



CABINET

16th December, 2020

Subject Heading:

Bridge Close Regeneration - Funding Arrangements

Cabinet Member:

Councillor Damian White

SLT Lead:

Neil Stubbings
Director of Regeneration

Report Author and contact details:

Nick Gyring-Nielsen
Senior Regeneration Manager
nick.gyring-nielsen@haverling.gov.uk

Policy context:

The Council has entered into a joint venture, Bridge Close Regeneration LLP ("BCR LLP"), to deliver the regeneration of Bridge Close, Romford pursuant to the Council's ambitions for regeneration as set out in the Local Plan, the Romford Area Action Plan (2008), the Romford Town Centre Development Framework (2015) and the emerging Romford Masterplan and new Local Plan (awaiting adoption). Decisions relating to the establishment and funding of BCR LLP are as follows:

Bridge Close Regeneration LLP Business Plan 2019/2020 (Cabinet, 13 February 2019)
Bridge Close, Finalisation of Legal Agreements to enter into a Limited Liability Partnership – Executive Decision March 2018
Bridge Close – Entering into a Limited Liability Partnership (Cabinet, 15 November 2017)

Financial summary:

The Council has made provision in the financial year 2020/2021 to provide funding for the Council's share of equity to meet financial commitments arising from the operation of Bridge Close LLP (BCR LLP) in accordance with the project documents and Business Plan 19/20 approved by Cabinet in February 2019.

This report outlines a revised approach to funding Bridge Close, following the consideration of options set out in the exempt part of the 16th September Cabinet agenda.

Is this a Key Decision?

This is a key decision because the expenditure exceeds £500,000.

When should this matter be reviewed?

November 2021

Reviewing OSC:

Overview & Scrutiny Board
Town & 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

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SUMMARY

- 1.0 On 16th September 2020, Cabinet considered and approved a report concerning the regeneration of Bridge Close. Amongst other things Cabinet Agreed that authority be given for the Director of Regeneration, acting in consultation with the Director of Housing, the Monitoring Officer and the Section 151 Officer, to complete the review of options for the long term-funding and delivery of the regeneration of Bridge Close, and to produce a further report for Cabinet consideration. The Minute setting out the approved recommendations relating to the September consideration of a report on Bridge Close is provided at Appendix A (attached).
- 1.1 The Council has entered into a joint venture, Bridge Close Regeneration LLP ('the Joint Venture or JV') with a private sector partner, FB BCR LLP ('Private Sector Partner' or 'PSP'), to bring forward the proposed regeneration of Bridge Close. This was approved by Cabinet on the 15th November 2017. In February 2018, the Council approved the capital budget and on 4th April 2018, the legal agreements were agreed for the establishment and operation of the Joint Venture with the Private Sector Partner. The Private Sector Partner, FB BCR LLP, is itself a joint venture between First Base Limited and Savills Investment Management Limited.
- 1.2 The Council's over-arching vision for setting up the Joint Venture was to facilitate the regeneration of a strategic area of Romford as part of a wider initiative to invest in the renewal of key town centres and estates in order to deliver truly affordable homes for local people and to benefit from the generation of social value, including jobs, apprenticeships and increased local spend. A further objective for setting up the Joint Venture was to facilitate the delivery of high-quality public realm, design and wider place-making, with the scale and quantum of development to serve as a beacon for wider development and regeneration activity within the town centre.
- 1.3 Recognising the strategic importance of the regeneration of Bridge Close within the Romford context, the Joint Venture was set up to transform an underutilised brownfield site (see Plan at Appendix B) into a vibrant new community, working in partnership with the Private Sector Partner to assemble the land, via private treaty negotiations wherever possible but using the Council's Compulsory Purchase Order ('CPO') powers if necessary and appropriate, and to develop a masterplan and design proposals for the following:
- 1,070 new homes (incl. a minimum of 30% affordable homes)
 - A 3-form entry primary school
 - Cultural space
 - A local health facility
 - Commercial floor space
 - Improved east-west links, including a new pedestrian and cycle bridge
 - Environmental improvements to the River Rom.
- 1.4 In February, 2019 Cabinet approved the revised Bridge Close Regeneration LLP Business Plan 2019-2020 ('the Business Plan'), noting the significant regeneration opportunity for Romford town centre, the contribution towards Havering's target for housing delivery, and the expected financial returns anticipated in the plan. At that time, the Joint Venture profit on cost was forecast at 8.5% across all phases, down from the 10.9% expected in 2018 on establishment which was due to a slowing of the

housing market and increased forecast costs associated with design changes. Anticipating a profit on cost for phase one to accord with third party debt provider requirements on the back of improving housing market conditions over time, the Joint Venture partners agreed to continue investing in the regeneration of Bridge Close, progressing design proposals and the planning application whilst monitoring market conditions.

- 1.5 In light of continued stagnation in the housing market and increased costs, a number of strategies were proposed by the Development Manager, which were unable to overcome the challenges to viability or, without further intervention, to generate the returns necessary to meet the hurdle rates of the PSP as investor and the potential requirements of third party funders. Given this, the Private Sector Partner, led by Savills Investment Management, advised that it was unwilling to raise further funds beyond the present funding commitment set out in the approved Business Plan until viability was resolved. This created some issues in advancing the regeneration scheme in the way that Cabinet had previously agreed.
- 1.6 In view of the practical difficulties of implementing the JV Business Plan, and being mindful of the Council's commitment to bringing about a comprehensive redevelopment of Bridge Close, the Council has been considering potential ways of moving forward. As part of this assessment, the Council examined the terms under which the interests held by the PSP could be acquired by the Council. These discussions resulted in 'in-principle' terms being agreed with the PSP. The proposed acquisition was subsequently approved by Cabinet on 16th September 2020, enabling the Council to obtain control of the JV and to benefit from the continuation of existing land assembly arrangements, existing contracts with the professional team, intellectual property rights and land interests. Further to undertaking comprehensive due diligence, the buy-out of the PSP was completed on 29th October 2020.
- 1.7 September 2020 Cabinet also approved the discontinuation of the existing Development Management Agreement (DMA) with First Base Limited. These services were being provided under a contract with BCR LLP. The discontinuation of the DMA has been achieved through a legally binding contract effective simultaneously with the completion of the acquisition of the PSP interest.
- 1.8 As previously reported, it has not been possible to progress the previous scheme with the Council's private sector partners, due to issues around commercial profit requirements/viability. The Council's objective, however, is first and foremost to regenerate Bridge Close and to safeguard the strategic regeneration benefits that accrue from the development, including the provision of housing for local people and helping to increase growth, employment, expenditure and wider opportunities throughout the local economy by serving as a catalyst for further regeneration and investment in Romford town centre. The departure of the PSP therefore allows previous assumptions about how the regeneration scheme might best be funded and delivered to be reconsidered. Given that the Council's principal objectives are to secure the delivery of affordable housing and the overall regeneration of the site, a number of options have been considered to see which may be the most appropriate to select as a way forward. These options included; development through the Joint Venture with investment from the General Fund and the HRA, respectively, direct delivery of all phases of the scheme by the Council and a combination of delivery by both the Council and Joint Venture.
- 1.9 Following this review of options, it is recommended that the Council delivers the regeneration of Bridge Close directly (Option 3 – Council funds and builds all three phases itself), funding the development entirely through Council resources,

predominantly using the Housing Revenue Account. This version of the scheme differs from the previous version and includes an increase in that the percentage of affordable housing from 30% to 50%. This is set out in more detail in the exempt part of the report.

- 1.10 This report considers the options and recommends to Cabinet the preferred way forward with the Bridge Close Regeneration funding and delivery method.

RECOMMENDATIONS

That Cabinet:

1. Approves the continued use of the existing budget related to the 2019-20 BCR LLP Business Plan to fund 100% of project expenditure, given that the Council has full control of BCR LLP and is responsible for all investment in the regeneration scheme, on a temporary basis, until, if approved, Recommendations 2-4 can be fully implemented ;
2. Approves the adoption and utilisation of Option 3 - the Council to fund and deliver all phases of the regeneration of Bridge Close, funded via the appropriate use of the Housing Revenue Account, as set out in the exempt part of this report;
3. Subject to the approval of the HRA Business Plan and Capital Programme, approves the provision of a budget to enable Option 3 to be funded as required and detailed within the exempt Financial Implications and Risks section (see paragraphs 11.22 to 11.36); this budget to be included within the proposed HRA Capital Programme that will be considered by Cabinet in the Housing Revenue Account Business Plan update and that this be recommended to Council for final approval.
4. Subject to the approval of Recommendation 3, approves the transfer of the existing investment in BCR LLP and the associated debt from the General Fund to the Housing Revenue Account when appropriate, as set out in paragraph 11.32 in the exempt part of this report, noting that consequent changes will be made to the General Fund Medium Term Financial Strategy to reflect the adoption of Option 3 in Recommendation 2 above, at the appropriate time;
5. Subject to the approval of Recommendations 1-4 above, authorises the Director of Regeneration to update the Bridge Close Regeneration LLP Business Plan to reflect the proposed changes to the funding and delivery arrangements, noting that the Business Plan will be subject to Cabinet review within the next six months;
6. Notes the approval by the GLA's Housing Zone Steering Group for the early release of grant funding, subject to the negotiation of a new Borough Intervention Agreement;
7. Authorises the Director of Regeneration, acting in consultation with the Monitoring Officer and the Section 151 Officer, to negotiate and agree terms with the Greater London Authority for a new Borough Intervention Agreement to enable the early release of grant funding for the regeneration of Bridge Close;
8. Authorises the Director of Regeneration to secure the reappointment and appointment of the necessary supporting professional team by the Council or

through BCR LLP, as appropriate, and that the contract rules and contract standing orders be waived to the extent necessary to facilitate this;

9. Authorises the Director of Regeneration to complete and arrange for the submission of an appropriate planning application via Bridge Close Regeneration LLP to provide for the regeneration of Bridge Close, when appropriate;
10. Authorises the Director of Regeneration to (1) undertake soft market testing to establish main contractor interest in the project and (2) to prepare a full tender pack to facilitate any subsequent procurement exercise when appropriate, noting that any future contract award will be subject to formal approval;
11. Authorises the Director of Regeneration, acting in consultation with the Monitoring Officer and Section 151 Officer, having regard to Section 12(1) of the Housing Act 1985, to seek Secretary of State's consent to provide and maintain such non-housing buildings and land that will serve a beneficial purpose in connection with the proposed new housing accommodation, when appropriate;
12. Authorises the Director of Regeneration, acting in consultation with the Monitoring Officer and Section 151 Officer, to negotiate, finalise and enter into all necessary legal agreements, to bring into effect the proposed arrangements set out in Recommendations 1-11 inclusive.

REPORT DETAIL

- 2.0 The Council has examined a number of potentially viable options for the funding and delivery of the regeneration of Bridge Close that would secure the benefits referred to in the above summary, especially in paragraphs 1.3 and 1.8.
- 2.1 Further details of the funding and delivery options that have been considered are provided in the exempt part of the report due to the commercial nature and sensitivity of the information.