



CABINET

PUBLIC AGENDA REPORT

13th February 2019

Subject Heading:

Bridge Close Regeneration LLP Business Plan and Budget 2019/2020

Cabinet Member:

Councillor Robert Benham, Deputy Leader of the Council

SLT Lead:

Neil Stubbings
Director of Regeneration

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Policy context:

National Planning Policy Framework 2012

London Plan 2011 and Draft London Plan 2019 - 2041

Havering Local Development Framework and Romford Area Action Plan 2008

Havering Housing Strategy 2014 – 2017

Romford Development Framework 2015

Emerging Havering Local Plan 2017

Greater London Authority Overarching Borough Agreement

Greater London Authority Borough Intervention Agreement

Bridge Close – Entering into a Limited Liability Partnership (Cabinet, 15 November 2017)

Bridge Close, Finalisation of Legal Agreements to enter into a Limited Liability Partnership – Executive Decision March

2018

Financial summary:

This report presents an update to the Bridge Close Regeneration LLP (the “Joint Venture”) Business Plan 2018 comprised in the legal agreements of the limited liability partnership pursuant to Cabinet decision on 15th November 2017.

The financial details are contained within Exempt Agenda Report.

Is this a Key Decision?

Yes

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

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

SUMMARY

In November 2017 Cabinet approved a Limited Liability Partnership for the purpose of meeting the Council's regeneration objectives for Bridge Close. In addition authority was granted to enter into a number of legal agreements, including a Members' Agreement, and to approve the first Initial Business Plan of the Joint Venture on behalf of the Council.

In February 2018, the Council approved the capital budget underpinning the Council's equity investment and CPO land assembly budget to facilitate the delivery of the project. On 4 April 2018, the legal agreements were agreed, enshrining the vision and objectives for the project into the legal documents as well as providing the governance and management frameworks for the establishment and operation of the Bridge Close Regeneration LLP ("the Joint Venture"). Forming part of the legal agreements, the initial Business Plan set out a comprehensive suite of strategies and work streams, a programme and the budgets as well as the financing and expected returns relating to the delivery of the vision and objectives for the development.

The council's over-arching vision for setting up the Joint Venture was to facilitate the regeneration of a key area of the borough to kick-start renewal of key town centres and estates and deliver truly affordable homes for local people. In addition it would ensure good quality design of buildings and places by being a joint owner of the development company, thus giving greater control than reliance on the planning process and ensure delivery of key infrastructure requirements. Any returns to the council are being identified 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 original Initial Business Plan 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 business plan on an annual basis, in line with the annual budget setting process. This is the first of those reviews.

The key inputs into the financial models 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 and CIL payments. In addition, other changes such as total number of residential properties, bedroom size mix, areas of non-residential use have been updated as the design and planning process proceeds. This includes the inclusion of the impact of consultation and engagement events through the planning process.

The updating of these numbers in the viability models and then into the Council's financial dashboards means that this report is able to inform cabinet of any changes to the expected outputs from the Joint Venture as well as informing Cabinet of any changes in the financial position of the JV and our financial commitments to the Joint Venture as an investor. This report not only informs Cabinet of changes but also seeks approval of the new Business Plan and the expected financial commitments.

The original decision to set up the Joint Venture was informed by key indicators on the viability and outputs. Those key indicators were: Overall % return, Overall financial return, initial stake (Equity: borrowing and land value), impact on the MTFS from the cost of borrowing in the early years, total number of units, number of affordable housing units. These metrics are considered to be the key indicators to identify the viability, outputs and potential financial risks.

The details are contained as a table in the Exempt Agenda Report summary.

The main body of the reports provides significantly more detail along with additional indicators and outputs to help inform Cabinet on progress and risk management for the project. Detailed financial information and related implications are contained in section 6 and the Bridge Close Regeneration LLP revised Initial Business Plan included in the Exempt Agenda Report.

Cabinet is asked to agree the Bridge Close Regeneration LLP Business Plan 2019, noting the significant regeneration for Romford town centre, the contribution towards Havering's target for housing delivery, and the expected financial returns anticipated in the plan. Cabinet is also asked to grant authority to the Director of Regeneration Programme Delivery to negotiate and agree heads of terms ('Off-take Agreements') to acquire a new primary school, a health hub and affordable housing units as well as approve for inclusion in the capital programme an appropriate budget for doing so.

RECOMMENDATIONS

That Cabinet:

1. **Agree** the Bridge Close Regeneration LLP Business Plan 2019, as attached at Appendix A.
2. **Agree** that the Leader of the Council, after consultation with the S151 Officer, the Director of Regeneration and the Director of Legal and Governance, approve detailed business cases, related viability assessments, funding arrangements and legal agreements as may be presented during the Business Plan 2019 period.
3. **Agree** to Endorse and Recommend to Council budget allocation to include £111.7 million within the proposed capital programme.
4. **Agree**, in the event of approval of 2 and 3 above, to delegate to the Director of Regeneration, after consultation with the S151 Officer and the Director of Legal and Governance, the authority to take all steps to enable the approval of the terms of the agreements associated with the Council's acquisition of interests from Bridge Close Regeneration LLP relating to a new primary school, a health hub and affordable housing, including any related financial arrangements and the appointment of relevant professionals.
5. **Agree** in principle for the Council to facilitate third party lending of debt to the Bridge Close Regeneration LLP.
6. **Agree**, in the event of approval of 5 above, that the s151 Officer responds to the service of any notice served by the Bridge Close Regeneration LLP, indicating a willingness or otherwise to participate in making third party debt available from the Council, subject to contract and due diligence.
7. **Agree**, in the event of approval of 5 above, 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 Councils Scheme of Delegations.

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 in Romford.
- 1.2 The Initial Business Plan, forming part of the legal agreements adopted in April 2018, sets out a suite of strategies, plans, work streams and activities designed to give effect to the implementation the Objectives of the Joint Venture.
- 1.3 Amendments to the Initial Business Plan for the year 2019 have been approved by the Nominees of FB BCR LLP. For further details, please refer to the Bridge Close Regeneration LLP Initial Business Plan Version 3 of 12th December, 2018 enclosed at Appendix A. The details of these changes are included in the exempt agenda part of this report due to the commercially sensitive nature of the information.
- 1.4 The objectives of the project as set out in the Initial Business Plan are the following:
 - i. To undertake the regeneration of Bridge Close, by way of housing development and other ancillary beneficial development, for the benefit of the Borough and its residents
 - ii. To secure wider social and economic benefits (including employment opportunities) for the benefit of existing and new residents of the Borough
 - iii. To incorporate land belonging to other occupiers and owners, both public and private sector, into the development
 - iv. To achieve a commercially acceptable return for the benefit of the JV and its Members.
- 1.5 In pursuing these objectives through the Joint Venture, the Council aims to ensure the following:
 - i. A comprehensive development, which delivers infrastructure for the residents of the new development and for the whole of Romford
 - ii. 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)
 - iii. A greater influence and control over support given to businesses, community groups and residents displaced or seeking relocation.

- 1.6 The development will regenerate and transform a key part of Romford town centre, delivering a comprehensive development, comprising all of the following:
- 1,070 new homes (incl. a minimum of 30% affordable homes)
 - A 3 form entry primary school
 - A local health facility
 - Commercial floor space
 - Improved east-west links, including a new pedestrian and cycle bridge
 - Environmental improvements to the River Rom
- 1.7 Save for minor proportional changes as a result in an increase in floor area dedicated to office/work space, and the potential inclusion of the Havering Islamic Cultural Centre within the development, the scope of uses and quantum of development has remained unchanged since the adoption of the Initial Business Plan in April 2018.
- 1.8 Going forward, the Joint Venture may consider the opportunity to allocate a proportion of the residential units for Private Rented Sector (PRS) properties. Any PRS offer identified will be progressed under the assumption that it will be considered by Mercury Land Holdings Limited in the first instance.

2 Progress

- 2.1 Since establishment the Joint Venture has progressed activity in the following key areas:
- i. Land assembly
 - ii. Design Development
 - iii. Planning and Consultation
- 2.2 The above reflect the early pre-application planning stage the Joint Venture is at. As the Joint Venture progresses, further activity relating to contractor procurement, financing, construction, sales and leasing as well as estate management, amongst others, will form an integrated part of day-to-day activity.
- 2.3 Land assembly is undertaken in accordance with the Land Acquisition Strategy forming part of the Initial Business Plan.
- 2.4 The Council and the Joint Venture have successfully met and engaged with all owners of residential interests and the great majority of owners of commercial property on Bridge Close. Of the commercial property owners just under two thirds have instructed valuations and the Joint Venture has progressed detailed negotiations with a number of these.

- 2.5 In November 2018 the Cabinet resolved to approve the acquisition of all remaining interests not in Council or Joint Venture ownership to be used as temporary accommodation until such time as they may be required by the Joint Venture. Further to ratification by full Council in January 2019, a programme of communication and engagement will be initiated to progress private treaty discussions.
- 2.6 The potential use of the Council's Compulsory Purchase Order (CPO) powers continues to form part of the Council's land assembly strategy as a means of last resort in circumstances where private treaty discussions do not deliver the anticipated outcomes.
- 2.7 In relation to design development, since establishment the Joint Venture has undertaken a design competition and procurement of two leading firms of architects to join the team under the leadership of previously appointed master planning architects to the Joint Venture.
- 2.8 Development of the masterplan continues to progress, within the parameters agreed with the Council as client for development, including height, density and massing strategies.
- 2.9 To underpin the design development, an extensive programme of consultation is underway. Commencing in September 2018, two Public Consultation events have been held to engage with the local community. Public Consultation will continue in 2019 to inform emerging master planning, detailed design, landscaping and wider place making activity.
- 2.10 Led by the local planning authority, a Quality Review Panel of external urban design experts has been established to inform the place making qualities of the emerging masterplan and designs.
- 2.11 In close consultation with the Cabinet and other stakeholders, it is anticipated that a planning application will be submitted in Spring/Summer 2019.

3 Scheme Review

- 3.1 The table below sets out the anticipated dates as at December 2018 for each of the key programme milestone in the Initial Business Plan.

Milestone	Anticipated Date
<ul style="list-style-type: none"> Cabinet approval to establish a Joint Venture Limited Liability Partnership. 	November 2017
<ul style="list-style-type: none"> Council approval of Capital funding 	February 2018
<ul style="list-style-type: none"> Completion of legal agreements including Joint Venture Business Plan 	April 2018

• Submission of 1st planning application	Spring/Summer 2019
• Cabinet approval of Compulsory Purchase Order resolution	Summer 2019
• Determination of 1 st planning application	Autumn 2019
• Potential Contractor Start on Site	Winter 2021
• First Homes Completed Phase 1	Autumn 2023
• Phase 1 Final Sales Completions	Autumn 2024
• Determination of Phase 2 Reserved Matters	Summer 2021
• Potential Contractor Start on Site on Phase 2	Quarter 1 2022
• First Homes Completed Phase 2	Quarter 4 2024
• Phase 2 Final Sales Completions	Quarter 3 2025
• Determination of Phase 3 Reserved Matters	Quarter 1 2023
• Potential Contractor Start on Site on Phase 3	Quarter 3 2023
• First Homes Completed Phase 3	Quarter 2 2026
• Phase 3 Final Sales Completions	Quarter 2 2027

- 3.2 The implementation of the programme is subject to the successful assembly of the remaining residential and commercial interests on site. As such the Potential Start on Site assumes vacant possession and draw down of land assets further to negotiation by private treaty for an initial first phase, comprising new homes and a new primary school. In circumstances where the Joint Venture may rely on the Council invoking its CPO powers, land assembly may take longer, prompting an anticipated start on site in April 2021 with a commensurate shift in subsequent programme milestones to follow. The impact on the programme may be mitigated through continued constructive engagement, expeditious assembly and flexible phasing of development activity.
- 3.3 The project programme, including public engagement and consultation, will be monitored and reviewed regularly through both the Council's and the Joint Venture's governance arrangements as set out in the Initial Business Plan.
- 3.4 The Council's involvement in the decision making of the Joint Venture provides the ability to ensure that the delivery of social infrastructure is a prime objective of the Joint Venture.
- 3.5 As such, whilst the development is currently unable to support the level of affordable housing provision anticipated by the Mayor of London, the Council anticipates investing resources from the Housing Revenue Account

(HRA) to increase the level of affordable housing provision to a minimum of 30%. Financial provision for the provision of affordable housing for rent has been made in the Housing Revenue Account business plan agreed by Council in February 2018.

- 3.6 The Council will also acquire a new 3 form entry primary school from the Joint Venture. The Council will fund the acquisition of the school from the Basic Needs Grant allocated by the Department for Education and Skills and through own resources, including borrowing and where possible from S106 contributions.
- 3.7 In addition, in order to meet potential rising demand for primary health services in Romford, the Council is in discussions with Havering Clinical Commissioning Group (CCG) to facilitate the delivery of a Primary and Community Care Hub on Bridge Close in accordance with the Havering Primary Care Infrastructure Capacity Plan. This Cabinet paper proposes the Council allocate sufficient capital to procure the health hub from the Joint Venture. A lease granted to an appropriate primary and community care provider is anticipated to provide a recurring revenue stream to the Council.
- 3.8 The greening of the River Rom and increasing bio-diversity within the Romford ring-road will also play a vital part of infrastructure provision.

4 Financial Review

- 4.1 The business case assumptions have been reviewed and updated both to reflect anticipated economic conditions and development in key appraisal parameters, having regard to the early stage of development and the pre-planning concept stage at which masterplans and design development are being progressed.
- 4.2 The financial details are contained within the Exempt Agenda Report.

REASONS AND OPTIONS

5 Reasons for the Decision

- 5.1 The Joint Venture continues to provide the best means of ensuring the delivery of the Council's regeneration objectives for the site rather than relying solely on the Council's role as planning authority and its land assembly powers.

- 5.2 Approval of the Bridge Close Business Plan 2019 and continued support for the Joint Venture will enable a planning submission to be brought forward in anticipation of the development of much needed housing and a primary school as part on the initial phase.

Other options considered

- 5.3 A detailed appraisal of options was undertaken in the 15 November 2017 Cabinet Report, "Bridge Close – Entering into a Limited Liability Partnership". Detailed appraisal of the project's viability and deliverability continues to inform the Council's strategy for delivering regeneration at Bridge Close. Alternatives that have been considered for this Cabinet report include:

- Not approving the proposed business plan

- 5.4 The adoption of the Business Plan is a consent matter. Without the Council's approval, as Member of the Joint Venture, the revised Initial Business Plan would not be adopted and the current Initial Business Plan would be maintained.

- 5.5 Not adopting the revised Initial Business Plan may also potentially give rise to negative market sentiment with potential consequences for the wider development market that this scheme would otherwise seek to stimulate.

- 5.6 Finally, the Initial Business Plan provides the operational framework for management of the Joint Venture and by not adopting the Business Plan, the following would be undermined:

- Ensuring a comprehensive development
- Management of design and management standards
- Ensuring delivery of much needed housing and other infrastructure
- Meeting programme deadlines
- Minimising investment and risk
- Obtaining a financial return from the scheme

IMPLICATIONS AND RISKS

6 Financial implications and risks

- 6.1 The report seeks Cabinet approval in principle to make provision for capital expenditure in the Joint Venture to deliver the regeneration of Bridge Close, including a 3 form entry primary school and a health centre.

- 6.2 Further details of the Council's proposed investment in the Joint Venture are set out in the exempt part of this report due to the commercially sensitive nature of the information.
- 6.3 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 2019/20 budget process and will be subject to approval of the Capital Programme and Treasury Management Strategy in February 2019.

7 Legal implications and risks

- 7.1 The Initial Business Plan in its agreed form was adopted by the Bridge Close Regeneration LLP on 4th April 2017. Annual review of the Business for the JV is pursuant to clause 16 of the Members Agreement dated 4th April 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 Bridge Close Regeneration LLP.
- 7.2 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.
- 7.3 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.
- 7.4 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.
- 7.5 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

7.6 The Business Plan amongst other matters shall in accordance with clause 6,0 of the Members' Agreement identify the envisaged funding requirements of the JV including in respect of land acquisition cost and planning and loan commitments. Member contributions are paid either through cash investments or land and receipt/ monitoring of such payments is through the issue of loan notes in accordance with the process established within the Members Agreement. The Business Plan and hence this report, identifies funding and at the time advice must be sought in respect of matters such as State Aid and Best Value.

7.7 Before approving the Business Case Members should satisfy themselves that the document and its appendices contain the relevant information required by the Order (see section 7.5 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 their due diligence includes compliance with the requirements of the Order.

8 Human Resources implications and risks:

8.1 The Bridge Close Regeneration project forms part of the Council's overall regeneration programme and requires continued involvement of officers from the Regeneration Programme Delivery team and other Council services. Provision of Council services by existing staff to the Bridge Close Regeneration LLP is set out in the Council Services Agreement and is subject to the payment of a monthly fee.

8.2 It is not anticipated that the update to and approval of the Bridge Close Regeneration LLP Business Plan 2019 will have any adverse human resources implications or risks.

9 Equalities implications and risks:

9.1 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.

- 9.2 The Equality Impact Assessment for Bridge Close, reported to Cabinet in November 2017, 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.
- 9.3 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.
- 9.4 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.
- 9.5 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.

- 9.6 Further to a review officers consider the existing Equality Impact Assessment for Bridge Close continues to be of relevance to the project and for the purpose of seeking the agreement by Cabinet of the Bridge Close Regeneration LLP revised Initial Business Plan 2018.

BACKGROUND PAPERS

None