget virements to and from Leisure Services budgets will be subject to approval by the s151 Officer or their representative for the duration of the contract to ensure the integrity of the overall financial model is maintained.

6. Recommend to Council that the capital expenditure and proposed financing as set out within the Exempt Appendix Financial Implications in Table 5, is approved for inclusion within the Approved Capital Programme.

REPORT DETAIL

1. Background

1.1 Following a robust tender process lasting two and a half years, Sport and Leisure Management Ltd (SLM) were awarded the Sports and Leisure Management Contract for 20 years. Theirs was the most financially advantageous bid to the Council and the bid met the quality requirements specified in the Tender documents. The identified savings assume that planning permission is secured for the major investment proposals included in the tender award. If planning permission is not granted for a new build Hornchurch Sports Centre then Cabinet agreed in principle to revert to a 10 year contract.

1.2 SLM commenced the contract to manage the facilities below on 1st October 2016:

- Hornchurch Sports Centre
- Central Park Leisure Centre
- Noak Hill Sports Complex (from January 2017)
- Sapphire Ice and Leisure Centre (once opened – Spring 2018)

1.3 Within the terms of the contract, SLM continue to manage Chafford Sports Complex albeit under the terms and conditions of the previous Sports and Leisure Management Contract (2006-2016) whilst negotiations continue that aim to secure the operation of the Chafford Sports Complex in the longer term.

1.4 The major investment proposals at the award of contract that are the basis of the agreed contract are:

- A new build Hornchurch Sports Centre
- An extension to Central Park Leisure Centre
- Opening of the Sapphire Ice and Leisure Centre
- Ongoing Lifecycle investments across all sites

2. Sports and Leisure Management Contract – the First Ten Months

2.1 Officers are pleased to report that the contract is progressing well. Attendances at the leisure centres for the first nine months of the new contract are in line with expectations. There has been a 35% increase in disability participation rates across the centres through SLM working in partnership with local disability groups. Female participation in netball has increased across the Borough with over 80 women now playing in the weekly ‘Back to Netball’ league. The Everyone Active Referral Scheme (EARS) is steadily increasing its referral numbers from local GP’s and more patients are completing the 12 week programme and using the leisure facilities on a regular basis. SLM have also hosted a number of high profile Regional events e.g. CHKA Karate competition, Kororo Kai Ju Jitsu and Ultra-White Collar Boxing.

2.2 **Noak Hill** - The opening of Noak Hill Sports Complex in January 2017 was completed on time. There are no new financial implications arising from this element of the contract.

2.3 **Hornchurch Sports Centre** - Following contract award to SLM, Cabinet became aware of a desire, primarily from local swimming clubs, to consider a 50m swimming pool as part of the facility mix. Whilst this was under consideration, the submission of a planning application for a new Hornchurch Sports Centre was delayed.

2.4 The analysis of associated capital investment and operational revenue costs over the life of the contract concluded that the 50m option did not represent good value for money and is not affordable to the Council. The original proposed 25m pool will therefore progress, with an improved design based on the work done for the 50m pool. Should planning permission not be secured (decision expected January 2018) for a new 25m development resulting in the project not progressing, the contract will revert to a 10 year model, rather than the current 20 years. This would require a further review of the financial model for the contract and consideration of long term financial implications with a further report to Cabinet. The financial implications set out in this report assume this project will progress as planned.

In the event Hornchurch new build does not progress, abortive costs as set out in the exempt financial implications would need to be met from the Council’s general fund revenue budget and budgetary provision would need to be identified.

2.5 The new Sports Centre at Hornchurch was a central part of the procurement of the Sport and Leisure Management Contract. Funding for the new Leisure Centre was factored into the evaluation of the Tenders, along with the cost of borrowing, the income to be received from SLM over the life of the contract and the savings that would be delivered.

2.6 SLM have submitted the tendered build costs of the proposed new Hornchurch Sports Centre. This cost is being verified by an independent quantity surveyor appointed by the Council to review the tender returns. Once confirmed, SLM will oversee the build of a new Hornchurch Sports Centre, subject to planning permission being approved and bear the risk of any cost overrun. It should be noted that the Council will fund the agreed cost of capital investment through borrowing. Further details are included in the exempt financial implications of this report.

2.7 The revised timetable for a new build Hornchurch Sports Centre, based upon Planning consent being obtained, is:

- 2/3 October 2017 – Public and Ward Member engagement events
- 31 October 2017 – Planning application submitted
- January 2018 – Planning application outcome
- May 2018 – Construction commences of new centre (subject to planning)
- November 2019– Construction complete
- December 2019 – New centre opens/demolition commences of existing centre
- June 2020 – Demolition of existing centre complete and new car park opens

2.8 **Central Park Leisure Centre** – the extension of the gym opened in October 2017 which increased it's size from 80 stations to a 140 station gym. Further work to refurbish the health and fitness changing areas for both male and female users is also complete. It should be noted that, in accordance with the agreed contract, the Council will fund the agreed cost of investment. The cost of borrowing has been factored into the financial model.

2.9 **Sapphire Ice and Leisure Centre** – the new centre in Romford is progressing well and on schedule to be handed over to SLM by Wilmott Dixon in January 2018. Following this, SLM will finalise the fit out of the facility. There will also be a period of staff training at the facility before it opens to the public. This is on target and set to take place by 1st April 2018 at the latest. It is likely that the site will open earlier than expected. However, as an opening date has not been confirmed, this has not been factored into the model. Should this occur, then the Council will receive revenue earlier than expected.

2.10 **Chafford Sports Complex** – the Complex is operated by SLM whilst discussions continue with Harris Academy Rainham (HAR) about future options for this facility. Post award of contract to SLM, it became apparent that the proposed investment and status of ownership of the site placed restrictions upon the ability of the Council to invest capital resources in improvement. Whilst it is possible to fund investment from revenue resources, this is considered unaffordable. Further, such investment may have adverse VAT implications for both HAR and the Council.

2.11 With no capital investment, SLM have indicated that there is a limited time that they would be able to operate the facility. This is due to its condition and the adverse impact to the commercial aspect of delivery, combined with the inability to maintain customer satisfaction levels.

2.12 The Chafford facility is currently the subject of further negotiations between Council Officers, SLM and the Harris Academy due to complexities of managing the VAT position of the parties and the capital investment required to be made by either the Council or the Academy to enable SLM to continue to operate the facility under the new contract. A further update will be brought to Cabinet in due course. It should be noted that the updated financial position does not take account of the longer term income and expenditure relating to the Chafford facility.

REASONS

3. Reasons for the decision:

3.1 The financial management and accounting arrangements associated with the leisure management contract awarded in accordance with the decision of July 2016 Cabinet, need to be appropriately reflected within the Council's Approved Capital Programme and financial governance arrangements.

IMPLICATIONS AND RISKS

4. Financial implications and risks:

4.1 Detailed financial implications including financial analysis of the winning bid and estimated costs of future procurement exercises in relation to capital investment are commercially sensitive and as such included in the exempt Appendix attached to this report.

5. Legal implications and risks:

5.1 The Council has entered into the SLM contract in the exercise of its statutory power to provide a wide range of recreational facilities within the Borough under section 19 of the Local Government (Miscellaneous Provisions) Act 1976.

5.2 Certain revisions have had to be made to the contract subsequent to award in October 2016, which for Procurement purposes amounts to a modification of this contract during its term. In order for such modifications to be valid, they must fall within the exceptions provided for in Regulation 72 of the Public Contracts Regulations 2015 (the "Regulations").

5.3 Paragraphs 2.1 – 2.12 above and items i) – viii) in the Exempt Appendix ‘Financial Implications and Risks’ detail the changes which have become necessary as a result of the issues arising with the Hornchurch Sports Centre and Chafford Sports Complex, and other relevant sites.

5.4 For purposes of Regulation 72, the new build Hornchurch Sports Complex were clearly anticipated and provided for in the contract and therefore fall within the scope of exemption available under Regulation 72(1) (a) of the Regulations.

5.5 The changes arising from the VAT implications of the Chafford Sports Complex apart from being outside the scope of consideration of this report are also not ‘substantial’ for the purposes of Regulation 72(8) and would also qualify as exempt under Regulation 72(1)(e).

5.6 In conclusion, as the proposed modifications to the contract would result in lower costs to the Council, do not fall outside the ambit of the leisure management contract nor qualify as substantial changes, the risk of legal challenge arising from the said modifications are very low.

6. Human Resources implications and risks:

6.1 There are no new human resource implications or risks associated with this report.

7. Equalities implications and risks:

7.1 An EIA was an Appendix to the 12 July 2016 Cabinet report and is still applicable to this report.

BACKGROUND PAPERS

None

This page is intentionally left blank

Equality Impact Assessment (EIA)

Document control

Title of activity:	Leisure Centre Retender
Type of activity:	Procurement Process
Lead officer:	Kayleigh Pardoe, Policy and Performance Business Partner (Communities and Resources)
Approved by:	Simon Parkinson, Head of Culture and Community Access
Date completed:	May 2016
Scheduled date for review:	May 2017

Did you seek advice from the Corporate Policy & Diversity team?	Yes
Does the EIA contain any confidential or exempt information that would prevent you publishing it on the Council's website?	No

1. Equality Impact Assessment Checklist

The Equality Impact Assessment (EIA) is a tool to ensure that your activity meets the needs of individuals and groups that use your service. It also helps the Council to meet its legal obligation under the Equality Act 2010 and the Public Sector Equality Duty.

Please complete the following checklist to determine whether or not you will need to complete an EIA. Please ensure you keep this section for your audit trail. If you have any questions, please contact the Corporate Policy and Diversity Team at diversity@havering.gov.uk

About your activity

1	**Title of activity**	Leisure Centre Retender
2	**Type of activity**	Procurement Process
3	**Scope of activity**	The project is the retender of the Leisure Centre Contract, which will begin in October 2016. The existing sports and leisure management 10 year contract, managed by Sports and Leisure Management Limited (SLM) is due to come to an end in September 2016; the option to extend the contract for a period of up to five years has not been taken by the Council.
4a	**Is the activity new or changing?**	Yes
4b	**Is the activity likely to have an impact on individuals or groups?**	Yes
5	**If you answered yes:**	*Please complete the EIA on the next page.*
6	**If you answered no:**	NA

Completed by:	Kayleigh Pardoe, Policy and Performance Business Partner (Communities and Resources)
Date:	May 2016

2. Equality Impact Assessment

The EIA

Background/context:
The Council's procurement process began in July 2014. An initial EIA was completed, and was subsequently updated throughout the project. This document summarises what the requirements were in terms of Equality and Diversity, and how the winning bidder has illustrated these requirements will be met. The Council's overall aim is to tender a sports and leisure management contract with a view to an operator managing a new contract as from 1st October 2016. The service objectives that the Council has established (not in priority order) include: Objective 1: Ensure that a high quality service is provided, with high levels of customer / user satisfaction Objective 2: Increase opportunities for people from all parts of the community to participate and become involved in sport and physical activity Objective 3: Increase the number of borough (and non-borough) residents participating in sport and physical activity Objective 4: Ensure that the centres promote healthy living, including the provision of healthy eating options by the operator Objective 5: Ensure that health and safety, including the safeguarding of children / vulnerable adults and meeting environmental health standards, is a high priority for the operator Objective 6: Achieve a reduction in costs to the Council Objective 7: Secure the appropriate capital investment (repairs, maintenance and replacement) in the existing centres Objective 8: Secure realistic proposals to develop the existing sites for commercial leisure purposes The leisure centres which are included in the existing contract include Hornchurch Sports Centre, Central Park Leisure Centre and Chafford Sports Complex. The future of the existing Chafford Sports Complex is not clear at this juncture. A land adjudication panel decision means the facility will transfer to the school at the end of the current contract period (i.e. on October 1st 2016). It will therefore be the schools decision as to whether the sports centre will be included in the Council's next sports and leisure management contract, or not. The new Romford Leisure Centre is due to open in April 2018, and will be included in the

new contract. In addition, the Broxhill Sports Park will be completed by December 2016 2017 and the management of this facility will also be included in the new contract.

In summary the facilities to be included in the new contract are as follows:

1. Central Park Leisure Centre
2. Hornchurch Sport Centre (a mandatory variant bid was included as part of the procurement process for a new build of the Centre)
3. Broxhill Sports Park
4. Romford Leisure Centre
5. Chafford Sports Complex (a mandatory variant bid was been included as part of the procurement process to either refurbish to rebuild the Centre. This was not included as part of the evaluation, but will inform post award discussions with the winning bidder and the school)

NBS Data

This report includes reference to National Benchmarking Service (NBS) data. NBS provide data on an annual basis on a number of performance indicators across four perspectives for Hornchurch Leisure Centre and Central Park Leisure Centre. These include access, finance, utilisation and customer satisfaction Centre *(please note finance data has not been included as it is not deemed relevant for this document)*. The access data in particular provides a useful insight in regard to E&D issues. The indicators provided are the ones the NBS consider most relevant to social inclusion.

The centre score is compared with the national benchmarks and lowest and highest scores for each of the four family categories to which the centre belongs. For all the performance indicators compared with national benchmarks, it is the 75% national benchmarks which represent 'better' performance.

Wider Sports Participation in the Borough

It is essential to look at wider sports participation in Havering to further understand barriers to sports participation and physical exercise and ensure that facilities are used by all of Havering communities. Sport England produce an annual Active People Survey (latest results available are for 2014) which shows the rate of sports participation for adults by age group, disability, ethnicity and gender.

The survey found that people from older age groups and people with disabilities are particularly low compared to the London and National average. Swimming was the sport that residents said they most wanted to do. It is therefore essential that wider participation rates in physical activity are understood in order to plan increases in use of leisure facilities.

How the Contractor will meet the requirements

The Contract includes a Quality and Performance Monitoring Document. Within this are the stipulations that the Contractor has to adhere to. Stipulations relevant to this document are listed below. Should the Contractor fail to achieve the said Contract Standards or if there is a Material Breach the Council will have the right to invoke the default procedure or termination procedure.

- The Contractor shall share the annual NBS Reports for each site with the Council – these will provide detail in relation to the all of the Access, Financial and Utilisation indicators for each facility.
- The Contractor shall have a minimum of 70% of its NBS Access, Financial and Utilisation indicators sitting within the third and top quartiles at each facility.
- The Contractor shall submit a report at the end of each year of the contract (after 18 months in the first instance, covering the period 1/10/16 to 31/3/18), within two months of the end of each contract year, detailing the service improvements that will be made to address the issues highlighted in QUEST and NBS reports.
- The Contractor shall proactively encourage the take up and use of the Leisure Card, including information about Leisure Card users (Age, ethnicity, postcode, disability etc.) on an annual basis as part of the annual contract report.
- The Contractor shall ensure involvement in an appropriate apprenticeship scheme to encourage young people into the sport and recreation industry. At least two apprentices to be taken on in each year of the contract.
- The Contractor shall provide an annual 'open day' event for the local community at each facility.
- The Contractor shall organise an annual disability sport event at one of the facilities. Numbers attending to be reported.
- The Contractor shall organise an annual International Women's Day event at one of the facilities. Numbers attending to be reported.
- The Contractor shall provide a detailed summary of its sports development activities undertaken across the contract.
- The Contractor shall report on attendances, both quarterly and annually, broken down by:
  - Main facility areas;
  - Main activities;
  - Age (adult / junior)

  Where it is possible to do so, in the view of the Council, by age (beyond adult / junior), gender, ethnicity and ability / disability.

As part of the Community Health and Wellbeing Method Statement required at the ITT stage, the Contractor has committed to:

- Deliver an increase in participation and user satisfaction ratings for the facilities on an annual basis and recognise the Council's requirement to increase participation from specific target groups such as young people, 50+, ethnic minorities and those with disabilities in order to improve the health in these groups.
- Work in partnership with the Council to develop and deliver innovative marketing and promotion plans targeting hard to reach groups
- Introduce a pricing structure which reduces barriers to participation. Pricing will promote the principles of equality of access, sustainability and encourage usage.
- Access funding opportunities to provide specialist activities to people on low

incomes and those from deprived backgrounds.

- Deliver specialist sessions for people with disabilities and forge working relationships with NGBs, EFDS and London Sport
- Measure participation levels through a set of key performance indicators.
- Deliver programmes targeted at under-represented groups related to Sport and Physical Activity; adults and the elderly, women and girls, those with disabilities or a long term illness, children and young people.

The Contractor also provided Equality and Diversity Policies and details of Equality and Diversity Training at PQQ stage, which met the Council's requirements.

The below boxes illustrate the issues considered as part of the tendering process that were highlighted to tenderers and that will also be addressed by the winning bidder.

Age: Consider the full range of age groups		
Please tick (✓) the relevant box:		**Overall impact:**
Positive	✓	The new contract will need to ensure that the programming takes into account the older population in Havering which is forecast to grow further in the future. At the same time, the increase in 5-10 year olds will also need to be taken into account and more activities should be targeted at this age group. The Pricing Structure should also reflect the age demographic and it would be beneficial to retain activities such as free 50+ swimming. In terms of current performance data, both Central Park Leisure Centre and Hornchurch Sport Centre are showing poor performance for visits from 14-25 year olds. This will need to be monitored and addressed as part of the new contract.
Neutral		
Negative		

Evidence:

NBS Data - Central Park Leisure Centre and Hornchurch Leisure Centre – please see Appendix 1 and Appendix 2.

Attendance for those aged 14-25 is in the bottom quartile for both Central Park Leisure Centre and Hornchurch Sport Centre. Attendance for 26-64 year olds is in the top quartile for Central Park Leisure Centre and in the 2nd quartile for Hornchurch Sport Centre. In regards to those aged 65+, performance is in the top quartile for Hornchurch Sport Centre and in the 2nd quartile for Central Park Leisure Centre.

Local Demographic Data

<u>Population Data</u>
The 2013 age profile of Havering:

2013	Number	Percentage of population (%)
All persons	242,080	100.0
0-4 years	14,808	6.1
5-10 years	16,867	7.0
11-17 years	20,445	8.5
18-24 years	21,048	8.7
25-64 years	124,097	51.3
65-84 years	38,306	15.8
85+ years	6,509	2.7

Average ages of the population

	2001 Census	2011 Census
Havering	39.8	40.4
London	36.0	35.6
England	39.3	38.6

Projected increases in populations 2013-2023

Age Group	Projected percentage change between 2013 to 2023 (%)
0-4 years	+11%
5-10 years	+22%
11-17 years	+12%
18-24 years	-9%
25-64 years	+13%
65-84 years	+8%
85+ years	+34%

We can expect that there will be a huge increase in the 85+ and the 11-17 years old age groups during the life span of the new leisure contract.

Issues to be considered for sports facilities

The leisure contract should consider the likely age groups that will use leisure facilities and take into consideration of projected increases.

Havering is the comparatively oldest borough in London and has seen an increase in the average age since 2001. The older age groups in Havering are much more likely to have a disability than adults of a working age (see disability characteristic for data). Therefore, facilities should meet the Inclusive Fitness Initiative and activities should be offered to support people with specialist health conditions that older people are more likely to obtain, such as cardiac and stroke rehab.

The age group that will significantly increase by 2023 is the 5-10 years group. Changing facilities should be incorporated for parents and children, such as changing cubicles for privacy.

Issues to be considered for wider sport and physical activity participation

Adults (16+) Participation in Sport (at least once a week)

2012/13	England	London	Havering
16-25 years old	55.2%	53.1%	52.3%
26-34 years old	44.6%	44.9%	*
35-44 years old	42.4%	39.7%	*
45-54 years old	35.5%	35.8%	37.2%
55 -64	26.9%	29.4%	38.2%
65 and over	17.2%	18.0%	*

*(*Data unavailable, question not asked or insufficient sample size.)*

From the Sport England Survey in is clear that participation in sport is comparatively lower for older age groups (35 years old and above), although is worth noting that Havering has a much higher percentage of those aged 55-64 participating in Sport than in London and England. As older age groups are comparatively high in Havering, it is essential participation schemes consider participation and access for these age groups.

For example, schemes such as free 50+ swimming would be beneficial to increase participation.

Consideration will also be needed for the levels of childhood obesity in the projected increase of the 5-10 years group. At present, 1 in 5 reception aged children are obese and 35% of year 6 children are obese. Public health measures should be incorporated into any participation scheme and encourage these children in a safe and friendly environment.

Sources used:

2013 Mid-year population estimates, Office of National Statistics
2001 and 2011 Census, Office of National Statistics
Greater London Authority 2013 Projections: Strategic Housing Land Availability/Capped Household Size Models
Active Peoples Survey 2014/15, Sport England

Havering JSNA Children and Young People's Chapter NBS data

Disability: Consider the full range of disabilities; including physical mental, sensory and progressive conditions		
Please tick (✓) the relevant box:		**Overall impact:** Leisure Centres should be IFI (Inclusive Fitness Initiative) accredited or working towards this. (Parking spaces, ramps, doors, height of reception desk, gate v turnstile, induction loop, colour contrast, signage, larger cubicles in changing rooms, accessible toilets, hoist etc.) Classes and activities provided should be inclusive and also include disability sports. The programming of these activities should also not be solely during the working day – avoid the assumption that disabled people don't work. Staff should receive training so that they can recognise not just physical disabilities but learning disabilities also, and what provision there might need to be for this group – e.g. communication, attitude etc. Policies might also need to be adaptable to suit needs – e.g. not all disabled young people will need a carer? Changing facilities should be provided for those with disabilities including provision for carers as well. The pricing policy might also need to be considered – for example we might want to consider free entry for carers. Looking at current performance data, the numbers of disabled customers accessing leisure centres will need to be closely monitored, particularly at Central Park Leisure Centre where current performance in this area is poor.
Positive	✓	
Neutral		
Negative		
Evidence: NBS Data - Central Park Leisure Centre and Hornchurch Leisure Centre – please see Appendix 1 and Appendix 2 Performance is the in bottom quartile in terms of visits from disabled customers, both under 64 and over 64 for Central Park Leisure Centre. Performance is better at Hornchurch Sport Centre with disabled customers under 64 in the 3rd quartile, and those aged over 64 in the 2nd quartile. **Local Demographic Data** • 31,400 (21%) working age (16-64) people living in Havering have a disability or long term illness/health condition		

- 22,320 (52%) of older people (65+ years old) have a disability or long term illness/ health condition

<u>Issues to be considered for sports facilities</u>
Leisure Centres should meet the standard of the IFI Inclusive Fitness Initiative accredited or working towards this. (Parking spaces, ramps, doors, height of reception desk, gate v turnstile, induction loop, colour contrast, signage, larger cubicles in changing rooms, accessible toilets, hoist etc.). Consultation with disability groups, both within the community and the wider sports sector, as well as service users, would be beneficial to ensure major redesign of leisure facilities.

Staff will need to be made aware of the provision of British Sign Language translation services for deaf and hard of hearing residents.

<u>Issues to be considered for wider sport and physical activity participation</u>

Adults (16+) with a limiting illness or disability participating in Sport (at least once a week)

	England	London	Havering
Limiting illness or disability	17.2%	19.3%	*

*(*Data unavailable, question not asked or insufficient sample size.)*

Whilst there is no data available for Havering, London has a higher rate of adults with a disability or limiting illness participating in Sport at least once a week, than in England.

The NBS data found that in Central Park Leisure Centre, the participation of disabled people was in the bottom quartile when compared to national performance. Hornchurch Leisure Centre was in the 2nd and 3rd quartile. Therefore, a more localised approach to tackling barriers to participation will need to be undertaken. Individual locations should monitor usage on a regular basis.

All provision of sport should attempt to be as inclusive as possible. Sports Coach UK has a number of advice resources for ensuring that people with physical, mental and learning disabilities can participate in non-disabled sporting classes and activities

Provision should also be included for different disability sports, such as Boccia or Wheelchair Basketball. Provision of disability only classes in a range of sports can also be provided if this increase the physical activity for those individuals.

The programming of any disability sports should also not be solely during the working day – avoid the assumption that disabled people don't work.

Sources used:
2012/13 Annual Population Survey, Office of National Statistics
2011 Census, Office of National Statistics
NBS Data
Active Peoples Survey 2014/15, Sport England

Sex/gender: Consider both men and women		
Please tick (✓) the relevant box:		**Overall impact:**
Positive	✓	The provision of changing facilities will need to be considered – shared changing available for any permutation, e.g. mother and son, father and daughter.
Neutral		
Negative		The contractor will also need to consider whether female only sessions are included as part of the programme.

Evidence:

NBS Data - Central Park Leisure Centre and Hornchurch Leisure Centre – please see Appendix 1 and Appendix 2

Performance for the number of female customers is in the 3rd quartile for both Leisure Centres.

<u>Local Demographic Data</u>

52% of Havering's population is women and girls and 48% of the population is men and boys.

<u>Issues to be considered for sports facilities</u>

Gender related issues regarding the changing facilities will need to be considered, for example, changing cubicles for mother and sons or fathers and daughters, or general privacy for parents with children.

<u>Issues to be considered for wider sport and physical activity participation</u>

Adults (16+) Participation in Sport (at least once a week)

2012/13	England	London	Havering
Men	40.7%	43.8%	43.0%
Women	31.2%	32.4%	32.0%

The Active People survey shows that the participation in Sport at least once a week in higher than England for men and Women, but lower than London.

Both Central Park and Hornchurch Leisure Centres perform well compared to national benchmarking statistics, but there is still an inequality in participation between male and females.

There are many reasons for this national trend. Some include personal barriers, like body image and self-confidence issues.

Research by the Women's Sport and Fitness Foundation (WSFF) have found that most sport facilities priorities men's sport sessions in booking facilities. It is therefore essential that women and girls have equal access in booking facilities, especially for holding team sports, such as football.

Care and consideration is needed in the images used in marketing materials. In addition,

women only sessions should be held in isolation away from men and mixed sex sessions, e.g. do not share a women's keep fit session in a hall with men's football sessions. Women and girl only sessions should be staffed by women.
Sources used: NBS data 2011 Census, Office of National Statistics Active Peoples Survey 2014/15, Sport England Women's Sport and Fitness Foundation website http://www.wsff.org.uk/resources/how-women-experience-sport-and-fitness/barriers-to-sports-participation-for-wom Accessed 19 September 2014

Ethnicity/race: Consider the impact on different ethnic groups and nationalities		
Please tick (✓) the relevant box:		**Overall impact:**
Positive	✓	Whilst Havering remains one of the most ethnically homogenous boroughs in London and is less diverse than England as a whole, the population is becoming more diverse. In light of this, the Contractor will be required to consider the ethnic profile of the borough when considering programming and communication (signage, publicity materials) requirements and review this on a regular basis. Again staff will also need to be trained to ensure they create the right culture in the Leisure Centres and can respond appropriately to any discrimination that might occur. In terms of current performance data the Leisure Centre's in Havering do not score highly for the number of visits from Black, Asian and other ethnics groups. However, when looking at this data the boroughs ethnic profile does need to be considered in comparison to other boroughs.
Neutral		
Negative		

Evidence:

NBS Data - Central Park Leisure Centre and Hornchurch Leisure Centre – please see Appendix 1 and Appendix 2

Performance for the number of visits from Black, Asian and other ethnic groups is in the bottom quartile for Hornchurch Sport Centre and the 3rd quartile for Central Park Leisure Centre.

Local Demographic Data

2014 (Projection)	Number	Percentage of Population(%)
All ethnicities	246,269	100.00
White	211,126	85.7
Black Caribbean	3,335	1.4

Black African	9,485	3.9
Black Other	4,524	1.8
Indian	5,813	2.4
Pakistani	1,820	0.7
Bangladeshi	1,205	0.5
Chinese	1,662	0.7
Other Asian	4,467	1.8
Other	2,833	1.2
BAME	35,144	14.3

Between the 2001 and 2011 Census, Havering had the biggest increase of BAME groups out of all the London Boroughs. The last census saw 17% of the population define themselves as BAME, which is the lowest in London.

According to the 2011 Census, Havering has the highest percentage (95.4%) of residents aged 3+ who have English as a main language and 4.57% do not speak English as a main language.

The top five languages (after English) are:

- Lithuanian (980, 0.4%)
- Polish (829, 0.4%)
- Punjabi (595, 0.3 %)
- Bengali - with Sylheti and Chatgaya (490, 0.2%)
- Tagalog/Filipino (430, 0.2%)

Issues to be considered for sports facilities

There are no major physical barriers for different BAME communities. However, catering provision should offer a wide range of options, such as vegetarian options in order to be more inclusive. This will also be inclusive for all communities in Havering.

The leisure provider will need to have access to the Language Shop in cases when they have to translate material, but this is likely to be low as there will not be the need to communicate sensitive or legal information.

Issues to be considered for wider sport and physical activity participation

Adults (16+) Participation in Sport (at least once a week) White British

	England	London	Havering
White British	35.5%	39.4%	35.7%

There is no Active Peoples survey data on other ethnic minority groups' participation in sport in Havering other than White British, due to a too small sample size in the survey. However the data above shows that the number of residents who are White British participating in Sport at least once a week in Havering is higher than the figure for England, although lower than the figure for London.

The number of ethnic minority groups' using the centres was in the 2nd quartile for Hornchurch Leisure Centre and the 3rd quartile for Central Park. More work is therefore needed to increase these groups in using the facilities.

Although Havering has a relatively small BAME population, the provider will need to ensure that staff are trained to ensure they create the right culture in the Leisure Centres and can respond appropriately to any discrimination that might occur.

Sources used:

2012 Round SHLAA ethnic group projection - final, Greater London Authority
2001 and 2011 Census, Office of National Statistics
NBS data
Active Peoples Survey 2014/15, Sport England

Religion/faith: Consider people from different religions or beliefs including those with no religion or belief

Please tick (✓) the relevant box:		**Overall impact:**
Positive	✓	Female only sessions (including women staff) will need to be considered as part of the Leisure Centre programming. The dress code for some activities will need to be amended for some groups to ensure they are inclusive.
Neutral		
Negative		The catering arrangements within each facility will also need to take into account the needs and beliefs of different groups – e.g. vegetarian option.

Evidence:

Local Demographic Data

2011	Number	Percentage of Population(%)
All religions	237,232	100.0
Christian	155,597	65.6
Muslim	4,829	2.0
Hindu	2,963	1.2
Sikh	1,928	0.8
Jewish	1,159	0.5
Buddhist	760	0.3
Other religion	648	0.3
No religion	53,549	22.6
Religion not stated	15,799	6.7

Issues to be considered for sports facilities

There are no major physical barriers for people from different religions. However, catering provision should offer a wide range of options, such as vegetarian options in order to be more inclusive. This will also be inclusive for all communities in Havering.

Issues to be considered for wider sport and physical activity participation

There is little Active People Survey participation data based upon religion or faith and therefore we cannot know about the participation rates. Some Muslim women and girls would benefit from single sex sport and physical activity classes and sessions. These will need to be made sure they are kept away from male sessions/classes and run by female staff. This would have benefits for non-Muslim women and girls in increasing their participation in sport. Although Havering has a relatively small population from non-Christian religions, the provider will need to ensure that staff are trained to ensure they create the right culture in the Leisure Centres and can respond appropriately to any discrimination that might occur. This is set out in the Equality in Service Provision Policy.
Sources used: 2011 Census, Office of National Statistics

Sexual orientation: Consider people who are heterosexual, lesbian, gay or bisexual		
Please tick (✓) the relevant box:		**Overall impact:** Although we do not know the size of the lesbian, gay and bisexual community in Havering, research undertaken by Stonewall in 2013 found that 23% of gay and bisexual men experienced regular homophobia when they were at school during school sport. This has created a barrier in adulthood as only 1 in 20 gay and bisexual men participate in organised sport. It is therefore essential that that staff are trained to ensure they create the right culture in the Leisure Centres by tackling homophobia and can respond appropriately to any discrimination that might occur. This is set out in the Equality in Service Provision Policy. .
Positive		
Neutral		
Negative		
Evidence: Population Data There is no sufficient information on sexual orientation at national or local level. Issues to be considered for sports facilities There are no perceived physical barriers for people with different sexual orientations. Issues to be considered for wider sport and physical activity participation There is little Active People Survey participation data based upon sexual orientation and therefore we cannot know about the participation rates.		
Sources used: 'The School Report 2013', Stonewall		

Gender reassignment: Consider people who are seeking, undergoing or have received gender reassignment surgery, as well as people whose gender identity is different from their gender at birth		
Please tick (✓) the relevant box:		**Overall impact:** Whilst no data on gender reassignment is available, In the provision of single sex classes and non-competitive sport sessions, individuals should be allowed to participate in the gender identity they associate with as the perceived biological advantage some trans women may have is not relevant in recreational sport and physical activity. Staff will also need to be trained to ensure they create the right culture in the Leisure Centres and can respond appropriately to any discrimination that might occur.
Positive	✓	
Neutral		
Negative		
Evidence: Population Data There is no sufficient information on gender identity at national or local level. Issues to be considered for sports facilities Staff will need to be supportive for residents who are undergoing gender reassignment surgery or are transgender and allow them to use changing facilities the individual feels comfortable in using. The availability of changing cubicles for privacy may be beneficial for some transgender people, especially if they are in the transitional phase of gender reassignment. This would also benefit families, people who are undertaking caring responsibilities and any resident who would prefer to change in private. Issues to be considered for wider sport and physical activity participation There is no Active People Survey data based upon gender identity available. Staff will need to be trained to ensure they create an inclusive environment in the Leisure Centre and can respond appropriately to any transphobic discrimination that might occur. This is set out in the Equality in Service Provision Policy.		
Sources used: Transsexual People in Sport: Guidance, Department of Culture, Media and Sport		

Marriage/civil partnership: Consider people in a marriage or civil partnership		
Please tick (✓) the relevant box:		**Overall impact:** Whilst little data on marriage/civil partnership is available, facilities will need to be available in Leisure Centres for this group. The Council will be looking for the Contractor to include 'family' sessions in their programming (although this has not been specified at the ITT stage). The Contractor could also consider discounts for married couples or families – for example through discounted / joint memberships.
Positive	✓	
Neutral		
Negative		

Evidence:

Local Demographic Data

2011	Number	Percentage of Population(%)
All persons	192,844	100.0
Single (never married or never registered a same-sex civil partnership)	63,549	33.0
Married	93,587	48.5
In a registered same-sex civil partnership	196	0.1
Separated (but still legally married or still legally in a same-sex civil partnership)	4,699	2.4
Divorced or formerly in a same-sex civil partnership which is now legally dissolved	15,492	8.0
Widowed or surviving partner from a same-sex civil partnership	15,321	7.9

Issues to be considered for sports facilities
There are no perceived barriers for people who are married or civil partnership in the provision of leisure facilities. There may be barriers that are a result of the gender, age or sexual orientation characteristic.

Issues to be considered for wider sport and physical activity participation
Marriage or civil partnership status data is not collected as part of the Active People Survey. There are no perceived barriers to sport or physical activity participation for this characteristic that are not covered by the gender, age or sexual orientation characteristic.

Sources used:

2011 Census, Office of National Statistics

Pregnancy, maternity and paternity: Consider those who are pregnant and those who are undertaking maternity or paternity leave

Please tick (✓) the relevant box:		**Overall impact:**
Positive	✓	Whilst no data on pregnancy, maternity and paternity is available, facilities will need to be available in Leisure Centres for this group. This includes changing rooms, toilets, baby change units and appropriate breastfeeding areas.
Neutral		

Negative		Research summarised in the Havering Children & Young People Chapter demonstrates that women who are obese during pregnancy are much more likely to die as a direct or indirect result of their obesity. In addition to this, babies born to obese women face increased risk of foetal death, stillbirth, congenital abnormality, shoulder dystocia, macrosomia and subsequent obesity. It is therefore essential that any participation programme incorporates activities specifically for pregnant women. A working relationship should be developed to increase referrals from local GPs to classes which help tackle obesity in pregnancy. The Council will also be looking for the contractor to include antenatal sessions, parent and baby sessions etc. in their programming.
Evidence: <u>Population Data</u> There is no sufficient information on pregnancy, maternity and paternity at national or local level. This is partly due to the changing nature of the characteristic. <u>Issues to be considered for sports facilities</u> There needs to be facilities provided specifically for this group. This includes baby changing units, breastfeeding areas and changing cubicles which can be used for parents with young children. <u>Issues to be considered for wider sport and physical activity participation</u> The Active People Survey does not record this characteristic because of the time limited nature.		
Sources used: Havering Children & Young People 2013-14 JSNA Chapter		

Socio-economic status: Consider those who are from low income or financially excluded backgrounds		
Please tick (✓) the relevant box:		**Overall impact:** Whilst economic activity in Havering mirrors England, it is important to ensure that all groups have access to Sport and Leisure facilities. The below has been included in the specification to encourage all groups to participate to sport and physical activity and ensure residents are not excluded because of socio-economic status. The Council has specified that individuals who are relatively disadvantaged or who are relatively low users of leisure centres compared to other groups in the population, have a reduction on the standard prices, fees and charges that is set to a maximum of 65% of the standard price, fee or charge for all categories of use. These groups include;
Positive	✓	
Neutral		
Negative		

		• Aged 16 years and over and in full time education • Registered disabled (a carer accompanying a registered disabled person shall be admitted free of charge, providing they can reasonably demonstrate in the view of the Contractor that they are a carer of the registered disabled person) • Aged 60 or over • Individuals receiving job seeker/incapacity benefit • Individuals on low income and receiving income support • Looked after children and their siblings The NBS data for indicators relevant to Socio- economic status illustrate a significant difference in performance across the two Leisure Centres. This highlights the variance in socio economic profile across the borough, but should be something monitored by the contractor to improve performance in the Hornchurch area.

Evidence:

NBS Data - Central Park Leisure Centre and Hornchurch Leisure Centre – please see Appendix 1 and Appendix 2

Performance for visits from social classes 6 and 7 and visits from the unemployed are score extremely highly for Central Park Leisure Centre (100% and 97% respectively). Visits with a discount card for the disadvantaged is in the second quartile. At Hornchurch Sport Centre, visits from social classes 6 and 7 is I the 2nd quartile. However, visits from the unemployed and visits with a discount card for the disadvantaged is very low (both 7.7%).

Local Demographic Data

Multiple disadvantage was a new 2011 Census measure defined as the proportion of households who have one or more of the following deprivation characteristics (dimensions):

- No qualifications
- A long-term illness
- Unemployment
- Overcrowded housing

2011	Number	Percentage of population (%)
1 Dimension	33,711	34.68
2 Dimensions	20,248	20.83
3 Dimensions	4,272	4.4
4 Dimensions	401	0.41

Approximately 71% of Havering's 'working age' (16-74) population were classified as economically active in the 2011 Census. This is similar to the national and regional picture. Havering's economic activity closely mirrors England, bar a larger proportions of

economically inactive retired residents (due to Havering's comparatively older age profile). The impact of the recession on Havering residents appears to be consistent with the national situation at this time, in that it appears people may be working for longer and turning to part-time employment as an alternative to retirement Issues to be considered for sports facilities Changing cubicles should be incorporated in order so they can be used by carers. There are no other physical barriers for this characteristic. Issues to be considered for wider sport and physical activity participation The Active People survey did not have a large enough sample size to highlight sports participation for lower income groups. Discounted pricing should be offered for those in low socio-economic groups. From the annual NBS benchmarking data, we can see that the NS-SEC 6&7 group is performing 'better' at both Central Park and Hornchurch Leisure Centres compared to the national average. However, the same data shows that disadvantaged card holders are in the bottom quartile at Central Park Leisure Centre and are only at the 2nd quartile at Hornchurch leisure centre. Therefore, more work needs to be done to improve this performance and greater monitoring is needed to understand this. Deprivation may also create barriers for other characteristics, but these are dealt with under the other characteristics.
Sources used: 2011 Census, Office of National Statistics National Benchmarking Service 2013

Action Plan

In this section you should list the specific actions that set out how you will address any negative equality impacts you have identified in this assessment.

Protected characteristic	Identified negative impact	Action taken to mitigate impact*	Outcomes and monitoring**	Timescale	Lead officer
Age, disability, gender, socio economic status, ethnicity/race	Low participation levels in sport and physical activity amongst some groups	Regular contract monitoring and review of Contractor initiatives/programmes to address areas of concern in Havering	The Contractor fulfills the obligations set out in contract documentation	Regular, ongoing	Guy Selfe, Health and Wellbeing Manager Rhys Lewis, Cultural Partnerships Coordinator.
All	Regular analysis of demographic change and demographic profiles to ensure facilities and programmes are appropriate for residents.	Reviewed through regular contract monitoring on a quarterly and annual basis. Please note the first annual report will not be until 18 months after the start of the contract given that the contract start date is in the middle of the financial year.	The Contractor fulfills the obligations set out in contract documentation and also ensures the future viability of it's business model, as well as increased attendance and participation rates	Regular, ongoing	Guy Selfe, Health and Wellbeing Manager Rhys Lewis, Cultural Partnerships Coordinator.

***** You should include details of any future consultations you will undertake to mitigate negative impacts

** Monitoring: You should state how the negative impact will be monitored; how regularly it will be monitored; and who will be monitoring it (if this is different from the lead officer).

Review

The EIA will be reviewed on an annual basis by the Council's Health and Wellbeing Team. The data for the next review is May/June 2017.

Havering
LONDON BOROUGH

CABINET

Subject Heading:	Social Care System replacement
Cabinet Member:	Councillor Wendy Brice-Thompson Councillor Robert Benham
SLT Lead:	Sarah Homer Chief Operating Officer 01708 431677 Sarah.Homer@Havering.gov.uk
Report Author and contact details:	Robert Allerton Social Care Programme Manager 01708 431006 Rob.Allerton@Havering.gov.uk
Policy context:	This replacement social care system will underpin improved social care practice, operational processes and case management. This will support social care to deliver improved outcomes for residents and their families and ensures compliance with statutory obligations.
Financial summary:	The report seeks approval to award a 5 (+2) year contract for supply and implementation of a social care case management system to the successful tenderer at a total contract cost of £1.803m over the seven year period. In addition the report seeks approval of the project implementation budget (inclusive of contractor costs) £3.348m one off implementation costs financed from the Transformation Reserve. Cabinet are asked to note that an operational budget of £0.145m per annum will be required (£0.725m over the period 2019/20 to 2023/24 to meet contracted supplier costs) that will be met from Social Care base budgets.

Is this a Key Decision?	Yes
When should this matter be reviewed?	The relevant Cabinet Members will be updated on the implementation of the system at critical milestones.
Reviewing OSC:	Havering Overview and Scrutiny Board

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

1. Purpose of the Report

1.1. The purpose of the report is seek approval from Cabinet for the award of contract to the successful supplier through the tender process completed between June and October 2017. The report also seeks approval for the implementation budget to be financed from the Transformation Reserve, proposed to start in December and be complete by March 2019. Ongoing revenue costs associated with the contract will then be met by the relevant revenue budgets in Adult Social Care and Children's Services.

Background

1.2. In July 2016, a pre-procurement project was initiated to consider the options for a new case management system for Social Care. The reasons for this were two-fold, (1) the existing Northgate system had been heavily criticised in an Ofsted inspection of Children's Services in Havering and was deemed to be not fit for purpose. (2) The contract with Northgate Public Services (NPS) was due to expire in April 2017. A short-term solution was to extend the NPS support and maintenance contact, a non-executive decision was taken and a two-year extension to the support and maintenance contract with NPS was agreed - this being the maximum under EU rules due to the cost. A full tendering exercise was therefore required.

1.3. The Pre-Procurement project concluded in April 2017 and the Programme Board then SLT considered: (1) A fully costed Business Case (2) Options Paper; and (3) A fully documented Functional Business Specification.

1.4. A non-key Executive Decision was taken on 6th June 2017 to formally proceed with the procurement process and to seek Cabinet approval in November 2017 to purchase and implement the selected solution from December 2017, with 'go-live' on track for delivery by the end of October 2018.

1.5. The tendering process has now concluded and the responses from three potential suppliers have been evaluated. A successful supplier has been identified from the tender process, namely Supplier A.

1.6. Details of the process and the results of the evaluation are shown below. The Strategic Business Case (Appendix A) has been updated following the tendering process and now contains an updated breakdown of the implementation and programme costs following the selection of the preferred bidder.

1.7. It is envisaged that the NPS legacy system will be decommissioned in June 2019 following completion of the 2018/19 statutory returns.

RECOMMENDATIONS

2. Recommendations for the reasons set out in this report:

Cabinet is recommended to:

2.1 APPROVE: the project implementation revenue budget of £3.348m (including supplier costs), to be financed from the Transformation Reserve.

2.2 APPROVE: the award of contract for the supply and operation of an adults and children's social care case management system to the successful tenderer for a period of five years plus an option to extend for a further two years from 1st December 2017 at a total cost of £1.803m.

2.3 NOTE: That the Council will incur contracted annual costs of operation totalling £0.725m over the period of the contract in respect of maintenance and hosting. These costs will be met from social services base budgets

2.4 DELEGATE: to the Chief Operating officer, in consultation with Lead Member for Resources, the authority to enter into a contract with Supplier A for the provision of a fully hosted case management system.

REPORT DETAIL

3.0 Introduction and Background

3.1. This report seeks approval from Cabinet to award a contract for the provision of a case management system for adults and children's services to replace the current Northgate Public Service Swift system.

3.2 The new system encompasses the requirements of all system users involved in the case management of adults and children's social care. Collaboration with partner Councils was considered but has not proven viable. Consideration has also been given to the needs associated with future partnership working including data sharing, with health and other partner agencies.

3.3 The new system also allows for the realisation on non-cashable benefits, by focusing on improved data sharing and single data capture processes improving efficiencies and hence service delivery.

3.4 The incumbent provider Northgate announced prior to the tender being issued that they were withdrawing from the market by April 2020. Whilst this decision has had no immediate impact on the Council's requirements it has resulted in general market conditions becoming increasingly competitive. The Council's current support and maintenance contract with Northgate expires 31st March 2019. During the procurement process Northgate Public Service sold their interest in the Swift system to OLM, who now provide the support and maintenance. The contract with NPS was assigned to OLM on 1st June 2017

3.5 Given the value of the contract the European Procurement Process applied. It was agreed by the Social Care Programme Board at the pre- tender stage that rather than undertake a full EU tender process the Council would undertake a further competition via an existing framework.

3.6 The project team considered the available options and decided that the Crown Commercial Services framework 1059 Local Authority Software Applications - lot 6 covering the provision of software and associated services for Social Care offered the best route for the Council to achieve its objectives.

3.7 The framework provided the Council:

- with a legally compliant route to tendering the requirements,
- the opportunity to reduce the time to conclude the tender process by around three months,
- a gateway to all the key service providers as all are named on the framework, and
- a competitive process for achieving overall best value

3.8 The Tender was sent to all sixteen suppliers named on the framework via the Council's capitalEsourcing portal, the tender was open for a period of eight weeks which was considered reasonable due to the complexity of the requirements.

3.9 The tender was evaluated on the basis of 60% technical/quality and 40% price.

3.10 To ensure that only Tenderers who met the Council's minimum technical requirements were shortlisted the evaluation included a minimum score threshold for both the Method Statements and specified elements of the technical requirements.

3.11 Tenders were received from three suppliers. Whilst this was fewer than expected, it is understood that the main reason was a capacity issue with suppliers struggling to respond to a high number of tenders available at this time. The Council assessment was that the tenders received were of a high standard and from leading market suppliers.

3.13 The evaluation panel consisted of the project team plus officers from both children's and adult services supported by finance. The evaluation included supplier presentation days when the three suppliers were given the opportunity to present their solutions to the evaluation panel plus other colleagues from operational teams.

3.14 The evaluation team used these sessions to clarify points not explained clearly in the submissions and the staff were invited to score the systems presented and provide the evaluation team with feedback.

3.15 Further written clarification was also sought from the suppliers before a final score was submitted and collated by the programme.

3.16 The evaluation of the tenders was undertaken in accordance with the criteria set out within the Invitation to Tender documents, a copy of which is attached marked as Appendix 2. Both the marks obtained from the evaluation team and the staff feedback produced similar results.

3.17 As a result of the tender process, further clarification questions and the supplier presentations the recommendation is to appoint Supplier A based on the scores below:

This table represents the evaluation of the technical requirements submission.

Average weighted scores	**Supplier A**	**Supplier B**	**Supplier C**	**Max**
1.0 General Requirements	916	887	726	1,020
2.0 Case Management Requirements	1,964	1,850	1,435	2,185
3.0 Workflow Requirements	297	273	234	330
4.0 Doc Management Requirements	608	513	463	700
5.0 Children's Specific Requirements	2,018	1,722	1,434	2,245
6.0 Adult Requirements	1,962	2,001	1,648	2,315
7.0 Financial Requirements	3,917	3,503	3,138	4,510
8.0 Contract Management	450	491	370	565
9.0 Data & Reporting Requirements	1,303	1,163	943	1,465
11.0 Technical Requirements	1,208	1,041	1,132	1,435
12.0 Online Portal & eMarket Place	110	104	86	125
Method Statements	66	61		75
	14,819	13,609	11,609	16,970
	87%	80%	68%	

It can be seen from the figures above that the best technical fit for Havering is Supplier A.

At this stage, after consideration of the scoring for the Method Statements Supplier C failed to satisfy the criteria, they were also scored significantly lower on the technical requirements and were therefore eliminated from the process.

The remaining two supplier’s financial submission were then evaluated, in line with the Council’s emergent ICT strategy, to move away from Council hosted solutions, to cloud based / supplier hosted solutions. The costs of provided a fully hosted social care IT solution were as follows:

Supplier A		year 1	year 2	year 3	year 4	year 5	5 year Total
Fully Hosted	Total	£860,750	£217,950	£144,800	£144,800	£144,800	£1,513,100
					year 6	year 7	7 Year total
					£144,800	£144,800	£1,802,700

Supplier B		year 1	year 2	year 3	year 4	year 5	5 year Total
Fully Hosted	Total	£473,950	£169,553	£377,553	£377,553	£377,553	£1,776,162
					year 6	year 7	7 Year total
					£377,553	£377,553	£2,531,268

Following the Evaluation Process set out in Section 2 ITT Evaluation (Appendix 2), marks awarded for requirements specification /method statements plus cost statements are:

Supplier A	60x 87% = 52.2+40 =92.2
Supplier B	60 x 80% = 48 +11 =59

Based on the evaluation criteria it is recommended that **Supplier A** is awarded the contract

REASONS AND OPTIONS

4. Reasons for the decision:

4.1 Expiration of the Northgate Public Service Contract (assigned to OLM on 1st June 2017) in 2019 means that a new system solution is required.

4.2 Adult Social Care and Children's Services require a system which is fit for purpose, underpins the future operating models in adults and children's social care, fully supports the delivery of services to the residents of Havering, that ensures compliance with legislation, both current and future; and also enables the organisation to embrace data sharing with partner agencies.

4.3 The new system will also enable flexible working and opportunities to improve operational processes whilst maintaining data security and improving citizen accessibility to their own data.

4.4 Future consideration should be given to contract length as this can trigger a costly retendering exercise which may not be necessary from an operational perspective.

5. Other options considered:

5.1 Maintaining the status quo and operating without a support and maintenance contract was considered, but deemed to be too high risk. This would also fail to address Ofsted concerns.

5.2 Further contract extensions are also not available as they are outside EU regulations and initially NPS withdrew from the market. The sale of the NPS business to a competitor added a further complication. This occurred during the tendering process.

5.3 Collaboration with partner Councils was considered but has not proven viable due to other Council’s being at different points in the award of contracts to support requirements.

IMPLICATIONS AND RISKS

6 Financial implications and risks:

6.1 The recommendation to award 5 (+2) contract to Supplier A for the provision of a case management system will have a total cost of £1.803m. This includes £0.725m relating to ongoing Maintenance licence and hosting costs) over the full 7 year term of the contract.

6.2 In addition, the cost of other resources to implement the system is estimated to be an additional £2.270m over 2017/18 and 2018/19, covering both external and internal resource to support the delivery.

6.3 The total project cost over the 7 years period is estimated to be £4.073m; ie £3.348m in implementation plus £0.725m operational costs as set out in the table below. The £3.348m implementation cost is proposed to be met from the Transformation Reserve. The annual operational cost of £0.145m in relation to supplier hosting and maintenance will be met from existing social care base budgets.

System Supplier Costs	**17/18**	**18/19**	**Total 2 years**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**Year 3 to 7 Total**	**7 Year Total**	**Analysed Between**	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	Implementation	Ongoing
Implementation Cost	0.300	0.778	**1.078**	-	-	-	-	-	**-**	**1.078**	1.078	
Running Cost (+RPI)	-	-	**-**	0.145	0.145	0.145	0.145	0.145	**0.725**	**0.725**	-	0.725
Total Supplier Cost	**0.300**	**0.778**	**1.078**	**0.145**	**0.145**	**0.145**	**0.145**	**0.145**	**0.725**	**1.803**	**1.078**	**0.725**
Other Implementation Costs	**17/18**	**18/19**	**Total 2 years**	**19/20**	**21/22**	**22/23**	**22/23**	**23/24**	**Year 3 to 7 Total**	**7 Year Total**	Implementation	Ongoing
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**		
External Resource	0.685	1.095	**1.780**	-	-	-	-	-	-	**1.780**	1.780	-
Internal Resource	0.034	0.359	**0.393**	-	-	-	-	-	-	**0.393**	0.393	-
Internal/External Resource	0.022	0.075	**0.097**	-	-	-	-	-	-	**0.097**	0.097	-
Total Other Cost	**0.741**	**1.529**	**2.270**	**-**	**-**	**-**	**-**	**-**	**-**	**2.270**	**2.270**	**-**
Total			**3.348**	**0.145**	**0.145**	**0.145**	**0.145**	**0.145**				
										Totals	**3.348**	**0.725**

Excluding the £0.725m in running cost, the procurement and implementation will cost approximately £3.348m (£1.078m for the supplier; £2,270m in other costs) and will be funded from the £3.588m currently set aside from the Transformation Reserve. The £0.145m annual revenue cost will be funded from existing budgets totalling £0.142m across Children and Adult services.

Financial risks include:

- Contractual costs in 2018/19 will be subject to inflation using the RPI index (Retail Price Inflation) and therefore are subject to change over the contract term. The implementation costs are fixed price. The Council routinely provides inflation at CPI Index in developing its budget and MTFS and therefore any divergence in the inflation on this contract will need to be met by the service directorate budgets in developing the annual budget in future years.
- The decision to adopt a fully supplier hosted system is expected to deliver savings in IT infrastructure and support cost in the medium term. However, these are not yet quantifiable and as such the initial savings from the reduction in annual maintenance licence charge from £0.141m to £0.081m (ie. £0.060m saving) to the revenue budgets will be consumed by the additional annual hosting fees of £0.064m. The difference (although not material) is expected to be met from existing budgets held within IT or Adults and Children's Services budgets.
- The option to adopt a fully supplier hosted model means that the Council is not actually acquiring an asset, rather a license to operate the suppliers system for the period of the contract. This is therefore classed as revenue rather than capital expenditure in accordance with capital financing regulations and the CIPFA code of practice. Therefore the Transformation Reserve which is a revenue reserve will be used to fund the project implementation.

Legal implications and risks:

This report is seeking approval for the procurement of IT facilities and services for Social Care use. The contract is intended to be called off the Crown Commercial Service (CCS) Framework Local Authority Software Applications (LASA) RM1059, and is proposed to run for a period of five years, with a two year extension option.

The Council has power to procure such facilities and services under s 1 of the Localism Act 2011(general power of competence) and s111 of the Local Government Act 1972 power to do things conducive or incidental to its functions).

The CCS framework from which the contract is to be procured was established under the Public Contracts Regulations 2006 (PCR 2006). Under the Regulations, a local authority may select a provider from an established Framework Agreement, in accordance with the call-off contract procedure laid down in the relevant framework agreement.

Although framework contracts under the PCR 2006 do not usually run for longer than four years from commencement, Central Government Guidance states that the length of call-offs under framework agreements is not specifically limited by the Regulations. It is therefore accepted that contracts called-off frameworks may extend beyond a four year period.

Furthermore, the CCS Guidance Notes on the LASA RM1059 framework state that call-off contracts under this agreement may be entered into for up to five years initially, rising to a maximum of seven years, including any extensions.

The Council has received a specific email from CCS stating that in their opinion it can enter into a five year contract with a two year extension on this framework.

The framework expires on the 3rd August 2018. The contract that the Council are looking to enter into starts on 1st December 2017 and extends for five years until 31st November 2022 with a further two year extension until 31st November 2024. The OJEU reflects the dates of the Framework Agreement expiring in 2018 and the award notice states that the provision of ordered services entered into under this Framework Agreement shall expire no later than 2 years after the Services Commencement Date.

The PCR 2015 Guidance states that although the length of call offs under framework agreements are not specifically limited by the Regulations,(these are the 2006 Regulations which are not as restrictive as the current 2015 Regulations) the length of call offs as with other contracts should be appropriate to the purchases in question and should reflect value for money considerations.

This report considers that the length of call off is appropriate and value for money. The fact that other authorities have used the framework for similar length contracts and have not been challenged seems to bear this out.

There is always a risk of challenge in these circumstances bearing in mind the length of the contract compared to the duration of the framework, but in this case the risk seems very low.

Human Resources implications and risks:

Existing system users will be involved in the implementation of the new system with full training being made available. The new system will enable improved processes within the service which should lead to increased productivity, better data quality and improved user satisfaction.

Equalities implications and risks:

Following consultation with the Corporate Diversity Advisor, it was deemed that an Equality Impact Assessment is not necessary for the procurement of a new case management system for Adult and Children's Social Care and Social Care Finance. There are no indications that the procurement of a new case management system would be of detriment to service users and/or employees in any way, including in relation to the protected characteristics: age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex; sexual orientation as specified in the Equality Act 2010. The new case management system poses no discrimination or detriment to staff or citizens of the London Borough of Havering.

To the contrary, the implementation of a new case management system would support employees to do their jobs better, with more ease as the current system is deemed ‘not fit for purpose’ by Ofsted following their Single inspection of Havering’s Children's Services and review of the LSCB in September 2016. It aims to provide increased efficiency, more accurate recording and thus the availability of data that can be extracted into meaningful reports to support the management of day to day business and local, operational functions. It further aims to provide relevant, useful data and information, that is either unavailable or not effectively reportable in the current system, to support strategic decision making regarding the support and improvement of services provided to the Adults and Children’s Social Care service users and wider population of Havering. The long-term focus for a new improved case management system that captures all areas of work and recording for Children’s and Adults Social Care, including Finance, would further result in improvements for quality services provided to service users/citizens. For the record, an EIA will always be undertaken if there is any potential of a detriment or possible discrimination in line with the Equality Duty.

BACKGROUND PAPERS

None

Appendix 1: Social Care System Replacement Business Case – version v 2.0.
Appendix 2: Section 2 ITT Evaluation
Appendix 3: Exempt information

Appendix A – Business Case

Section 2

Tender Evaluation

1. Technical/Method Statement Evaluation

1.1 Tenders will be evaluated fairly to ascertain the most economically advantageous tender taking into account price and quality/technical compliance. The maximum available scores for quality/technical compliance will be 60 marks and for price 40 marks.

1.2 The quality aspects of the tenderers submission will be assessed on the responses provided to the questions in the method statements and compliance with technical specification. The method statements are attached as appendix D and technical specification as appendix A *[for the purposes of this Cabinet report these appendices are not attached].*

1.3 The method statements will be evaluated in line with the marking scheme set out below, the marks allocated for each tenderers response to the method statements will be assessed in line with this scoring mechanism.

Assessment	Score
No evidence of how this will meet the Council's requirements	0
Unsatisfactory response suggests potential supplier would have difficulties meeting Council's standards/ requirements.	1
Some effort made to meet requirements but significant detail missing, or inappropriate.	2
Broadly meets requirements; satisfactory`	3
A Good response – meets requirements	4
Excellent, exemplary with all very strong evidence of appropriate skills and capacity.	5

1.4 For each of the method statements tenderers will require to achieve a minimum score of three, if a tenderer achieves a score of less than three their tender will not be viewed as achieving the minimum requirements for this opportunity.

1.5 The technical specification will be evaluated in line with the marking scheme as set out below, the marks allocated for each tenderers response to the Technical requirements will be assessed in line with this scoring mechanism.

Assessment	Score
Not achievable/no evidence of how this will meet the Authorities requirements	0
Unspecified no evidence of how this will meet the Authorities requirements	1
Some effort made to meet requirements but significant detail missing, or inappropriate.	2

Requires some bespoke development	3
Achievable by configuring the software – i.e. without the need to write or amend code	4
Standard feature within this product – with a strong evidence of appropriate	5

1.5 Each requirement of the technical specification will be evaluated, were the requirement is weighted as a three the minimum score required will be an evaluated score of three. If a tenderer achieves a score of less than three their tender will not be viewed as achieving the minimum technical requirements for this opportunity.

1.6 For clarification: where the requirement is weighted as a three the minimum score required will be a minimum score of three, this score will be achieved by raking the average score of all the evaluators individual score. These are the minimum requirements for this opportunity, if a tenderer achieves a score of less than three their tender will not be viewed as achieving the minimum requirement.

1.7 The weightings for each element shown in both the method statements and technical specification are based on the service requirements as shown below

Score/weighting	Requirement
3	a mandatory requirement of the system to meet operational and statutory requirements
2	is a desirable requirement, the Authority considers that this requirement is preferred but not considered mandatory
1	are optional requirements and therefore the minimum weighting will be applied

1.8 The tenders shall be evaluated by a group of evaluators, as a result the score achieved by each tenderer for each element evaluated will be an average score of each evaluator's individual score. The scores of each evaluator will be used in the overall evaluation to ensure fairness.

1.9 The Authority shall calculate the quality score by multiplying the evaluation weighting of each criteria by the average score awarded.

As an example for each tenderer

	Evaluation Weighting	Score Awarded	Score Achieved for each Requirement

Requirement	3	4	12
Requirement	2	5	10
Requirement	1	3	3
Requirement	3	3	9
Total Quality Score	[redacted]		34 out of 45 (75.6%)

1.10 The above example is provided as a snap shot of how the overall 16,960 marks available jointly across both the method statements and technical specification/requirements will be evaluated.

1.11 The overall technical score will be achieved by multiplying the weightings given to each method statement and technical requirement, as above, by the average score achieved following the conclusion of each evaluators evaluation.

1.12 The total technical score will be out of the 60 marks available. If a supplier achieves the maximum score they will receive 60 marks thereafter scores will be based on the percentage difference between the achieved score and the maximum available, this percentage will then be used pro rata to identify the number of marks scored, to two decimal, points, for each evaluation.

1.13 Tenderers are also asked to indicate in their opinion if their proposed solution achieves the assessment below, please indicate by using the abbreviation below in the relevant column in both the method statements and technical specification/requirement.

	Tenderers Assessment
S	Standard feature within this product – with a strong evidence of appropriate
A	Achievable by configuring the software – i.e. without the need to write or amend code
B	Requires some bespoke development
P	Maybe addressed procedurally
U	Unspecified no evidence of how this will meet the Authorities requirements
N	Not achievable/no evidence of how this will meet the Authorities requirements

2. Pricing

2.1 The Authority will only evaluate the price element of the tenderers who have achieved the minimum technical requirements as at 1.4, 1.5, and 1.6. The 40 marks available for price will be allocated so that the cheapest price will achieve the maximum number of marks available. The other tenderers will receive a score reduced pro-rata to the difference between their price and the cheapest price.

2. Overall Evaluation

2.1 The points achieved in the evaluation of the method statements, technical requirements and pricing will be added together as the total overall score achieved by each tenderer.

3. Supplier Presentations

3.1 Following the conclusion of the evaluation the three suppliers who have achieved the highest overall score will be invited to present their solution to a panel of officers from the Authority.

3.2 The purpose of these presentations is to give the evaluation panel and other key officers from the Authority the opportunity to view the supplier's solution confirming their understanding of applications, user interfaces and other related user requirements.

3.3 The presentations will not be used as an opportunity to clarify the tenderers submissions but to confirm their understanding of the tender submitted. If the Authority requires clarification of any element of a tenderers submission these will be requested via the capitalEsourcing portal through the evaluation stage of the process.

3.4 Each presentation will typically last all day, each supplier will be requested to present all aspects of their solution as per the technical specification.

3.5 The Authority reserves the right to review the evaluation of each tender following the conclusion the tenderers presentation.

3.6 All presentations will be held in Romford Essex, actual location, date and time will be confirmed at the appropriate time.

4 Contract Award

4.1 Following the completion of the supplier presentations the tenderer achieving the highest total score will be awarded the Contract.

5. Debriefing

5.1 Following the award of the Contract a debriefing will be offered to unsuccessful tenderers.

This page is intentionally left blank

Social Care Programme

Business Case

Social Care Case Management System

Robert J Allerton

Social Care Programme Manager

Updated 17th October 2017

Version 1.0

Contents

1.0 Business Case

INITIATIVE NAME	Social Care Case Management System		
REFERENCE TO RELEVANT BUSINESS PLAN AND/OR COUNTY STRATEGY	~~Y~~/N		
PART OF EXISTING CAPITAL PROGRAMME?	**IF YES, REFERENCE THE PROGRAMME**	**DIRECTORATE**	**DEPARTMENT**
~~Y~~/N		Adults and Children's Services	Chief Executive

1.0.1 Executive Summary

The following information provides the detail required to make a decision to on the implementation of a new social care case management system, including the appointment of a new supplier following the procurement process completed in mid October 2017. The system will provide support to Adult Social Care, Social Care Finance and Children's Services.

In 2016, the need to purchase a replacement Social Care System was identified as business critical and there are a number of key drivers supporting the case for change. More detail on each of these is set out below, however a summary is provided here. Of particular note system improvement and change is required to improve the delivery of Children's Services, which was criticised in a 2016 Ofsted report. Some of these issues are also experienced by Adult Services, so it is appropriate for both services to consider the procurement of a new system to ensure value for money from the procurement process, and for both services to achieve a level of efficiency in terms of work practice.

Another driver emerged after the decision was made to undertake a 'pre-procurement' process in 2016/17, with the current supplier Northgate indicating in January 2017, that they were withdrawing from the social care systems market, giving two years notice, after which time the current social care system would be unsupported. This would have meant that there was no real choice but to procure a new system, due to the risks associated of using a system that is unsupported. However on 16 May 2017, notification was received from Northgate that the social care arm of their business has been transferred to OLM, who took over the Northgate system(s) from 1 June 2017. OLM made an initial offer to current customers to move onto the OLM platform at a ‘reduced’ price. This did not however change the re-procurement process that is now complete, as set out in this business case, with OLM included as one of the key suppliers who could submit a tender through this process.

The third area set out in this business case is around the need to have a fit for purpose system that is able to ‘talk to’ other systems (such as in the NHS), to enable an improved experience for residents in only having to tell their story once, and to improve efficiency across health and social care in terms of having an agile workforce. To that end, Havering are a part of the Barking, Havering and Redbridge Digital Roadmap, which includes bringing on social care across the three boroughs by 2019/20. It is therefore essential that the social care system is capable of the kind of interoperability that will be required to ‘talk’ to other IT systems.

The procurement process was agreed to commence following a non-key Executive Decision, signed off by the Director of Children’s Services on 6th June 2017 to enable the target implementation date of October 2018 to be realised. It was agreed to utilise an existing framework (which has all major suppliers of social care IT systems on it), enabling a more efficient and cheaper procurement.

The final indicative cost of procuring a new system across children and adult services is now projected to be circa £3.348million, with annual ongoing support costs of £0.145m to be funded through existing revenue budgets. Limited cashable savings are anticipated from this implementation, and some of these have now been factored into the Council’s MTFS plan, profiled to be available no earlier than 2020/21. This is to allow sufficient time for the new system to be fully embedded across social care in Adults and Children Services’, but also the Joint Commissioning Unit. Further efficiency savings may be possible, and this will be kept under review during implementation and in the 12-18 months following go-live (anticipated to be October 2018).

This business case sets out the case for change, with an implementation date of October 2018, which is ambitious but doable, as set out in this document. The procurement process is now complete, within the timescale set out in the project plan, and the successful supplier has been selected. The appointment of the supplier is subject to a Cabinet decision on 16th November 2017, and in anticipation of Cabinet agreeing the appointment, the mobilisation period to implement the new system will begin in December 2017.

1.0.2 Key Issues

As noted above, the London Borough of Havering’s Children’s Service was inspected by Ofsted in Autumn 2016 and one key recommendation from Ofsted was to ensure timely review and, if necessary, commissioning of a replacement social care recording system that fits the needs of Children’s Services, especially ensuring suitability for leaving care services, provision of management information and storage of adopters records. The current system is not considered to be fit for purpose in these areas. and although considered by the Adults Social Care department as able to record and deliver our statutory returns, the “front end” user interface is considered to be difficult to use and can be considered as just about adequate. The current system is recognised as less flexible than other solutions available on the Social Care market and is less able to meet the changing needs of London Borough of Havering as well as our ability to meet integration requirements.

The decision by Northgate Public Service to withdraw from the Social Care market, meant that we can only rely on Northgate Public Service for support and maintenance until April 2020, after which we would have been vulnerable to any failures in the system with no patches or fixes and no future development to meet legislation changes. This risk was mitigated somewhat by the takeover of Northgate’s social care systems by OLM, however it was agreed that we would proceed with the re-procurement to ensure both social care departments had a system that met it’s needs, as assessed through the procurement process. Our current contract with Northgate Public Service (assigned to OLM in mid 2017) will terminate on 30th April 2019, having been extended from 30th April 2017 by utilising a Change Control Notice. This enabled the support and maintenance to be extended for two years and complying with EU Regulations. With approximately 30 other Local Authorities currently using Northgate Public Sector systems, who would also be required to procure new social care systems in the same timeframe, we recognised that this will increase resource and implementation pressure on the other suppliers (see Annex “A” for list of suppliers).

1.0.3 Procurement Phase

In order to meet our ambitious timescale, of “Go Live” in October 2018, we started the procurement process following an Executive Decision on 6th June 2017. An outline plan to achieve the implementation go-live date was started at the beginning of May 2017. The pre-requisite for this, was a detailed business specification that was signed off at the Social Care Programme Board on 25th April 2017.

Two options for the Procurement process were considered, we could have followed a full OJEU open tendering process, which would have allowed expressions of interest and potentially tender submissions from interested software houses. Or we could use a recognised Framework process which would be considerably quicker and targets specialist companies who provide solutions for Social Care and are pre-qualified signatories to the framework.

Consideration of the pros and cons of procuring via the OJEU process versus utilising a framework is set out blow:

a) The OJEU process

Pros

- Open to all potential suppliers

Cons

- A lengthier process (typically 3 months longer), with the potential to increase costs by approximately £50k per month (calculated by using the monthly cost of the core programme team)
- We will receive a considerable number of expressions of interest and will be required to review them increasing our timescale.

b) Using a recognized Framework Process – RM1059 (see Annex A for list of suppliers)

Pros

- A shorter process (around three months)
- We can use Suppliers pre qualified and signed up to the Framework.

Cons

- We will be limited by the functionality offered by the recognised suppliers, although this is not considered to be of any particular concern due to all market leaders being on the framework.

The Social Care Programme Board recommended utilising the recognised framework, and this was agreed via an Executive Decision on 6th June 2017. The framework used is RM 1059, which expires in August 2018. Annex “A” provides a list of all suppliers who are covered by Lot 6 (social care) of RM 1059.

It is of note that all the key suppliers of social care systems are registered on this framework, therefore it was felt there was no anticipated disadvantage of procuring a new system from the framework. Use of the framework was also approved at the first ‘checkpoint’ of the Council’s procurement process.

The procurement process has now finished and the successful supplier has been selected. The appointment of the supplier is subject to a Cabinet decision on 16th November 2017, and in anticipation of Cabinet agreeing the appointment, the mobilisation period to implement the new system will begin in December 2017.

1.1 Recommendations

It will be recommended to the Council's Cabinet on 15th November 2017 to:

- APPROVE: the project implementation revenue budget of £3.348m (including supplier costs), to be financed from the Transformation Reserve.

- APPROVE: the award of contract for the supply and operation of an adults and children's social care case management system to the successful tenderer for a period of five years plus an option to extend for a further two years from 1st December 2017 at a total cost of £1.803m.

- NOTE: That the Council will incur contracted annual costs of operation totalling £0.725m over the period of the contract in respect of maintenance and hosting. These costs will be met from social services base budgets

- DELEGATE: to the Chief Operating officer, in consultation with Lead Member for Resources, the authority to enter into a contract with proposed supplier for the provision of a fully hosted case management system.

Document control

Author and Contact Person	Sponsor	Date to be approved	Version Number	Issue Date	Review Date
Rob Allerton	Sarah Homer Barbara Nicholls Tim Aldridge	29/03/2017	0.1 (draft)	20/03/2017	
Rob Allerton	Sarah Homer Barbara Nicholls Tim Aldridge	12/05/2017	1.0	9/05/2017	12/05/2017
Rob Allerton	Sarah Homer Barbara Nicholls Tim Aldridge	25/10/2017	2.0	13/10/2017	15/11/2017

PART B: DETAILED CASE

2.0 Strategic Case

This business case has been developed to address the available avenues of how to take forward the replacement and modernisation of case management systems for adults social care and children's services. For both children and adult services, there are aspirations to work in a more agile way, with mostly non-cashable efficiencies anticipated as new technologies are taken up. Some cashable savings have been profiled into the Council's MTFS budget strategy from 2020/21, with the detailed plans for delivery of these savings to be considered from 2019/20, once the system is live. Efficiencies are anticipated to come from, for example, streamlined 'back office' processes and social care staff being able to undertake work on smart devices, in resident's homes, negating the need use pen and paper and then return to base to complete work on the system.

For Children's Services in particular, the current system was identified by Ofsted in 2016 as not fit for purpose, resulting in:

- Duplication of work;
- Configuration and workflow issues leading to poor quality in recording of - for example, assessments, support plans and case note recording;
- Frustration in the workforce, contributing to staff turnover and high use of agency.

For Adult Services, there are similar issues, although not as acute, however there is a need for interoperability capabilities to be incorporated to allow effective information sharing with NHS colleagues. This is the single most frustrating issue identified by the adult social care workforce.

It is also of note that adult services in particular have used the current system for a number of years, namely SWIFT since 2003 (with the 'front end' upgraded to AIS in 2010), without going back out to the market, resulting in paying 'over the odds' in terms of revenue costs by today's market standards. Children Services have used CCM since 2013 as a front end, with its initial implementation not of a good enough quality, resulting in the user experience and resultant difficulties as set out above.

Therefore the main issues that will be addressed are:

- Digital maturity and integration/alignment with the NHS and other partner organisations – delivery of key digital capabilities via BHR's Local Digital Roadmap. Examples include Child Protection Information Sharing and integrating systems with MASH partner agencies

- Usability around streamlined case recording and management reporting/oversight. The need to support new types of social care practice, and ensuring flexibility and resilience to meet on-going developments, as these are not adequately provided within our current system.

- The current contract with Northgate Public Service (assigned to OLM in June 2017) will end on 30th April 2019. In line with procurement regulations London Borough of Havering has extended the contract (which was due to expire on 30th April 2017), to provide ongoing support and maintenance during the procurement and implementation phases of a new solution. (This has been dealt with separately and will cost around £0.141m per year for two years covered by existing revenue budgets).

The procurement process utilised the agreed Business Specification with the preferred option of allowing both Adult Social Care and Children's Services to remain on the same technical platform, i.e. a single supplier. It was recognised that divergence would likely to attract significant additional cost (e.g. for hosting and other infrastructure costs, technical support, end-user support etc.) with more complexity and risk. However the Business Specification was designed to allow us to choose the most suitable solution to meet the London Borough of Havering requirements, including

- Information governance and sharing information, in line with our legal requirements, with partner organisations and making records available to young people, carers, patients and service users to reduce paper and promote channel shift, a function not available with current systems.

- Standards-based technology and Open APIs (see footnote 4) to regulate and secure the flow of information across the health and social care economy, including to carers, patients and service users. Including this in our solution provides the ability for a more dynamic response to changing needs and requirements without the need for bespoke development.

- The main components of modern case management systems include records databases, electronic document management systems, mobile capabilities. Typically, web browser-based user interfaces present information, including workflow alerts, to end-users and capture their input in forms. This gives the potential to consider Standards-based alternatives, improving sharing capabilities to the traditional off the shelf solutions, but may bring additional risks, such as flexibility and the ability to change processes "too easily" requiring strict change control processes to mitigate them.

2.1 Background

The SWIFT social work case management system, supplied by Northgate Public Services was implemented in the Council in 2003 across adult social care and children's services. The system uses Oracle database technology and Northgate Public Service have released regular upgrades to maintain the system on the current Oracle version since then. Oracle forms technology was used for the 'front end' but this has largely been replaced by browser based forms for end users. The following section sets out the timeline and key events.

2.1.1 Chronology

2003 SWIFT goes live for both adults and children's social care.

2006 Children's social care migrate from SWIFT to ShareCare supplied by Esprit as their ICS solution. The system was poorly implemented and the data migration from SWIFT was incomplete, causing issues with current and historic case data from the start. There were problems with reporting from the system because much of the data was not recorded in a structured form. The shrinking number of local authorities using the system was a cause for concern in terms of the on-going viability around developing the system in line with emerging local, statutory and best practice requirements.

2007 The Information@Work electronic document management system was implemented to provide compliance with ESCR requirements. Although this is a separate system supplied by Northgate Public Services, it is embedded within AIS and CCM so that end-users can access it seamlessly. Information@Work is powered by Microsoft SQL Server database.

2010 SWIFT was upgraded to include a modernised front end with browser based forms (AIS) for social work processes, with Oracle forms continuing to be the front end for back office functions, e.g. system administration and financial processes. Oracle database remained in place as the data repository.

2012 The decision was taken to expand the contract with Northgate Public Service to include the children's social care product by purchasing the modernised front-end, CCM. The full set of APIs (*application programming interfaces*) was purchased at this time to enable integration with external systems in the future. The APIs provide mechanisms to pass information between the SWIFT database and other systems, i.e. to read, create, amend and delete records, in line with the business rules.

2013 CCM goes live for children's social care – essentially adults and children's social care on the same system once more – again data migration proved difficult hampered by historic children's records left behind in SWIFT by the previous data migration.

2015 As part of the Care Act implementation, the Council purchased and implemented the FACE assessment tool from FACE Recording & Measurement Systems for Adult Social Care. This saw the various FACE assessment and support planning tools implemented in AIS and integration via a real-time web service with FACE's Resource Allocation System (RAS).

2016 Significant and valuable work to cleanse data and streamline processes has been carried out in the period since CCM has been live has made little difference to the poor perception of the system held by many end-users and managers.

2.1.2 Completed activity in 2016/17

The Council completed the following activity around SWIFT, AIS and CCM between June – December 2016:

- Upgrade SWIFT, AIS and CCM to version 31;
- SWIFT database upgrade to Oracle 12c (current release);

- Implement Child Protection Information Sharing (CP-IS) a national initiative to share information between social care practitioners and clinicians in urgent and emergency care settings;
- Implement integration with NHS Personal Demographics Service (PDS) to automate capture of NHS numbers at the start of care episodes. (This is on-going)

There is now no known planned activity for 2017/18 or beyond due to the Northgate system in effect winding down.

2.2 Current Position

The development activity completed in 2016/17 highlighted the increasing integration (in the case of adult social care) and alignment (in the case of children's services) with the NHS. As part of this integration/alignment, both adult social care and children's services are included in NHS plans to increase digital maturity by implementing Local Digital Roadmaps.

2.2.1 SWIFT, AIS, CCM and ESCR

The current contract with the supplier, Northgate Public Service (assigned to OLM in June 2017), runs to the end of April 2019. The previous contract ran out on 30th April 2017, and the Council renewed/extended the contract, at a cost of £282,000, for two years while the Social Care Programme develops the way forward by procuring a new system and modernising processes /integrating with partners.

The view in Children's Services is that current systems are not fit for purpose because of:

- Gaps in functionality
- Duplication in terms of administration
- The system adding layers of bureaucracy
- Laborious recording logic
- A poor user interface

The LAC module is a prime example of the system not meeting the needs of the business.

From an Adult Social Care perspective, while there would be agreement that the user interface is not ideal, the overall assessment is that the functionality is broadly fit for purpose and compliant with the Care Act 2014. Furthermore, the embedded financial processing is business critical and used extensively in Adult Social Care and interfaces with the Council's finance system are in place.

2.2.2 Digital Maturity Self-Assessment

SOCITM and the Local Government Association (together with ADASS and ADCS) devised a self-assessment for English local authorities. The assessment covered the following areas:

- Organisational context
- Strategic alignment
- Leadership
- Resourcing
- Governance

- Information Governance/management
- Records, assessments and plans
- Transfers of care
- Decision support
- Remote and assistive care
- Standards
- Infrastructure

2.2.3 Digital Maturity – Areas of Concern

The Council's high level self-assessment was completed in May 2016, with input from a number of stakeholders across adults and children's social care, ICT and Communities and Resources. The assessment has highlighted inadequacies in the following areas:

- Direction of travel regarding online self-service;
- Direction of travel regarding assistive technologies;
- Financial resourcing for technology in the short to medium term;
- Processes and controls around information sharing and information governance;
- Absence of electronic sharing of information with partner organisations and electronic workflow to support transfers of care;
- Eliminating paper-based processes and records;
- Staff digital literacy;
- Digital inclusion.

2.2.4 Local Digital Roadmap

The Local Digital Roadmap (LDR) was developed by BHR CCGs and covers the local authorities and all NHS organisations across Barking & Dagenham, Havering and Redbridge local authority areas. The roadmap covers the previous year, 2016/17, and runs to 2020/21 including the current year. BHR's LDR sets out the following vision of the 'backbone' of Integrated Digital Services:

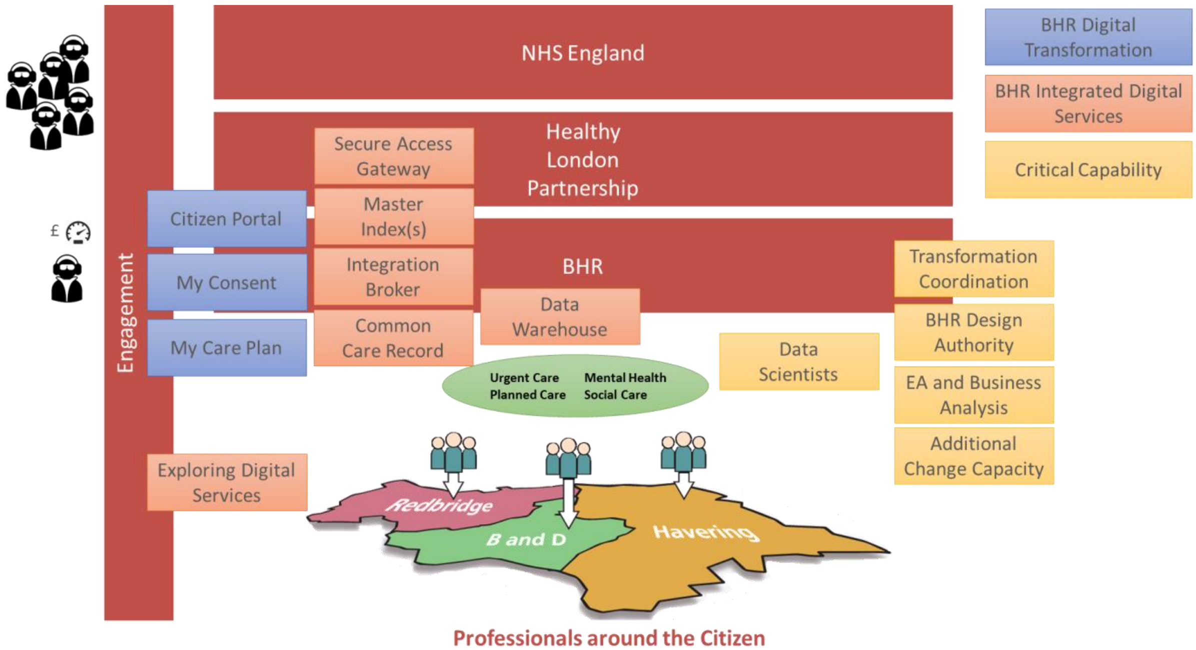


Figure 1 - Integrated Digital Services in Barking & Dagenham, Havering and Redbridge

The following table sums up the main deliverables from a social care perspective:

Table 1 - LDR - capabilities and target dates for implementation across BHR

Capability	Target for delivery
Structured digital referrals to social care	2017/18
Clinicians in unscheduled care settings can access child protection information with social care professionals notified accordingly	2018/19
Social Care receive digital Assessment, Discharge and Withdrawal notices from Acute care	2018/19
Real time information sharing for the M.A.S.H (Child and adult protection)	2019/20
Community (including Mental Health) and Social Care Information sharing read/write access	2019/20
Integration of education systems to support Education, Health and Care plans	2020/21
All patients access care plans online	2020/21

This is the first iteration of the LDR and it will be refreshed in each of the subsequent years. Additional capabilities may be included in future years' submissions.

2.2.5 Local Digital Roadmap – Implications

Delivery of the capabilities to social care is weighted towards the middle to the end of the five years. The implications are that:

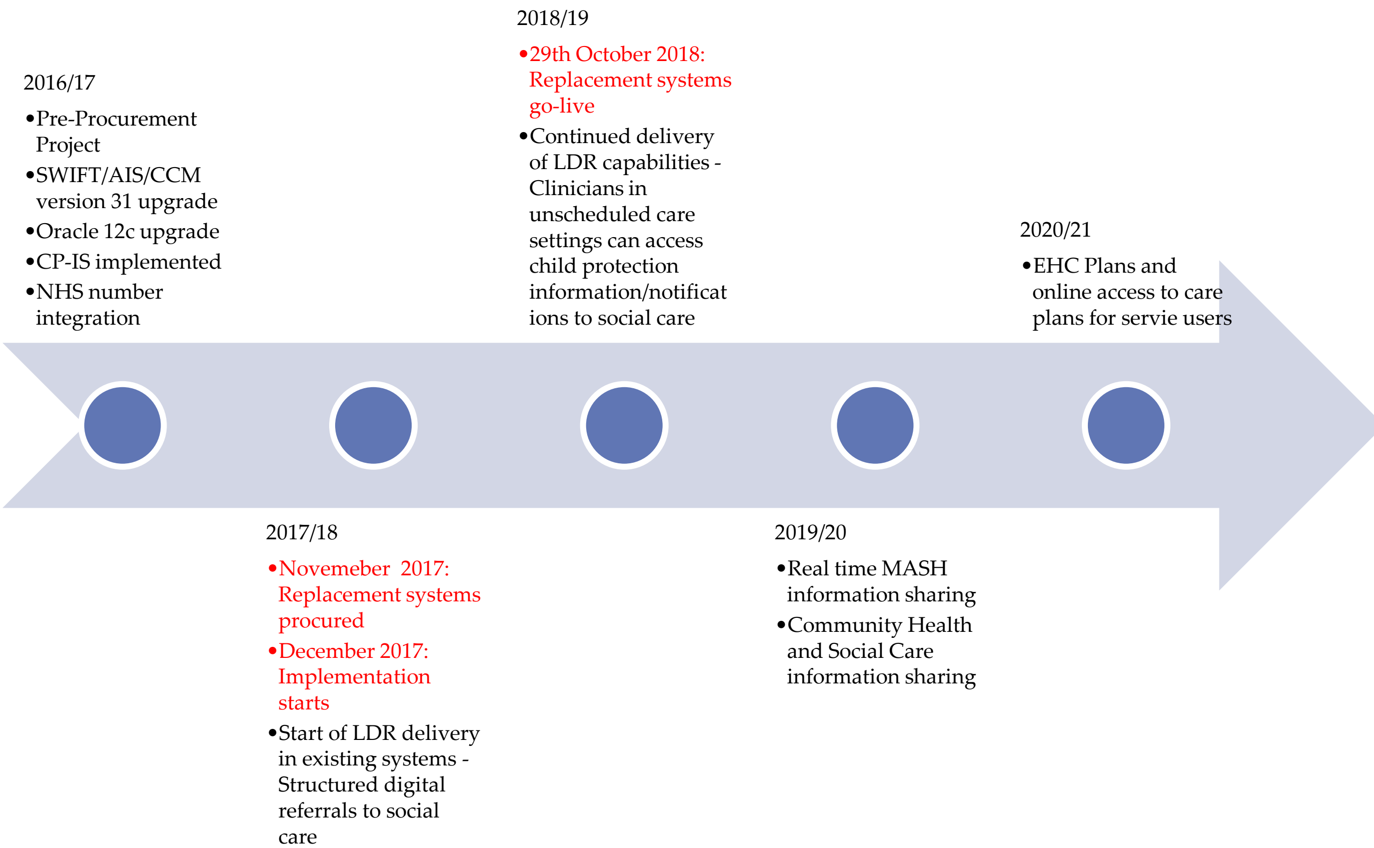
Work to resolve the problem areas and further increase digital maturity in preparation for the implementation of the capabilities referred to above would be challenging programme just by itself.
There is a window of opportunity to replace social care case management systems by the end of 2018/19, with only two capabilities needing to be implemented in current systems before then. (Any changes made to the existing systems during the procurement and implementation of the new solution would be implemented bearing in mind that these capabilities would then be replicated into the replacement system.)
Social care business systems should be as close as possible to being in a steady state by that time in order implement these capabilities within Council systems.

2.2.6 Community Health and Social Care Integration
On a less positive note, the LDR has scheduled information sharing across Community Health and Social Care services for delivery during 2019/20 and this wasrecognised as being too late to fit with business requirements. It was important that the business requirements in this area were determined as soon as possible which enabled us to incorporate them into the design of our solution during this programme of work, so that options for a robust interim (or longer term) solution were and can be developed, possibly with NELFT. This will not affect the timescales for the delivery of the core Social Care Case Management system outlined in our specification.

2.2.7 Education, Health and Care Plans
Similarly, the LDR has scheduled information sharing across Education, Community Health and Social Care services for delivery during 2020/21 and this was recognised to be too late to fit with business requirements within the Children and Adults Disabilities Team. It was important that the business requirements in this area were determined as soon as possible so that options for a robust interim (or longer term) solution were and can be developed. Reference to this information sharing and integration was made in the Business Requirements Specification, and the successful supplier has confirmed that the capability is available, with further design and implementation to be agreed with the Director of Children's Services. Our delivery target is and remains October 2018 and this is unaffected by this requirement but the earlier we have the requirements the more we can insulate ourselves from future development.

2.2.8 Time
The rationale for the decision to proceed was set out in the Executive Decision on 6th June 2017 enabling us to provide a stable solution fully embedded into our organisation in before the main round of delivery against the Local Digital Roadmap. In line with the Local Digital Roadmap, the 'ideal' timeline is as in the diagram below with the social care programme activity shown in red:

Social Care Programme



2.3 Existing Arrangements

The current Adults Social Care and Children’s Services Case Management system is provided by Northgate Public Service, taken over by OLM in June 2017.

The following table sets out social care management systems module costs for the 2017/18 financial year:

Table 2 – Northgate Public Service support and maintenance charges and other costs

Item	Cost £
ESCR Electronic Social Care Records	20,500
NIHE The Northgate Hub	6,000
Swift Core System	46,500
Business Objects	5,000
e-base Software Tool	5,500
AIS Adults Information System	17,500

Item	**Cost £**
AIS Institutional Safeguarding	1,500
FACE Webservice	2,000
FACE Assessment Support	1,500
FACE V7 Development	2,500
Copy config Adults	500
Copy Config Childrens	500
CCM Childrens Case Management	22,500
CP-IS Child Protection Information System	1,000
CCM Institutional Safeguarding	1,500
NHS Number Real Time Lookup	3,000
Total	**137,500**

An extension to the Northgate Public Services Contract (assigned to OLM), to cover the two years to April 30th 2019 is £282k payable £141k annually in advance.

2.4 Business Needs

For reasons already out in this Business Case, it was clear that we must procure a new solution to enable us to meet our statutory requirements and deliver quality services to the public covering both Adult Social Care, Children's Services and social care finance management. We recognised the need to focus on increasing digital maturity, modernising and integrating systems, improving efficiencies and processes alongside our procurement.

2.5 Scope and key service requirements

- Identify and procure a fully integrated case management system, which meets requirements documented in the Functional Business Specification
- Design, configure and implement the solution, working closely with key stakeholders to ensure it supports the Target Operating Model.
- Improve Data Quality and Migrate all relevant data to new system
- Train staff on both the system and new operating processes
- Provide reporting outputs and integration to data warehouse
- Transition to Business as Usual
- Decommission Legacy systems as appropriate

2.6 Programme Deliverables

The project start date was May 2017, the Social Care Programme is delivering the following:

Social Care Programme deliverables

Deliverable	Target date
Children's Services: • Business process maps • System Process Design	Staged Delivery to October 2017
Adult Social Care: • Business process maps • System Process Design	Staged Delivery to October 2017
Learning & Achievement: • Business process maps • System Process Design	Staged delivery to October 2017
Commissioning • Business process maps • System Process Design	Staged Delivery to October 2017
Finance • Business process maps • System Process Design	Staged Delivery to October 2017
Mobile working: • Business process maps • System Process Design	Staged Delivery to October 2017
Data Migration Preparation • Finance • Children's Services • Adult Services	Staged Delivery to October 2017
System Procurement • Framework Agreement • ITT • Submission Review • Evaluation • Selection • Procurement Concluded	Staged delivery to October 2017
System Design Implementation • Configuration • Technical Integration • Reporting • Testing • Training • Dry Run • Go Live	Staged delivery to October 2018
Post "Go Live" Mop up release	December 2018
Transfer to BAU	March 2019

Source: Social Care Programme Scope Document

2.7 Programme Resources

This section should be reviewed alongside the Resource Plan (set out at Annex B), which has been and will continue to be subject to constant review. Now that the successful supplier is known, the resource plan is more definitive about the costs associated with implementation, and this is projected to be circa £3.348 million.

The main features of the programme are:

- Experienced hands-on Programme Lead capable of coordinating and managing complex projects following on from PPP, including the procurement process
- Business representatives with good knowledge of the organisation and their specialist business areas across Children's Services, Adult Social Care, Learning & Achievement, electronic document management and Finance
- A mix of internal and external business analyst resources able to work flexibly across the scope of the project. This would involve working closely with the business representatives to identify and document business processes, functional and data gaps as well as business requirements. This would support both the development of requirements specifications for procurement purposes and help accelerate future implementation timescales.
- Specialist technical expertise
- Specialist Information Governance expertise

2.8 Risks

The following table sets out the risks relating to the Social Care Programme that have been identified:

Risks as at April 2017	Comments/possible mitigating action as at April 2017	Updated October 2017
Escalating costs.	Ensure firm budgetary controls. A 10% contingency allowance has been included in the overall cost of the Programme.	The successful supplier is now appointable, pending Cabinet decision on 16th November 2017. The cost of the implementation is in line with the original estimation.
Funding is reduced during the lifetime of the project.	Consider reducing the scope of the project although this would impact on any future implementation.	The implementation remains dependant on the indicative funding from the Transformation Reserve being fully available.
Finding the right resources.	Recruitment activity should be started as soon as possible.	Posts required for programme to date have been recruited into.

Risks as at April 2017	Comments/possible mitigating action as at April 2017	Updated October 2017
		Further resources will require recruitment once the implementation of the system starts (estimated December 2017), and recruitment will start as appropriate following the Cabinet decision on 16th November 2017.
Competition for scarce internal resources.	Resources to be identified as soon as possible and back-filled as soon as possible.	Internal resources identified, although capacity of internal resources remains a risk. Directors of ASC and CS keeping under review in terms of any backfill that may be required, particularly as we move into implementation phase. Services will need to plan for release of staff for training on the new system (scheduled from Summer 2018) – planning to start Spring 2018.
The project over runs, delivering after October 2018.	Strong programme management to monitor progress; consider using contingency allowance to increase resources.	Programme is currently running to schedule, with the go-live date anticipated to be at the end of October 2018
Managing changing NHS priorities	Ensure senior managers maintain links with NHS counterparts and cascade information to programme team in a timely way.	This remains a risk and requires ongoing dialogue and management
Delays getting information sharing agreements in place.	Ensure that Information Governance works stream is prioritised and adequately resourced.	This remains a risk and requires ongoing dialogue and management
There is possibly not enough time to establish a way forward, resulting in delay. Delays to decision will risk losing resources currently in place and increase possibility of being affected by supplier resources.	Strong programme management to monitor progress. Revise plan if this occurs.	The Programme is currently running to schedule, with resources secured for phases completed to date. The successful supplier is now known and will allocate the necessary resources to support the implementation as per their tender submission.

3.0 Economic Case

As already made clear through this Business Case current systems deployed across Adults and Children's services are not capable of supporting the changing needs of social care and do not have the flexibility or adaptability required. In Adults the need to change to more flexible and coordinated working with health and partner agencies requires greater secure access to data and data sharing not available with the current systems, and in Children's Services the Ofsted inspection in 2016 highlighted serious issues with the provision of support for Leaving Care and Education Health and Care planning. During the pre-procurement phase we considered options to redesign or and/or upgrade the Northgate PS systems, as well as reviewing other procurement options.

However, unfortunately, due to Northgate Public Services withdrawing from the market, we had little alternative but to seek to procure a new solution through a tendering process.

Prior to beginning the tender process, it was identified that there are three major suppliers currently in the market for this type of system, and a fourth supplier chosen by our partners in Newham. They are all signatories to a Framework agreement, and as previously noted, our recommendation was to follow this route of procurement.

All the new systems available, including that to be implemented in Havering following the procurement process, on the market are flexible and configurable. This will allow the London Borough of Havering to identify areas of practice it wishes to change/ improve and build a system to integrate into the working operational practice, fully supporting the workflow and improving efficiencies

3.1 Benefits Log

The previous version of this Business Case recommended that we produce a benefits log which will contain an agreed description of the benefits to be realised by the implementation. With the successful supplier now known (pending Cabinet agreement on 16th November 2017), the Benefits Log will be created and updated throughout the life of this programme. These benefits will be identified during the system design and development phase, although other benefits may be identified by the Business as part of service redesign in the future. Benefits owners are to be agreed and a benefits management plan to be completed as part of the programme management. Financial & Non-financial benefits will be identified and refined based on the outcome of the procurement. This log will be maintained and shared with the Social Care Programme Board on a monthly basis.

4.0 Commercial Case

Each of the major suppliers, including the successful supplier as per the procurement process completed, provide a configurable base system designed to meet the changing needs of social care in a flexible way. Their systems provide a means of delivering the required statutory return and are compliant with legislation. The systems on offer are all capable of delivering our core functionality but will require detailed evaluation to determine the best fit for Havering.

The chosen system will deliver 92.2% of the requirements out of the box, with some development work required to achieve the full functionality.

4.1 Required Services

Alongside the system delivery and support during the implementation phase, the successful supplier is required to provide upgrades and fixes to identified issues, ensuring that the system is kept in line with legislation.

The provision of a support and maintenance for the contract period is also required.

4.2 Proposed charging mechanism

The proposed draft charging profile is included in the Resource Plan document at Annex B, however this needs to confirmed with the successful supplier pending the Cabinet decision on 16th November 2017

The table below provides a summary:

Winning Bid - Supplier Cost Estimate	17/18	18/19	Total 2 years	19/20	20/21	21/22	22/23	23/24	Year 3 to 7 Total	7 Year Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Implementation Cost	0.300	0.778	**1.078**	-	-	-	-	-	**-**	**1.078**
Running Cost (+RPI)	-	-	**-**	0.145	0.145	0.145	0.145	0.145	**0.725**	**0.725**
Total Supplier Cost	**0.300**	**0.778**	**1.078**	**0.145**	**0.145**	**0.145**	**0.145**	**0.145**	**0.725**	**1.803**

Table 1 - Cost Estimate of the Winning Bid

4.3 Procurement strategy and Implementation Timescales

The procurement strategy was through the identified framework agreement and was completed in October 2017. The Council's Cabinet will be asked to consider the outcome of the procurement process on 16th November 2017, and agree for officers to enter into a contract with the successful supplier. Assuming Cabinet agree the recommendation, there will be a standstill period until 1st December 2017. The Implementation plan takes us to a "Go Live" in late October 2018 and a hand over to BAU by April 2019. See attached Timeline in Annex C

5.0 Financial Case

Limited cashable savings have been included in the Council's MTFS with some savings profiled to be achieved from 2020/21. The detail of delivery for these savings will be considered in 2019/20, after the system go-live in October 2018, to give sufficient time for new ways of working to be embedded across Adult Social Care, Children's Services and the Joint Commissioning Unit. Therefore no details are set out in this business case but clear non-financial benefits are achievable and significant service improvements and efficiencies have already been identified, such as Integrated and partnership working and these will be enhanced and fully supported by the new system. These are set out in 2.0 Strategic Case.

Over and above savings already anticipated and profiled into the Council's MTFS, there are clear opportunities to make further cashable savings by improving processes and efficiencies, and these can begin to be determined now that the procurement process is complete and the chosen system is identified.

There are substantial service benefits from the implementation of a new system, such as casework management efficiencies generated from new processes and a system designed to support our future operating model. This benefit will enable the organisation to reduce the time spent on admin type activity and improve the customer experience.

The following table identifies the spend to date and estimated further costs for procuring a replacement system as well as the initial setup and implementation costs. Also included is the spend to date, and an estimate of the resource costs for system implementation. The estimate is based upon the knowledge sourced from similar procurements in other Local Authorities and the experience gained through implementation. Once completed a sense check was carried out by establishing that we were expecting roughly the same costs as Barking and Dagenham experienced in their recent procurement. This was confirmed.

Now that the successful supplier is known (subject to the Cabinet decision on 16th November 2017), the table below reflects the current projection of total spend, including spend to date. The Programme is currently running to timescale, however it remains a risk that delays in implementation (not currently anticipated) will incur additional resource costs.. Original cost projections assumed infrastructure provision would be cost neutral, with existing Havering infrastructure utilised. It also assumed some cashable savings would be available through reduced support and maintenance costs, as these costs paid to the current supplier, are about twice the current standard market rate. It was agreed as part of the procurement process to ask potential suppliers to include in their tender documentation, the cost of fully hosting the system, as well as the cost of only providing support and maintenance for an internally hosted system. This was asked for to allow the final tender evaluations to be able to take account of the emergent IT Strategy being developed by the OneSource for Havering and Newham Councils.

The final strategy is due for Cabinet sign off in due course, and is in its final drafting stage. The direction of travel as set out in the draft IT strategy is built around 10 key principles, as follows:

- Principle 1: Secure
- Principle 2: Customer focussed

- Principle 3: Supporting a fully digital Council
- Principle 4: Flexible services, available at the point of use
- Principle 5: Value for money
- Principle 6: Fit for purpose business systems
- Principle 7: Collaboration
- Principle 8: More flexible and agile delivery
- Principle 9: Data driven
- Principle 10: Cloud First

The emergent IT strategy has enabled the Programme to select the most appropriate option for supporting the new system, and it was decided to move forward with a supplier hosted solution. This decision was played into the evaluation of the supplier tenders in order to complete the procurement process.

At this stage no consideration has been given to any changes to the BAU support team, and costs moving forward are assumed to be the same for this team.

Winning Bid - Supplier Cost Estimate	**17/18**	**18/19**	**Total up to 2 Years**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**Year 3 to 7 Total**	**7 Year Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Implementation Cost	0.300	0.778	**1.078**	-	-	-	-	-	**-**	**1.078**
Running Cost (+RPI)	-	-	**-**	0.145	0.145	0.145	0.145	0.145	**0.725**	**0.725**
Total Supplier Cost	**0.300**	**0.778**	**1.078**	**0.145**	**0.145**	**0.145**	**0.145**	**0.145**	**0.725**	**1.803**
External Resource	0.685	1.095	**1.780**	-	-	-	-	-	**-**	**1.780**
Internal Resource	0.034	0.359	**0.393**	-	-	-	-	-	**-**	**0.393**
Internal/External Resource	0.022	0.075	**0.097**	-	-	-	-	-	**-**	**0.096**
Total Other Cost	**0.741**	**1.529**	**2.270**	**-**	**-**	**-**	**-**	**-**	**-**	**2.269**
GRAND TOTAL (IMPLEMENTATION PHASE)	1.041	2.307	**3.348**	-	-	-	-	-	**-**	**3.348**
GRAND TOTAL (ONGOING SUPPORT AND MAINTENANCE)	**-**	**-**	**-**	0.145	0.145	0.145	0.145	0.145	**0.725**	**0.725**

A further £300k (over two years) may be required (notionally 10% of the total implementation cost) to support any backfill requirements on the part of the Service, Performance Systems Team, One Source IT or One Source Finance, as the costs set out above are predicated on the majority of internal resources working on the system implementation. Should this be required a further bid to the Transformation Reserve may be necessary

An additional figure of approx. £141 k per annum is required for support and maintenance of the current system until 30th April 2019, although this will be met from the current budget of £142k for the existing systems

Some efficiency savings have been fed into the Council's MTFS, however more will be considered in due course, on the understanding that the new system brings benefits to adult and children's social care by way of improved ways of working, (release of staff time and capacity), better staff recruitment and retention (reduced reliance on agency). These will be quantified in due course, but not before 2019/20, given system implementation is not until October 2018.

6.0 Equality Impact Implications

Any system procured would be expected to comply with the Equalities 2010 Act, therefore limiting the impact on current system users and future system users. The Equalities implications of the system implementation have been considered by the Council's Diversity Advisor and it has been concluded that a full Equalities Impact Assessment is not necessary as there is no indication that the procurement of a new case management system will be of detriment to either residents (service users) or employees. In fact, a new system would support employees to undertake their roles more effectively and will provide the platform for better transparency for people accessing either social care service through for example enabling direct access to their own record(s) held by the service(s)

7.0 Sustainability Implications

With the Personalisation Agenda, it is imperative that we have a system that can deliver on Personal Budgets and one that stimulates the market for environmentally sustainable care services going forward. Alongside this the driver to deliver the Social Value Act 2012 which requires public bodies to consider how the services they commission and procure might improve the social and environmental well-being of the area, is to be borne in mind when procuring a case management system.

Potential suppliers were asked to ensure that their system complies with all future Social Care and Health legislation in accordance with London Borough of Havering's responsibilities.

Annex A:

Arcus Global Limited
Framework Number: RM1059
Azeus UK Limited
Framework Number: RM1059
Bramble Hub Limited
Framework Number: RM1032, RM1042, RM1050, RM1058, RM1059, RM1502
Capita Business Services Ltd
Framework Number: RM1042, RM1059
CareWorks Limited
Framework Number: RM1059
CIVICA UK Ltd
Framework Number: RM1042, RM1050, RM1058, RM1059, RM1063, RM1089
CloudBuy
Framework Number: RM1059
CORELOGIC Ltd
Framework Number: RM1059
IDOX Plc
Framework Number: RM1059
Liquidlogic Ltd
Framework Number: RM1059
OLM Systems Limited
Framework Number: RM1059
Open Sky Data Systems
Framework Number: RM1059
OXFORD COMPUTER CONSULTANTS Ltd
Framework Number: RM1059
Quickheart Limited
Framework Number: RM1059
SYSTEM ASSOCIATES Ltd
Framework Number: RM1059
Tribal Education Limited
Framework Number: RM1059

Annex B:

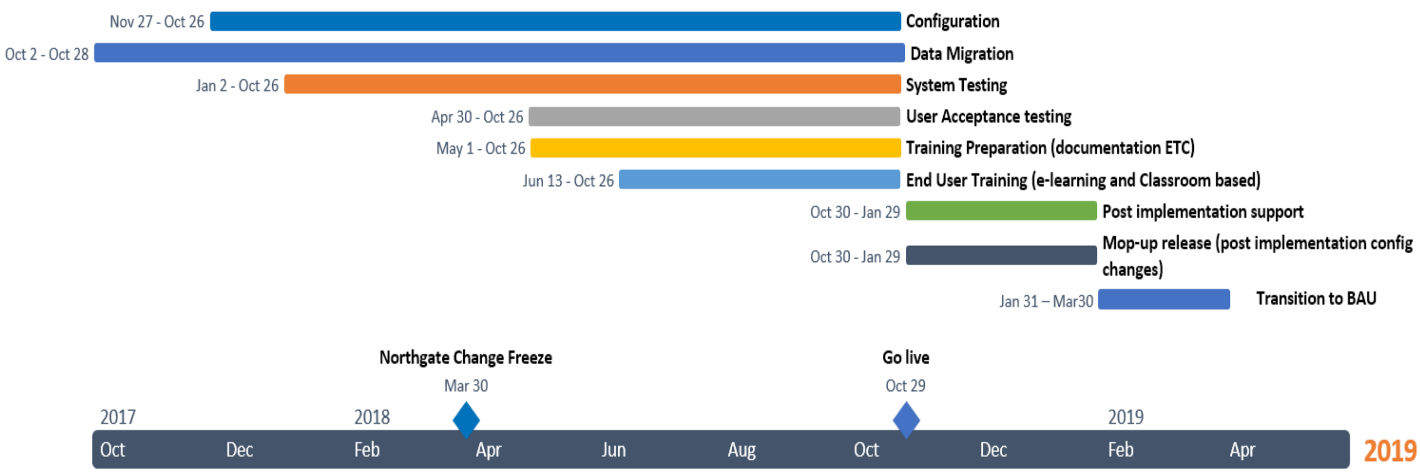
Resource plan to be inserted covering 2017/18 and 2018/19 financial year.

					Procurement Phase		Implementation Phase				Mop up Release	BAU Handover	Budget Requirement			Support Maintenance and Hosting 2019/24	
					2017/18				2018/19								
					Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter2	Quarter 3	Quarter 4	17/18	18/19	Total		Total
Quoted Supplier Costs					**£0.00**	**£0.00**	**£264,500.00**	**£35,000.00**	**£501,300.00**	**£111,000.00**	**£166,850.00**	**£0.00**	**£299,500.00**	**£779,150.00**	**£1,078,650.00**	£724,000.00	£1,802,650.00
Estimated Resource Costs	Programme Manager		External		£25,934.00	£49,139.50	£43,959.50	£44,785.00	£44,785.00	£44,785.00	£45,474.00	£44,096.00	**£163,818.00**	**£179,140.00**	£342,958.00		
Estimated Resource Costs	Adults BA		External		£15,805.00	£38,695.00	£34,335.00	£35,425.00	£35,425.00	£35,425.00	£34,880.00	£34,880.00	**£124,260.00**	**£140,610.00**	£264,870.00		
Estimated Resource Costs	Childrens BA		External		£20,710.00	£35,965.00	£34,335.00	£35,425.00	£35,425.00	£35,425.00	£34,880.00	£34,880.00	**£126,435.00**	**£140,610.00**	£267,045.00		
Estimated Resource Costs	Finance BA		External		£19,800.00	£43,450.00	£32,760.00	£33,800.00	£33,800.00	£33,800.00	£33,280.00	£0.00	**£129,810.00**	**£100,880.00**	£230,690.00		
Estimated Resource Costs	Data Migration Specialist Adult's & Children's		External		£0.00	£0.00	£27,950.00	£42,250.00	£42,250.00	£42,250.00	£41,600.00	£14,950.00	**£70,200.00**	**£141,050.00**	£211,250.00		
Estimated Resource Costs	Data Migration Specialist Finance		External		£0.00	£0.00	£27,950.00	£42,250.00	£42,250.00	£42,250.00	£41,600.00	£14,950.00	**£70,200.00**	**£141,050.00**	£211,250.00		
Estimated Resource Costs	Business Change Manager Adults		Internal	Internal	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	**£0.00**	**£0.00**	£0.00		
Estimated Resource Costs	Business Change Manager Childrens		Internal	Internal	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	**£0.00**	**£0.00**	£0.00		
Estimated Resource Costs	Business Change Manager Finance		Internal	Internal	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	**£0.00**	**£0.00**	£0.00		
Estimated Resource Costs	Adults SME		Internal	Internal	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	**£0.00**	**£0.00**	£0.00		
Estimated Resource Costs	Children's SME		Internal	Internal	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	**£0.00**	**£0.00**	£0.00		
Estimated Resource Costs	Finance SME		Internal	Internal	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	**£0.00**	**£0.00**	£0.00		
Estimated Resource Costs	Childrens Early help Sme		Internal	Internal	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	**£0.00**	**£0.00**	£0.00		
Estimated Resource Costs	Test Manager	one Source	Internal/External	Backfill	£0.00	£0.00	£0.00	£21,000.00	£31,500.00	£31,500.00	£10,500.00	£0.00	**£21,000.00**	**£73,500.00**	£94,500.00		
Estimated Resource Costs	Training Manager		Internal	Backfill	£0.00	£0.00	£0.00	£0.00	£21,000.00	£31,500.00	£21,000.00	£0.00	**£0.00**	**£73,500.00**	£73,500.00		
Estimated Resource Costs	Trainer 1/floorwalking		External		£0.00	£0.00	£0.00	£0.00	£0.00	£31,500.00	£31,500.00	£0.00	**£0.00**	**£63,000.00**	£63,000.00		
Estimated Resource Costs	Trainer 1/floorwalking		External		£0.00	£0.00	£0.00	£0.00	£0.00	£31,500.00	£31,500.00	£0.00	**£0.00**	**£63,000.00**	£63,000.00		
Estimated Resource Costs	Trainer 1/floorwalking		External		£0.00	£0.00	£0.00	£0.00	£0.00	£31,500.00	£31,500.00	£0.00	**£0.00**	**£63,000.00**	£63,000.00		
Estimated Resource Costs	Trainer 1/floorwalking		External		£0.00	£0.00	£0.00	£0.00	£0.00	£31,500.00	£31,500.00	£0.00	**£0.00**	**£63,000.00**	£63,000.00		
Estimated Resource Costs	Trainer 5		Internal	Backfill	£0.00	£0.00	£0.00	£0.00	£9,999.00	£9,999.00	£9,999.00	£9,999.00	**£0.00**	**£39,996.00**	£39,996.00		
Estimated Resource Costs	Trainer 6		Internal	Backfill	£0.00	£0.00	£0.00	£0.00	£9,999.00	£9,999.00	£9,999.00	£9,999.00	**£0.00**	**£39,996.00**	£39,996.00		
Estimated Resource Costs	System Configuration/Support Adults		Internal	Backfill	£0.00	£0.00	£0.00	£8,748.00	£8,748.00	£8,748.00	£8,748.00	£0.00	**£8,748.00**	**£26,244.00**	£34,992.00		
Estimated Resource Costs	System Configuration/Support Children's		Internal	Backfill	£0.00	£0.00	£0.00	£8,748.00	£8,748.00	£8,748.00	£8,748.00	£0.00	**£8,748.00**	**£26,244.00**	£34,992.00		
Estimated Resource Costs	System Configuration/Support Finance		Internal	Backfill	£0.00	£0.00	£0.00	£8,748.00	£8,748.00	£8,748.00	£8,748.00	£0.00	**£8,748.00**	**£26,244.00**	£34,992.00		
Estimated Resource Costs	Quality Assurance		Internal/External	Backfill	£0.00	£0.00	£166.65	£499.95	£499.95	£499.95	£166.65	£0.00	**£666.60**	**£1,166.55**	£1,833.15		
Estimated Resource Costs	ICT Project Manager	one Source	Internal	Backfill	£0.00	£0.00	£1,050.00	£3,150.00	£3,150.00	£3,150.00	£3,150.00	£1,050.00	**£4,200.00**	**£10,500.00**	£14,700.00		
Estimated Resource Costs	Reports Specialist Adults		Internal	Backfill	£0.00	£0.00	£0.00	£750.00	£5,625.00	£9,375.00	£11,250.00	£11,250.00	**£750.00**	**£37,500.00**	£38,250.00		
Estimated Resource Costs	Reports Specialist Children's		Internal	Backfill	£0.00	£0.00	£0.00	£750.00	£5,625.00	£9,375.00	£11,250.00	£11,250.00	**£750.00**	**£37,500.00**	£38,250.00		
Estimated Resource Costs	Reports Specialist Finance		Internal	Backfill	£0.00	£0.00	£0.00	£750.00	£5,625.00	£9,375.00	£11,250.00	£11,250.00	**£750.00**	**£37,500.00**	£38,250.00		
Estimated Resource Costs	Information Governance		Internal	Backfill	£0.00	£0.00	£333.30	£999.90	£999.90	£999.90	£999.90	£999.90	**£1,333.20**	**£3,999.60**	£5,332.80		
					£82,249.00	**£167,249.50**	**£467,339.45**	**£288,078.85**	**£855,501.85**	**£501,951.85**	**£473,522.55**	**£199,553.90**					
											Total Project Costs		£1,039,916.80	£2,308,380.15	£3,348,296.95	£724,000.00	

Annex C:

Social Care Programme Timeline (Implementation Phase Oct 17 – March 19) October 2017

NOTE:
This timeline will be subject to change and correction based upon the agreed deliverables and detailed planning with Liquidlogic



Annex D:

The following supporting documents are available on for review as required

Barking and Dagenham, Havering and Redbridge Local Digital Roadmap 2016/17 – 2020/21
Social Care Digital Maturity Self Assessment and summary documents • Havering Submission • Social Care Digital Maturity Self-Assessment Summary
Social Care Programme Scope Document
Full Outline Budget and Resource Plan (Draft)
Social Care Proposed Timeline

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Agenda Item 11

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 12

Document is Restricted

This page is intentionally left blank