



CABINET

PUBLIC AGENDA REPORT

13th February 2019

Subject Heading:

Rainham and Beam Park LLP Business Plan and Budget 2019/2020.

Cabinet Member:

Councillor Joshua Chapman, Lead Member for Housing

SLT Lead:

Neil Stubbings, Director of Regeneration

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Policy context:

Havering Housing Strategy 2014-17
National Planning Policy Framework 2012
Draft London Plan 2017
Emerging Havering Local Plan 2017
Rainham and Beam Park Housing Zone submission.
Rainham and Beam Park Housing Zone Overarching Borough Agreement with the GLA
Rainham and Beam Park Planning Framework 2016

Financial summary:

This report seeks Cabinet approval to the revised Overarching Business Plan proposed by the 'Rainham and Beam Park Regeneration LLP' for the period 2019/20. The report also seeks approval to set aside funds to allow a further site to be introduced during this planning period 2019-20. This is the first revision of the OABP following the establishment of the LLP in April 2018.

Subject to Cabinet approval of the recommendations of this report, the inclusion of the additional scheme will be included in the proposed capital programme to be considered as part of the 2019/20 budget process and will be

subject to approval of the Capital Programme and Treasury Management Strategy in February 2019.

The financial details are contained within the Exempt Agenda Report.

Yes

Is this a Key Decision?

(a) Expenditure or saving (including anticipated income) of £500,000 or more

When should this matter be reviewed?

Autumn 2019

Reviewing OSC:

Towns and Communities OSC

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

The Council's over-arching vision for setting up the Joint Venture (JV) was to stimulate the regeneration of a key area in the south of the borough characterised as the 'Rainham and Beam Park Housing Zone'. In March 2018 this Council entered into a joint venture Limited Liability Partnership (known as Rainham and Beam Park Regeneration LLP – "**RBPR**") with Notting Hill Commercial Properties (a subsidiary of Notting Hill Genesis) to deliver this vision.

Nine strategic sites along the A1306 have been identified that will require direct intervention to enable development that accords with the Council's overall Housing Zone objectives. With the Council's support, the LLP has now embarked on a programme to assemble these sites and to deliver their redevelopment.

To compliment this redevelopment the Council is delivering a programme to reconfigure the A1306 New Road and is supporting the GLA to deliver the new 'Beam Park' rail station. The adjacent scheme to transform New Plymouth and Napier Estates as part of the HRA 12 Estates housing transformation programme will also benefit from this activity.

Together these opportunities create a major opportunity to build a new strong sustainable community with its own identity and improved transport infrastructure.

Any returns to the Council are being committed to fund future regeneration programmes across the borough and help fund renewal of our cherished town centres across the borough at a time when the traditional high streets are under significant threat from changing consumer habits.

When the initial Overarching Business Plan (OABP) was agreed by Cabinet, this was on the basis that there would be regular (annual) reviews and Cabinet would be asked to agree material changes to the OABP on an annual basis. This is the first of those reviews.

This review has included an analysis of key inputs into the financial models provided by the LLP. These have been reviewed and externally validated. The key inputs are construction costs, expected sales revenues, land values plus other costs such as expectation on s106 payments. In addition, other changes such as total number of residential properties have been updated as the design and detailed planning process has moved on. This includes the impact of consultation and engagement events through the planning process.

The updated outputs of the financial models have also been analysed through the Council's own financial dashboards. This means that this report is able to inform Cabinet of any changes to the expected outputs from the LLP as well as informing

Cabinet of any changes in the financial position of the LLP and the Council's financial commitments to the LLP as a Member. This report not only informs Cabinet of changes but also seeks approval to the new Overarching Business Plan and the expected financial commitments.

The original decision to set up the LLP was informed, amongst other matters, by key indicators on programme viability and outputs. Those key indicators were: Overall % return, overall financial return, equity participation, impact on the MTFS from the cost of borrowing in the early years, total number of units and number of affordable housing units. These metrics are considered to be the key indicators to identify the viability, outputs and potential financial risks.

These key metrics as reported to Cabinet in the 2018/19 Overarching Business Plan are compared both to the numbers in this 2019/20 Business Plan and also the anticipated inclusion of an additional 'Opportunity Site' during 2019/20. The table also provides a brief explanation for any changes. Full details are contained within the Exempt Agenda Report.

Full details of the draft OABP for the period 2019-20 are contained within the Exempt Agenda Report.

As a result of the increase in housing delivery and costs associated with development land assembly, a revised financial model has been prepared. This model includes revised assumptions and identifies an increase in equity required to fund development before sales revenue.

The Cabinet is asked to approve the 2019-20 OABP, and plans to introduce additional sites noting the revised output of housing numbers and their contribution towards the Council's target for housing delivery, and the expected financial returns.

RECOMMENDATIONS

That Cabinet:

1. **Approve** the draft Rainham and Beam Park Regeneration Joint Venture LLP Overarching Business Plan 2019-20, full details of which are contained within the **Exempt Agenda Report**.
2. **Agree** that the Leader of the Council and Cabinet Member for Housing after consultation with the s151 Officer, the Chief Executive Officer and the Director of Legal and Governance, approve the finalised Overarching Business Plan 2019-20, and possible later incorporation of an additional site known as the 'Rainham Opportunity Site' as may be presented during the Business Plan 2019-20 period.

3. **Agree to Endorse and Recommend** to Council the budget allocation set out in this report to include the related site known as 'Rainham Opportunity Site' with the Rainham and Beam Park Regeneration Scheme.
4. **Agree** that the s151 Officer, after consultation with the Cabinet Member for Housing, responds to the service of any notice as described in Section 8.4 of this report, served by the Rainham and Beam Park Regeneration Joint Venture LLP, indicating a willingness or otherwise to participate in making third party debt available from the Council, subject to contract and due diligence.
5. **Agree** that the s151 Officer, after consultation with the Chief Executive and The Leader of the Council, may enter into funding agreements consistent with the Treasury Management Strategy and Council's Scheme of Delegation.
6. **Agree** the revised capital profile which brings forward £1.5m capital expenditure from 2019/20 to 2018/19.

REPORT DETAIL

1.0 Background

- 1.1 In December 2017 the Council agreed to appoint Notting Hill Housing Trust (now known as Notting Hill Genesis – "**NHG**") as the development partner to implement the first phases of housing delivery in the Rainham and Beam Park Housing Zone ("**The Housing Zone**"). In April 2018, following Cabinet approval, the Council entered into a joint venture Limited Liability Partnership (known as Rainham and Beam Park Regeneration LLP – "**RBPR**") with Notting Hill Commercial Properties (a subsidiary of NHG).
- 1.2 The Overarching Business Plan ("**OABP**") governs the commercial approach required to deliver the programme. It sets the performance thresholds and expected returns resulting from the JV delivering the sites subject of this Business Case.
- 1.3 The OABP is agreed annually. The scope of the first OABP was consistent with the scope for land assembly required to deliver the 9 sites referred to in this report.
- 1.4 The OABP sets the parameters within which schemes are considered 'viable'. The JV will only deliver schemes subject to its Members agreeing viability.

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- 1.5 Viability is determined through a Gateway process that will, amongst other matters, identify that schemes can deliver a minimum threshold of profitability on development value of market homes.
- 1.6 The first OABP for RBPR followed Cabinet approval in December 2017 and then Executive Decision prior to various contract agreements being entered into on 29th March 2018. The contract agreements, specifically the Members Agreement, require that the OABP is reviewed at least annually. RBPR has completed its review of their OABP to suit this requirement and the Council's annual budget cycle and governance requirements.
- 1.7 The OABP review covers the 9 Strategic Housing Sites identified for the development of at least 774 new housing units (including an aspiration to deliver 35% Affordable units) in the baseline OABP (the plan of sites is included within the Exempt Agenda Report).
- 1.8 Assumptions used in the site Development Appraisals and financial models have been reviewed and updated for the 2019-20 OABP. Those assumptions that are changed are reviewed in this report. Each of these assumptions has been subject to close review and it is determined, following professional advice, that these currently reflect figures representative of the current market or which are representative of uplift in land value and house prices, land values and construction pricing achievable following a plan for comprehensive regeneration.
- 1.9 Site proposal densities have also been updated; as sites pass through the planning process both with the Council and with the Greater London Authority ("GLA") this has resulted in an increase in proposed housing units from the 9 Strategic Sites to at least 866 housing units (including 35% Affordable units).
- 1.10 During the 2018/19 period the LLP has been investigating additional sites to bring forward for housing and mixed-use development consistent with the aims and objectives of the LLP. It is proposed that (subject to RBPR member consent) a Council owned 'site (to be known as 'Rainham Opportunity Site') is brought into the RBPR development programme which would increase total housing units to 1,042 (35% Affordable units). During the remaining part of the 2018/19 period and in 2019/20 the LLP also propose to investigate additional sites to bring forward and an additional budget is proposed in the revised OABP to fund the review of potential opportunities.

2.0 Progress

- 2.1 The programme to obtain outline planning consent for each strategic site is also progressing.

Nine outline applications have been made and six of these have been approved. Of the remaining three, one has been held back whilst the terms

for the re-provision of a community facility are settled. The remaining two, because of their scale, have been subject to some scrutiny by the GLA. Following comments these schemes are expected to be re-submitted early in 2019.

- 2.2 During this period the assembly of land required for the development has been the LLP's primary focus. The strategic sites remain in the fragmented ownership set out in previous reports.
- 2.3 With the support of this Council, NHG continue to assemble land by private treaty for the LLP. To date, one freehold plot has been acquired and terms are agreed and progressing towards contract on 10 plots. Negotiations over terms are in hand with a further 29 interests.
- 2.4 Some plots are in the ownership of Transport for London and terms for the acquisition of these sites are significantly progressed.
- 2.5 There remain a number of plots where value expectations have been excessive or where discussions have stalled for other reasons. For this reason plans for the Compulsory Purchase continue and these were considered in October 2018 by Cabinet.

3.0 Scheme Review

- 3.1 The revised OABP still anticipates that the 'Redline' Scheme will be developed in a total of eight phases and remains in keeping with the timetable envisaged by the Housing Zone proposals agreed with GLA and generally in accordance with the Commercial Business Case.
- 3.2 The final sequencing of site delivery will remain dependent upon the timing of site acquisition and assembly and this is now in hand. Earlier phases may be able to commence in mid-2019. Subsequent phases of development on comprehensive sites may require the completion of land assembly using CPO powers and these will commence following confirmation of the Order by the Secretary of State and following due process.

4.0 Financial Review

- 4.1 The business case assumptions have been reviewed and updated to both to reflect anticipated economic conditions and also the anticipated increase in housing numbers and sequencing of land assembly. The key outcomes are summarised in Movement Tables and Finance Dashboards. Full details are contained within the Exempt Agenda Report and Appendices.

5.0 Additional Sites

- 5.1 Full details of additional sites that the LLP has been investigating are contained within the Exempt Agenda Report.

REASONS AND OPTIONS

6.0 Reasons for the decision

- 6.1 To incorporate revised assumptions and an updated programme into the Overarching Business Plan for the period 2019-20.
- 6.2 To continue to secure the Council's regeneration objectives for the Rainham and Beam Park Housing Zone
- 6.3 To include an additional site to facilitate further housing delivery including affordable new affordable homes
- 6.4 **Other options considered:**
- 6.5 When the Council entered into the LLP in March 2018, consequent to the decisions made in December 2017 and March 2018, a number of commitments were made. One of these was to provide funding and this was incorporated in the capital programme by Council on 21 February 2018, which approved capital budgets from April 2018.
- 6.6 The funding requirement was scoped in the 2018-19 OABP which the LLP adopted soon after it was established. The budget for investment expenditure was approved by Full Council in February 2018 with effect from April 2018. The adoption of the proposed revision to the OABP is a 'Member Consent Matter'. Without the Council's approval, as a 'Member' of the LLP, the revised OABP could not be adopted and the current OABP would be maintained.
- 6.7 Not approving the revised OABP may have a negative impact on NHG's ability to continue funding land acquisition which in turn will have implications with delivery targets including affordable housing delivery and achieving targets agreed with GLA in the Overarching Borough Intervention Agreements.
- 6.8 Not adopting the revised OABP may also give rise to negative market sentiment with a consequential impact on the wider development market that this scheme would otherwise seek to stimulate.

IMPLICATIONS AND RISKS

7.0 The key risks can be summarised as follows:

7.1 The principle risks in the project are as follows:

- i. **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.
- ii. **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 JVLLP, and taking a share of the development risk in the project. These risks would include the normal development risks, such as JVLLP 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 JVLLP. The extent of investment is identified and discussed within Section 8 of this report. Also, the decision making and business planning structure of the JVLLP enables the Council to participate in decisions at both board and corporate member level.

7.2 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.

7.3 Overall, the prospect of realising the outcomes for the regeneration scheme will remain subject to numerous different factors beyond the LLP's control, ranging from local, regional and national asset price and demand fluctuations to the wider macro-economic forces such as volatility in interest rates, the value of the pound and the availability of credit and mortgages. The present macroeconomic uncertainty surrounding Brexit negotiations are extraordinary circumstances which may continue to affect consumer sentiment and investment appetite for some time.

7.4 The impact of wider macro-economic factors as well as local and regional drivers of pricing and demand for the developments arising from this regeneration programme will continue to be monitored on an on-going basis by the Joint Venture Board, and the assumptions underpinning the financial model and related viability appraisals will be subject to continued scrutiny.

A detailed Risk Register from the LLP is attached at within the OABP full details of which are contained in the **Exempt Agenda Report**.

8.0 Financial Implications and Budget

8.1 LBH General Fund

8.2 Full details of the Council's capital investment in the scheme are contained within the Exempt Agenda Report.

8.3 Compulsory Purchase Order

8.4 Notting Hill Genesis will continue to acquire the properties on behalf of the JVLLP by negotiation. If this is not possible, it may be necessary to acquire properties by use of the Council's CPO powers. The JV LLP has provided an indemnity to meet the Council's costs and the making of the CPO was approved by Cabinet on the 10th October 2018.

8.5 As the Council would potentially need to purchase properties acquired under a CPO, there remains the need for a sum included within the Council capital programme to cover this eventuality.

8.6 Capital Programme

Full details of the proposed Capital Programme are contained with the Exempt Agenda Report.

8.6.1 The capital budget and financing required by RBPR LLP exceeds the available approved budget. Further, given that RBPR LLP requires revenue budget support over the initial 5 years of the scheme these longer term financing matters need to be referred for consideration as part of the development of the wider capital programme and revenue budget. Reports on the Council's capital programme and revenue budget can be found elsewhere on this Cabinet agenda and address these financial requirements. Should those reports be agreed, they will then be passed to Full Council for final sign off at the end of February.

8.6.2 Due to limited capital resources from capital receipts, the Council will need finance additional capital expenditure on this scale through borrowing. The capital financing costs associated with repayment of debt (the Minimum Revenue Provision or MRP) and interest will be charged to the General Fund revenue budget in accordance with statutory capital financing regulations and the accounting code of practice. The capital financing costs associated with the required capital expenditure are included in the financial modelling of the proposals.

8.7 LBH Treasury

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- 8.7.1 The Treasury Management Strategy also needs to be updated to incorporate the increased spending profile of this JV, and other economic development schemes.
- 8.7.2 The Treasury Management Strategy can also be found elsewhere on this Cabinet agenda and is in line with the development of the Capital Programme to ensure that the Council's long term capital investment plans are robust, affordable and represent value for money. The Treasury Management Strategy will also need to be reported for approval by Full Council at the end of February 2019.

9.0 Legal implications and risks

- 9.1 The initial Business Plan in its agreed form was adopted by the Rainham and Beam Park Regeneration LLP on 29 March 2018. Annual review of the Business for the JV is pursuant to clause 16 of the Members Agreement dated 29 March 2018, and approving persons shall use all endeavours to seek to agree such draft Business Plan, in accordance with procedure set out in the Members Agreement. Once agreed the further Business Plan shall replace the then current Business Plan as the formal Business Plan adopted by the Rainham and Beam Park Regeneration LLP.
- 9.2 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.
- 9.3 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. 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.
- 9.4 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.
- 9.5 Regulation 2(4) of the Local Government (Best Value Authorities) (Power to Trade)(England) Order 2009 ("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

9.6 Before approving the proposed 2019-20 Overarching Business Plan Members should satisfy themselves that the document and its appendices) contain the relevant information required by the Order (see paragraph 8.5 above). The Leader of the Council after consultation with 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.

10.0 Equalities Implications and risks

10.1 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 protected characteristics and those who do not, 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, marriage and civil partnerships, 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.

10.2 The wider equality implications associated with the Rainham and Beam Park Regeneration JVLLP are addressed in the 13th December 2017 Cabinet report - Rainham and Beam Park Housing Zone - Appointment of a Joint Venture Development Partner.

10.3 The Rainham and Beam Park Housing Zone will unlock significant investment for housing – both market and affordable – and enable key infrastructure in South Hornchurch and Rainham and Wennington Wards which are among the most deprived in the Borough and London.

10.4 The allocation of affordable housing would be subject to the Council’s Allocation Scheme and any local lettings policies that would be drawn up to promote Rainham and South Hornchurch residents’ interests. Thus, delivery of affordable housing would benefit some of the borough’s most disadvantaged residents. The new homes built would include a proportion of homes built to lifetime homes and disabled living standards.

10.5 Investment in new transport, schools and leisure facilities would ensure that those living in the south of the borough benefit from improvements in

amenities without needing to travel to other parts of the borough, incurring costs and inconvenience.

- 10.6 The needs of disabled people and carers will be an integral feature of housing stock, allocation and lettings policies. No 'protected' group will be disadvantaged by the developments; however, where there is the possibility of a negative impact, a full Equality Impact Assessment will be carried out.
- 10.7 An initial Equalities Impact Assessment (EqIA) in support of the CPO / Land Acquisition Strategy has been prepared for the Council by external consultants Mott Macdonald. This will now be finalised and any recommendations implemented prior to the CPO being made.

11.0 Human Resources implications and risks

- 11.1 The Rainham JVLLP project will require continued involvement of officers from the Regeneration Directorate and other Council services. The Rainham and Beam Park Housing Zone forms part of the Council's overall regeneration programme and a separate report setting out the Director of Neighbourhood Services' proposed arrangements was presented to Cabinet in January 2017.

BACKGROUND PAPERS

None