



Havering
LONDON BOROUGH

CABINET

17th March 2021

Subject Heading:

**Havering and Wates Regeneration LLP
Business Plan and Budget 2021/2022**

Cabinet Member:

Councillor Damian White - Leader of the Council and Portfolio Holder for Regeneration.

SLT Lead:

Neil Stubbings - Director of Regeneration

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Policy context:

Havering Housing Strategy 2014-2017
National Planning Policy Framework 2012
Draft London Plan 2017
Emerging Havering Local Plan 2017
HRA Business Plan 2017-2047

Financial summary:

The report seeks Cabinet approval to invest a maximum of £102.3m of capital expenditure gross of repayments of equity into a Limited Liability Partnership to deliver the regeneration of 12 Housing Revenue Account (HRA) sites.

The report also seeks Cabinet approval to increase the forward funding to be advanced from the Council by £9.7m (from £45.4m to £55.1m). The report also seeks approval to a budget of £58.7m in respect of the remaining land assembly / CPO costs

to enable the Council to provide vacant possession.

A total revenue surplus for the HRA of £38.5m is forecast as a result of this regeneration scheme after meeting capital financing costs of borrowing. An estimated capital receipt of £102.3m is expected to be realised at the end of the scheme.

Is this a Key Decision?

This is a key decision

When should this matter be reviewed?

Autumn 2021

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

[x]
[x]
[x]

SUMMARY

This Cabinet Report is an annual update of the Havering and Wates Joint Venture Business Plan as required by Cabinet. When Cabinet agreed to establish the Joint Venture (JV), 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 third review following establishment of the JV in April 2018.

The Council's overarching vision for setting up the Havering and Wates Joint Venture (HWR) was to facilitate the regeneration of key areas 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 over 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.

Through the significant development value generated by this initiative, (approximately £1.5bn) many local businesses and residents will see economic benefits as there will be a focus on maximising the number of contracts awarded to those local companies. A secondary impact of the schemes will also be to support local businesses on those high streets where the developments take place by creating greater "spending power" for those businesses to take advantage of.

For Work Package One and Chippenham Road, 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. Areas of non-residential use have been updated as the design and planning process proceeds.

Since the approval of the 2020-21 Business Plan, there have been two key changes. On 5 August 2020 in response to the economic downturn linked to the COVID-19 pandemic, Cabinet approved the conversion of the Napier New Plymouth scheme to a 100 per cent Council owned scheme.

Elsewhere on the Cabinet agenda, the outcome of the review of the delivery options for both Chippenham Road and Farnham and Hildene schemes have recommended proceeding with the development of both sites under an overarching master planning single design approach. However, due to the complexity and projected cost of development of Farnham and Hildene, it is recommended that the development is undertaken directly by the Council. As a result, this site would no longer fall within the scope of the HWR programme.

The resulting increase in affordable housing from the bid stage remains significant, rising from 1,186 at the bid stage of the JV to 1,552 as part of this annual review. This is an increase of 368 affordable homes at truly affordable prices for local people within the 12 Estates programme.

The Council, through its involvement in the JV is committed to the delivery of the highest quality homes and places for our residents to live in. The goal is to set a high standard for other developers to follow.

The increase in affordable housing and good quality design is being achieved in a Covid-19 landscape when most developers would halt work or would reduce affordable housing and family housing to protect profits. However, with the Council's support the joint venture has continued with the programme dedicated to providing good quality affordable family housing with enhanced design. The additional forward funding identified within the report shows how these changes are being delivered.

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 JV as well as informing Cabinet of any changes in the financial position of the JV and our financial commitments to the JV 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 JV 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 12 Estates programme is currently forecast to receive £48 million development return in revenue to the HRA from year 5 to 15. This figure is built into the HRA Business Plan and rent setting report that has been presented to Cabinet and is not included within the calculations for the average cost of an affordable housing unit within this report.

The table below details those key metrics as reported to Cabinet in the 2021/22 Business Plan and Budget Review and compares them with the numbers in this Business Plan. The table also provides a brief explanation for any changes.

Movement Schedule (HWR Programme, excludes Farnham and Hilldene)

Indicator	2020/21 Review	21/22 Review	Movement 20/21 – 21/22	Commentary
% return (profit on cost)	11.6%	10.9%	-0.7%	Higher proportion of affordable

Cabinet, 17^h March 2021

				units (45% from 38% at bid)
Peak Equity stake (£)	£36.0m	£28.6m	-£7.4m	Conversion of NNP to 100 per cent Council.
Equity stake (Land value)	£4.7m	£8.6m	+£3.9m	Bringing forward affordable into Block 1 & 2 WQS, reducing number of affordable in later stages
MTFS Revenue Impact Equity 2018-2030 (£)	£6.5m	£6.5m	NIL	No material change
Total affordable units	1,624	1,551	-73	Removal of Farnham - 145 units, + 71 units NNP, +1 WQS
Total Open Market Sale	2,094	1,629	-465	Removal of Farnham - 395 units, - 71 units NNP, +1 WQS
Total units	3,718	3,180	-538	Removal of Farnham - 540 units, +2 WQS
% Affordable	44%	45%	+1%	Conversion of NNP to 100 per cent Council.

RECOMMENDATIONS

That Cabinet:

1. **Agree** to the inclusion of a budget of up to £102.3m equity for the 12 Sites and Chippenham Road scheme together with a budget of £58.7m for potential land acquisition/CPO costs within the proposed HRA capital programme, noting that the HRA capital programme recommended by Cabinet on 17 February 2021, and approved by Full Council on 3 March 2021 includes the necessary capital funding to progress the regeneration.
2. Subject to the approval of the required budget and funding referred to at recommendation 1 **approve** the Havering and Wates Regeneration Joint Venture Business Plan dated January 2021, as attached as Appendix 3.
3. Subject to the approval of the required budget and funding referred to at recommendation 1 **agree** to further forward funding for the remainder of phase 1 of the 12 Site Programme up to £9.7 million; for the development of Solar, Serena and Sunrise Courts (£1.6 million [to total £17.5m]) and the Waterloo and Queen Street Estate (£8.1 million [to total £22.7m]) **and delegate authority to** the Director of Regeneration to enter into the necessary forward funding agreements.
4. **Approve** the removal of the Farnham and Hildene estate from the 12 site regeneration programme, **noting** that the scheme would be subject to a future approval by Cabinet to be taken forward under a Council-led approach.
5. **Approve** the budget of up to £0.6 million to fund the remediation works on the Solar Serena Sunrise Estate and **delegate authority to** the Director of Regeneration in consultation with the Director of Legal and Governance to enter into contract with the Havering and Wates JVLLP to carry out the remediation works on the site, **noting** that the HRA capital programme recommended by Cabinet on 17 February 2021, and approved by Full Council on 3 March 2021 includes the necessary capital funding to progress the works.
6. **Delegate authority to** the Director of Regeneration in consultation with the Director of Housing and Director of Legal and Governance to enter into a contract with the Havering and Wates JVLLP to provide a longstop arrangement, where the Council would acquire any open market units on the Solar Serena Sunrise estate, which remain unsold after 18 months from practical completion of the development for a value equivalent to 75.0 per cent of open market value for units earmarked for private sale and 61.6% per cent of open market value for units earmarked for shared ownership, **noting** that any acquisitions would be funded from the existing affordable housing HRA capital budget set aside for the scheme.

7. **Approve** the budget of up to £7.0 million to fund the offer to purchase family homes (3 bed or larger) from prospective buyers on the Solar Serena Sunrise Estate, **noting** that the HRA capital programme recommended by Cabinet on 17 February 2021, and approved by Full Council on 3 March 2021 includes the necessary capital funding to fund the acquisitions.
8. **Delegate authority to** the Director of Regeneration to enter into variations of any of the existing joint venture documentation which is required to implement any of the recommendations contained in this report.
9. **Delegate authority to** the Director of Regeneration to consider the appropriation of land at the appropriate time at Waterloo and Queen Street Estate from the Housing Revenue Account (HRA) to the General Fund, for planning purposes and to consider the appropriation of land at the appropriate time at Waterloo and Queen Street Estate back to the HRA.
10. **Approve** the budget of up to £5.0 million to fund the cost of compensation of Appropriation linked to the Waterloo and Queen Street Estate, noting that the HRA capital programme recommended by Cabinet on 17 February 2021, and approved by Full Council on 3 March 2021 includes the necessary capital funding to fund the compensation.
11. **Delegate authority to** the Director of Regeneration to make all further changes to the documentation consequent on the recommendations in this report that the Director considers necessary or in his opinion appropriate from time to time

REPORT DETAIL

1.0 Background

- 1.1 HWR has been established as a long-term development partnership to facilitate a programme of residential-led regeneration and estate renewal across an initial tranche of 12 Council-owned housing sites. The joint venture partnership enables both partners to share costs and long-term financial risk associated with development whilst retaining a degree of control, ensuring that social and economic benefits remain a focus.
- 1.2 The Council has the right to acquire any affordable housing at a pre-agreed value and allocate those properties via the Council's Housing Register in accordance with its Allocation Policy.
- 1.3 The Council's objectives for this programme have been enshrined into the Members Agreement between the JV partners as objectives for HWR. As a development company HWR will procure design, obtain planning permission, develop, market and sell/let each scheme for the best value achievable.
- 1.4 On 12th February 2020, the second review on the JV's Business Plan was reported to and approved by Cabinet. The review was reported on the basis of updated assumptions which were reflected, scrutinised and verified via updated site development appraisals and the JV's employer's agent.
- 1.5 In particular, the report focussed on the progress made on the schemes within Work Package One (**WP1**) of the 12 Site Programme, which includes Napier and New Plymouth House, Solar, Serena and Sunrise Courts and the Waterloo and Queen Street Estate. Since the last business plan, work has continued to maximise the level of affordable, family sized housing across these schemes as part of the pre-application planning process and expedite the delivery of new homes where possible.
- 1.6 The last business plan also introduced the development prospects identified in Harold Hill, including the redevelopment of the Chippenham Office site as a potential precursor to the wholesale development of the Farnham and Hilddene and Hostel site. It is recommended that the Farnham and Hilddene estate is removed from the 12 site regeneration programme. A separate report is included on the agenda, encapsulating the masterplan combined design strategy for Farnham, Hilddene and Chippenham Rd for consideration by the Cabinet.
- 1.7 The Development Agreement provides that, following the satisfaction of the pre-conditions for a site, the Council will grant and the LLP will accept a building licence unless the parties agree that the Council will grant a building lease because it is a requirement of a lender, it would mitigate any tax liability or the parties agree it would be beneficial or preferable in the circumstances. Whether

a building licence or a building lease should be granted will need to be considered by the Council and the LLP each time the conditions are satisfied.

2.0 Progress

2.1 Planning and Design Development

Design development as part of the pre-application planning process has continued for the sites in WP1. A hybrid planning application has been submitted for The Waterloo and Queen Street Estate and has been validated by the Local Planning Authority. Good design has been a key aspect in the evolution of the schemes since establishing the JV, ensuring that each scheme acts as an exemplar housing development within the borough.

2.2 As part of the pre-application planning process, consultation has continued with the Local Planning Authority, Strategic Planning Committee, Independent Quality Review Panel and other key stakeholders. Residents have also had the opportunity in the summer of 2020 to offer any comments regarding the hybrid planning application of the Waterloo and Queen Street Estate. Whilst consultation with residents has been challenging due to the COVID-19 pandemic, measures are in place to provide updates via a COVID-19 secure platform.

2.3 As always, place making is a key objective of the Council and each site in WP1 is being developed to meet this objective. Each scheme has evolved to design quality environments and homes where residents want to live in and public realm that support community living.

2.4 Napier New Plymouth

Napier New Plymouth started construction in November 2020. This development will set the standard for new homes in Rainham, being a marker of quality apartment living. A place with a green heart – a public open space for meeting, resting, playing or just passing through. New housing with a community spirit – bringing new and existing neighbours together, reaching out to connect to the wider neighbourhood and network of public spaces. The homes will be bright and warm with sunlit courtyards for residents to enjoy the outdoors. The central park will bring people together, through the careful design of bike and pedestrian paths and children's play spaces. This development will provide 100 per cent affordable homes for local people. First completions are anticipated for June 2022.

2.5 Solar Serena and Sunrise

Solar Serena and Sunrise achieved resolution to grant planning permission in July 2020 and construction is due to start in Spring 2021. This scheme is the first of its kind to be developed in London by a Local Authority and is a testament to the JV's commitment to providing local homes for local people.

This scheme will be a flagship retirement village with facilities that are designed to encourage a wide breadth of activities, ranging from a gentle stroll through the central landscaping, to a cycle through Harrow Lodge Park. The development will also aspire to adopt dementia friendly design principles, through careful consideration of colour schemes and way finding throughout the development. The new neighbourhood has been meticulously designed to create an inclusive and fully accessible environment for residents and visitors. Communal, social, and open spaces help to achieve this purpose, with the scheme also offering a central landscaped garden. The scheme is committed to generating enhanced flexible areas, therefore the ground floor of block C has been dedicated entirely to a new flexible communal space. The COVID-19 pandemic has further demonstrated the benefits of independent living within a secure environment such as Solar, Serena and Sunrise.

2.6 The Waterloo and Queen Street Estate

The Waterloo and Queen Street Estate wholesale demolition is set to begin imminently with the installation of perimeter hoarding around the site. Once demolition is complete, areas will be assigned for meanwhile uses from pocket parks to bee gardens that will help soften the landscape during construction. Waterloo and Queen Street Estate will be a destination where everyone is welcome. Residents and the community will feel safe and at home with front doors lining the streets in a clean and tidy local environment. Biodiversity will return to the town centre. Residents will feel in touch with nature, with ample tree planting and garden beds. Local businesses will thrive in the commercial space fronting Waterloo road and adaptable community space will be a focal point for all.

2.7 Cross Rail

The Waterloo and Queen Street Estate development is strategically well located within the heart of Romford. Romford is a significant commuter town which connects Essex's peaceful countryside with the UK's bustling capital city. For over a century, existing transport connections have made Romford an excellent location for those desiring to live in the London area, whilst simultaneously being able to reap the benefits of its surrounding rural expanse. With Romford rail station undergoing improvements to accommodate the much-anticipated arrival of Cross Rail's Elizabeth line in 2022, the area's transport links will become even stronger. As a result of this, Romford is expected to see a surge in property prices.

Property prices across most areas where the Elizabeth line will operate are expected to rise, and Property Partner, a crowdfunding platform, found that all areas surrounding the 40 Cross Rail stations have already seen an average growth of more than 41% over the past 10 years. CBRE Residential has predicted that the residential property sector in the areas surrounding Cross Rail stations will experience an estimated increase of £35bn when the service is fully up-and-running. By the time the first blocks of Waterloo and Queen

Street Estate are forecasted to be developed the negative impact on the housing market from the pandemic should have subsided.

- 2.8 The JV is obliged to deliver each scheme in accordance with the Key Requirements set out in the Development Agreement. These requirements set out the parameters for a planning application and include:

- The number of units to be delivered across the development
- The housing bed size and tenure mix
- A requirement for non-residential uses such as commercial and retail.

The key requirements for each site may vary as a result of stakeholder consultation and planning policy but will always be required to meet the Council's objectives for the Regeneration Programme.

- 2.9 As part of the review of the key requirements for each scheme in WP1, officers underwent a review of the level of affordable housing and bed sizes of the homes being delivered across the sites.
- 2.10 As evidenced below, in comparison to the information extracted from the Local Planning Authority, each site in WP1 is delivering above the average level of affordable housing on major development sites (above 10 units) approved from 2014-18.

Affordable Rent	282	6%
Intermediate	366	8%
Market	4041	85%
Not Known	60	1%
Total	4749	100%

- 2.11 Since bid stage, levels of affordable housing has increased in line with the Council's objectives to maximise the delivery of affordable housing across each site.

Site	Affordable Housing – Bid Stage	Affordable Housing – Year 2 review	Affordable Housing- Year 3 review
Napier and New Plymouth	77.7%	64%	100.0%
Solar, Serena, Sunrise	25.8%	76.6%	76.6%
Waterloo and Queen Street Estate	38.5%	40.4%	40.4%
WP1 Total	41.3%	46.4%	50.7%

- 2.12 The introduction of more affordable housing across WP1 and the provision of private rented housing on the Waterloo and Queen Street Estate has removed significant cross-subsidy from the development. As a result, the development

of the retirement village and Waterloo stages one to four will be funded through forward funding from the Council, instead of external debt funding.

- 2.13 In addition to the review of the level of affordable housing, the bed size mix of affordable homes has also been a part of the review process. The Draft Local Plan requires affordable housing to be delivered according to the bed-size mix in the table below. Amongst other sources, this mix has been influenced by the Strategic Housing Market Assessment, which was carried out in 2016, and provides a longer-term assessment of housing need, from 2011 – 2033.

Bed-size	1-bed	2-bed	3-bed	4-bed +	Total
	10%	40%	40%	10%	100%

- 2.14 A key requirement for each site within the 12 site programme is that new homes not only meet a demonstrable housing need, but also facilitates the Right to Return for Council tenants that have been rehoused away from a regeneration site. The table below demonstrates that across WP1, the highest level of demand, derived from the Right to Return, is for one bedroom homes.

Right to return requirement	1-bed	2-bed	3-bed	4-bed	Total	
	%	%	%	%	No.	%
Waterloo and Queen Street Estate	32%	32%	35%	1%	171*	100%
Napier and New Plymouth House	64%	30%	6%	0%	87	100%
Total	43%	31%	25%	<1%	258	100%

*no re-provision of Sheltered Housing provision at Queen Street

- 2.15 In addition to the Right to Return, the Council's housing register provides a reference to identify an immediate need for affordable housing provision in the borough, based on those households that present themselves to the local authority. Data from August 2020 shows that in comparison to the Local Plan prescription, a higher proportion of one-bedroom affordable units are required to meet the demand of Havering households. The table below shows bed-size need for the people on the housing register:

Housing Register demand by bed-size	1-bed	2-bed	3-bed	4-bed	5-bed	Total	
	%	%	%	%	%	No.	%
	23%	38%	34%	4%	<1%	1996	100%

- 2.16 The affordable housing demand emanating from the Right to Return and the Housing Register have been imperative in determining the bed-size mix of the affordable homes that will be delivered across WP1. Changes to the proposed housing mix as a result of the data above, are demonstrated below.

- 2.17 Whilst this data supports the delivery of one-bedroom affordable homes across General Needs sites, the provision of affordable and oversized one-bedroom homes at the Solar, Serena Sunrise retirement village continues to be deemed the most appropriate solution to meet the housing needs of the over 55's, by providing an affordable home with the flexibility of extra care provision where required.

	Affordable bed size mix – Bid Stage				Affordable bed size mix – Year 3 review			
Bed size	1	2	3	4	1	2	3	4
Napier and New Plymouth	35%	50%	15%	0	44%	42%	14%	0
Solar, Serena, Sunrise	61%	39%	0	0	86%	14%	0	0
Waterloo and Queen Street Estate	43%	50%	7%	0	45%	35%	20%	0
WP1 Total	43%	49%	8%	0	51%	33%	16%	0

- 2.18 In October 2019 the planning application for the redevelopment of Napier and New Plymouth House was approved by the Council's Strategic Planning Committee. This scheme will deliver 197 new homes. In response to the economic downturn consequent of the COVID-19 pandemic, and the impact on viability across the 12 Estates Programme, NNP will now be taken forward as a 100% Council owned development.
- 2.19 The planning application for the redevelopment of Solar, Serena Sunrise Courts was submitted in November 2019 and received resolution to grant in June 2020. Following market research and refined design principles, greater provision has been made for flexible communal areas to meet the needs of residents and facilitate social inclusion within the local community as well as dementia friendly design principles.
- 2.20 In addition to this, a greater provision of affordable housing has been attained, increasing the affordable provision from 55 homes for affordable rent to a total of 134 affordable homes amounting to an affordable provision of 77%; 80 homes for affordable rent and 54 homes for low cost home ownership.

Low-cost home ownership was deemed to be a necessary tenure for the over 55's, enabling a current homeowner to downsize as well as providing an opportunity for them to gain financial flexibility. In line with the GLA Capital funding guide, the shared owners' maximum equity share will be 75% of the property's value.

- 2.21 The Council has secured affordable housing grant for Solar Serena Sunrise estate, which is at risk should it not be possible to satisfy the outstanding conditions precedent to grant a building lease of the site to HWR by April 2021. However, the COVID-19 pandemic has impacted on the programme resulting in delays in the completion of the demolition and enabling works contract. Two

key elements of works remain outstanding, (MOLA and remediation work packages). The combined value of the outstanding works is £0.800 million. However, it is not possible to append these works to the existing direct award arrangements as they are beyond the scope and cost of the works that were intended to be within the original contract.

- 2.22 To ensure a start on site can be achieved by April 2021 and secure the grant, it is proposed for the Council to enter into an Early Development Agreement with HWR for the remaining work packages mentioned above, whilst the parties continue to satisfy the conditions precedent which remain outstanding in order that the building lease can be granted to HWR. This approach is consistent with the original contractual arrangements, under which HWR would have undertaken and funded the demolition of the site. Cabinet approved the direct award of the demolition and enabling works contract on SSS on 13 February 2019 on the basis that it would expedite the delivery of SSS.
- 2.23 A letter of intent was issued by the Council to HWR by the 10-03-2021 [assuming Non-Key ED is progressed prior to Cabinet] to progress a limited scope of works, with a value of £0.200m, with the final package of works, valued at £0.600m to be commissioned upon the completion of the first package in accordance with the terms of the Early Development Agreement.
- 2.24 HWR would oversee the completion of the remaining elements of the demolition and enabling works contract before starting the main works contract (anticipated August 2021).
- 2.25 Solar Serena Sunrise is a dedicated older person scheme, which offers a mixed tenure product, including 41 dwellings for private sale. Market analysis indicated that disposals of private sale units on older person schemes take longer than a conventional housing scheme. Furthermore, the product is being marketed alongside 54 older persons shared ownership dwellings. To further mitigate against the risk of unsold units, a longstop arrangement would be put in place for the Council to acquire any unsold units once the longstop period has expired. The proposal is for the Council to acquire any unsold units after 18 months from practical completion, at a discount to open market value.
- 2.26 The Council are proposing to offer an added incentive to promote downsizing from family homes to the Solar Serena Sunrise estate. The Council would offer to acquire the homes (3 bed or larger) from prospective buyers to encourage the freeing of much needed family housing in the borough. The Council would benefit from additional family homes to make available to qualifying households on the housing waiting list on a secure tenancy basis.
- 2.27 As reported previously, the Waterloo and Queen Street Estate will be developed in a phased approach due to the quantum of homes on the new development. In total, the redeveloped scheme will deliver 1,380 new homes. Stage one (Blocks 1 and 2) of the development will include the delivery of 372 homes.

- 2.28 Some cost increases have crystallised linked to external factors, such as changes made in response to planning and building regulations, Community Infrastructure Levies, delays linked to the COVID-19 pandemic. The cost of construction has also increased, driven mainly by to the increased preliminary costs on Solar Serena Sunrise estate, linked to the logistical and site setup issues on the site.
- 2.29 The planning processes for Work Package One sites will continue through the business plan period until an implementable planning consent is achieved. The table below shows planning and development milestones for the sites that have been progressed since the last business plan as well as a forecast for the remaining sites in the 12 site programme.

	Submission of Planning Application	Resolution to Grant	1st Completions	Site Completions
Work Package One				
Napier and New Plymouth House	May-2019	Nov-2019	June-2022	Dec-2022
Solar, Serena, Sunrise	Dec-2019	June-2020	May-2023	Dec-2023
Waterloo and Queen Street Estate	Jun-2020	Mar-2021	Jul-2024	Mar-2030
Work Package Two, Three and Four				
Chippenham Rd	Feb-2022	May-2022	July-24	July-2025
Farnham and Hilldene	Outline Feb 2022 Detailed Aug 2023	Jan-2024	Nov 2026	Feb 2035
Brunswick Court	Feb-2024	May-2024	Aug- 2026	Aug-2026
Maygreen Crescent	Oct-2025	Jan-2026	Jun 2028	Sep- 2029
Delderfield House	Oct-2025	Jan-2026	Dec- 2027	
Dell Court	Oct-2025	Mar-28	Mar-2028	
Oldchurch Gardens	Oct-27	Jan-28	Jun-2030	Summer 2029
Royal Jubilee Court	Jul-27	Jan-28	Sep- 2030	Mar- 2031
Napier and New Plymouth Blue Line	Jan-28	Mar-2028	Jun-2030	Jun 2031
Direct Council delivery				

Farnham and Hilldene	Outline Feb 2022 Detailed Aug 2023	Jan-2024	Nov 2026	Feb 2035
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2.30 Vacant Possession

Vacant possession has been achieved for all three sites of work package one within the red line boundary. The 12 estate regeneration program continues to move forward with the requirements of the existing residents being paramount. Vacant possession across regeneration sites has been aligned with the strategy to reduce the homelessness pressure on the General Fund. Properties vacated by secure tenants and leaseholders across the regeneration programme have been used as temporary housing for homeless households.

A significant effort has been made to ensure those people moving out of their homes find suitable alternative homes that meet their needs and that they are supported through the moving process. Council tenants, leaseholders and freeholders have all received the appropriate support to assist with moves. Council Officers have continued to work with residents to either move them to a new home or purchase their property.

3.0 Scheme Review

The current scheme design and development financial model anticipates that 1,750 new homes will be delivered in Work Package One as per the Feb 2020 update.

- 3.1 The increase in affordable housing has resulted in the reduction of the number of homes for open market sale, and therefore the financial subsidy that those units provide for the delivery of affordable homes. The movement schedules contained within the exempt report demonstrates how the financial model has been affected by the increased proportion of affordable homes.

	Demolitions		Proposed					
Site	Social Rent	Leasehold/ Freehold	Affordable Rent	LCHO	PRS	Open Market Sale	Total	% affordable Housing
Work Package One								
Napier and New Plymouth House	87	10	126	71	0	0	197	100%
Solar, Serena, Sunrise	55	0	80	54	0	41	175	77%
Waterloo	202	71	410	147	0	823	1,380	40%

Estate (and Queen Street)								
Work Package Two								
Chippenham Road	20	12	115	25	0	66	206	68%
Brunswick Court	47	0	54	0	0	0	54	100%
Work Package Three								
Maygreen Crescent	88	23	94	24	0	177	295	40%
Delderfield House	14	0	22	0	0	0	22	100%
Dell Court	29	0	29	0	0	51	80	36%
Work Package Four								
Oldchurch Gardens	64	22	122	0	0	184	306	40%
Royal Jubilee Court	79	0	53	0	0	99	152	35%
Napier and New Plymouth Blue Line	0	51	63	62	0	188	313	40%
Subtotals	775	216	1,168	383	0	1,629	3180	49%
Total	991		3,180					

- 3.2 Based on the 3,180 model, the 12 site programme would deliver 49% affordable housing, whilst more than doubling the number of occupied affordable homes across the sites. These figures are summarised for comparison in the table below:

	Now	Future	Change
Total number of homes	991	3,180	+220%
Occupied General Needs homes	551	981	+78%
Occupied Sheltered rented homes	224	187	-17%
Low-Cost Home Ownership	0	383	+383
RTB losses	217	0	-100%
Total occupied affordable homes	775	1,551	+100%

- 3.3 In February 2019, Chippenham Road was identified as an opportunity site for regeneration, given its close proximity to the proposed Farnham and Hilldene Estate development and the closure of the Council Housing Office.

- 3.4 Since the decision to include Chippenham Road in the 12 site programme, consultation has been carried out with key stakeholder groups. Evident from this has been the necessity for strategic alignment between the Chippenham Road and Farnham and Hilldene sites in order to develop a vibrant district Town Centre in Harold Hill.
- 3.5 It is envisaged that a comprehensive Harold Hill town centre development would be a flagship, place-making community-led regeneration programme that supports the socio-economic aspirations of the local community. Investment in this area would seek to get the most out of local community assets, with the intention of creating public spaces that promote health, happiness, wellbeing of residents and opportunities for growth for local businesses.
- 3.6 The scheme has been earmarked to deliver 206 new homes, of which 140 would be affordable (68%). This represents an increase of 174 new homes, which would both increase the quantity of affordable housing and broaden the Council Tax base.
- 3.7 It is proposed to develop Chippenham Road in advance of Farnham and Hilldene, which when completed would create additional capacity to cater for the households decanted in advance of that regeneration.
- 3.8 The Farnham, Hilldene, Chippenham Road and Abercrombie Cabinet Report seeks approval to remove Farnham and Hilldene from the 12 Estates programme and deliver this as a Council-led funding via direct delivery.
- 3.9 Work has continued to develop the additional opportunity and “blue line” sites. Both Chippenham Road and Napier New Plymouth blue line opportunities have been incorporated into the programme. Based on the capacity studies carried out on the five remaining opportunity and blue line sites, an additional 774 new homes could be delivered, 40% of which would be affordable.
- 4.0 **Financial Review**
- 4.1 The business case assumptions have been updated to reflect anticipated economic conditions and design development including enhanced design features and the reduction in open market housing cross subsidy due to the increased provision of affordable housing.
- 4.2 Key changes are summarised in the following text and in the exempt report at paragraphs 6.1 to 6.21.
- 4.3 **Affordable Housing** – it is proposed that the development of 54 units of affordable housing is brought forward into block 1 of the Waterloo and Queen Street Estate development. The change is driven by the need to reduce the level of sale risk and delivers an overall more balanced scheme. 54 units of affordable housing would be converted to private sale in subsequent stages.

4.4 Price per Affordable Rented Unit – At bid stage an average offer price of £172,000 per plot for the affordable rented units. Forward funding has effectively increased this to £233,000 per plot because of build cost inflation, design and development enhancements, reduction in private sale cross subsidy and the impact of providing more affordable housing and more family sized accommodation.

4.5 Forward Funding

Key changes to the Solar, Serena, Sunrise and Waterloo and Queen Street Estate schemes mean that forward funding is also required in order to unlock the development of these sites:

- Solar, Serena, Sunrise retirement village –The requirement of forward funding from the Council for this site is now £17.5m, an increase of £1.6m from the approved business plan position. This is driven by the increased level of unavoidable costs linked to COVID-19 delays and the outcome of detailed market testing.
- Waterloo and Queen Street Estate - The requirement of forward funding from the Council for this site is £22.7m, up £8.1m from £14.6m. This is driven by the bringing forward of development of 54 affordable rented units and the additional costs linked to planning / building regulations.

The financial figures identified in this report represent a point in time, and it is anticipated that as the development progresses, the housing market will revert to a period of growth in house prices, which will enhance the value of the scheme. The blended average cost to the HRA including shared ownership units is £205k per unit. This represents good value is significantly below what can be delivered from the market, other development partners and delivery models.

REASONS AND OPTIONS

5.0 Reasons for the decision:

- 5.1 To incorporate revised assumptions and an updated programme into the Business Plan for the period 2021-22.
- 5.2 To continue to secure the Council's regeneration objectives for the 12 Site Regeneration Programme.

- 5.3 The optimisation of affordable housing provision to be purchased by the HRA, on advantageous terms via a Joint Venture vehicle, to help sustain the HRA long term.
- 5.4 To maximise the level of family housing and retirement provision in the borough.
- 5.5 **Other options considered:**
- 5.6 The adoption of the Business Plan is a consent matter. Without the Council's approval, as a Member of the LLP, the revised Business Plan could not be adopted, and the current approved Business Plan would be maintained. The Council is in contract with Wates as a commercial partner for the delivery of the regeneration of sites within work package one and share the associated costs. These commitments will need to be upheld.
- 5.7 Not approving the revised Business Plan may have a negative impact on the Council'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.
- 5.8 Not adopting the revised Business Plan would result in a pause to the scheme while the JV Partners reviewed their options. This would in effect delay the programme resulting in additional costs for both JV Partners. Suspending planned construction works at this time would adversely impact on jobs and growth in the local economy. It 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
- 5.9 The Council could agree to reduce its ambitions for the level of affordable housing on the programme and convert some affordable units to private sale to improve overall scheme viability. This would go against the Council's stated policy aims by reducing the provision of affordable housing available to households in need. Reducing the level of affordable would have several indirect impacts, including an increase in the numbers on housing waiting lists and increased cost of homelessness prevention.
- 5.10 Also, given the current uncertainty in the market linked to the COVID-19 pandemic, it is not clear flipping units to private sale would achieve the desired impact. Increasing the quantity of private sale units in times of economic uncertainty could increase the levels of sale risk. As a result, this option has been discounted.
- 5.11 The Council could also consider withdrawing one or more sites from the programme and look to develop directly or with a new developer. Withdrawing the Phase 1 sites has been discounted based on the significant delays and disruption that would arise. It is unlikely that withdrawing the Phase 1 development and taking it via forward via a new delivery structure would yield

savings accounting for the significant investment and acknowledging the advanced stage the sites have reached in terms of planning and design. As a result, this option has been rejected.

- 5.12 However, given the WP234 sites are at an early stage (except for Chippenham Road), the Council retains the discretion to consider alternatives, should delivery by HWR not be possible in accordance with the existing terms and anticipated level of returns enshrined in the existing JV documents.

IMPLICATIONS AND RISKS

9.0 Financial risks & sensitivities

- 9.1 Detailed financial information (paras 6.0 to 9.3) is contained within the exempt report. The report seeks Cabinet approval in principle to invest a maximum of £102.3m of capital expenditure gross of repayments of equity into a Limited Liability Partnership to deliver the regeneration of 12 Housing Revenue Account (HRA) sites. The peak end of year equity exposure is forecast to reduce to £28.6 million from £36.0 million. Some of this investment would be in the form of HRA land, the net value of which is currently estimated at £8.6m (all sites), with the remaining £22.7m as cash funding.

Financial Risks

- 9.2 Scheme viability, the JV's Risk Register is included within the Business Plan attached at Appendix 2, which sets out some of the key financial risks. Mitigation measures are as set out in the business case attached to this report.
- 9.3 The build costs and revenues are derived from the latest analysis provided by the Wates Construction Limited and CBRE. Cost plans for the detailed designs for Phase 1 reflect extensive consultation with the local planning authority and Council stakeholders. Both NNP and SSS have progressed to a final stage, with the cost packages fully market tested and tendered. As a result, a relatively high degree of confidence can be placed on the numbers.
- 9.4 The designs for the Waterloo and Queen Street Estate development blocks 1 & 2 have reached a detailed design stage. However, until the work packages are fully market tested, it is possible there may be further escalations in cost. With the scheme starting in Q2 2022, the adverse impact of COVID-19 on the housing market may have abated, and revenues could increase to mitigate

against the impact of cost escalations. To manage risk on Phase 1, a 5% contingency has set aside (3% build contract, 2% developer contingency).

- 9.5 The other sites in the programme have not yet reached a detailed design stage. As a result, the projections are likely to continue to move as design work progresses and the general economic factors are considered. These sites are subject to a viability test, and if viability deteriorates could be put on hold.
- 9.6 The key sensitivities and the impacts are included in the table below. These sensitivities demonstrate the potential programme wide exposure. However, a site will only be brought forward for development once it meets the financial and viability hurdles. Each site is delivered via a dedicated SPV, to ensure development risk can be ring-fenced: -

RISK AREA	SENSITIVITY	JV	Council	Commentary
Financing	JVLLP borrowing rate + 1%	-£4.2m	-£2.1m	The JVLLP agreement is predicated on a 70/30 debt/equity funding arrangement.
Economic	Build costs + 1% per annum	-£43.0m	-£21.5m	In line with the long-term Bank of England projections, CPI has been modelling at 2% per annum. It is assumed that house price and construction inflation will align at 2% per annum. It is likely to some of the cost risk will be mitigated with the JVLLP entering into a series of fixed price forward construction contracts.
Economic	House Prices Reduction 10%	-£66.7m	-£33.4m	The base model has been predicated on achieving an average of £544 psf sales. No HPI has been assumed since the close of the bid stage. Revenues on the 12 Sites. However, prices may increase further or decrease particularly in the short term.

Economic	Sales (1 Year Delay)	-£36.7m	-£18.4m	The sale of open market sale units underpins this regeneration scheme. An economic downturn may result in individuals being unable to secure mortgage finance. This may result in a reduction or even a halt in sales. This would have a significant impact on the financing of the scheme, as working capital would be invested for a longer period.
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- 9.7 PWLB borrowing rates, the current projections are based on a long-term borrowing rate of 2.0%. Currently the Council can secure borrowing at just below 2.0% (50 years). As borrowing is drawn down, the rates are effectively locked in for the loan period. In the short term, this may result in a net benefit to the HRA as rates are currently below the 2.0% target, but it is possible rates may increase over the medium to long term, potentially going above the 2.0% assumption.
- 9.8 The modelling above indicates that the Council over the life of the scheme should not expose itself to a weighted cost of borrowing more than 4% to ensure payback can be achieved with 40 years. Going above a weighted average of 5% would put overall programme viability at risk.
- 9.9 House prices and sales risk, private sale units are priced under a 'Red Book' methodology, which is based on an assessment of the current value of new developments in the area. No house price inflation has been applied to the scheme. It is possible that once a degree of confidence and certainty is achieved in the macro-economic environment, the scheme may begin to benefit from the impact of house price inflation. Savills have forecast that prices could increase by 12% in London over the next four years. Their forecast accounts for a COVID-19 pandemic related slowdown in the market in 2021.
- 9.10 Any open market units remaining unsold at the agreed longstop date on the Solar Serena Sunrise estate, would be acquired by the Council for a value equivalent to 75.0 per cent of open market value for units earmarked for private sale and 61.6% per cent of open market value for units earmarked for shared ownership. The HWR business plan assumes the 80 private sale units would yield £15.400 million of income. Any additional units acquired under this arrangement are counted against the overall delivery of affordable housing on the 12 sites programme. As such, the target would be reduced in subsequent schemes to ensure the overall programme target is not exceeded. The acquisitions would be funded from the existing affordable housing capital

budget. The Council would have the option to either market the units for sale or convert the acquired units to an affordable housing product.

- 9.11 Shared ownership, the financial models are underpinned by an assumption that disposals of shared ownership product yield an average receipt of 40 per cent of open market value. Should average receipts exceed the 40% hurdle, the JV would pay over the surplus to the Council.
- 9.12 The Council would benefit from a higher interest in the property, accruing net revenues over and above the current 60 per cent of OMV assumption.
- 9.13 GLA affordable housing programme (21-26), the GLA have recently published their prospectus for the new affordable housing programme. The most significant change is the restriction on funding replacement units. A review will be undertaken to consider the impact of the new funding regime on the WP234 sites.
- 9.14 GLA 16-21 grant Phase 1, the GLA are imposing a requirement for the Council to enter an overarching build contract for all of the Waterloo and Queen Street Estate development with Wates. This is a change from the current position, where a build contract is let for each stage in the programme. The Council's legal advisors, Bevan Brittan are working to assess the legal and contractual implications.
- 9.15 COVID-19 pandemic, the potential restriction on working practices could put pressure on costs linked to additional compliance requirements and potential delays to the programme.
- 9.16 The programme has a significant element of open market product, which adds an element of sales risk. It is still unclear what the lasting impact of COVID-19 may have on the housing market. The most severe consequences of the pandemic are likely to be felt in the short term, with a possible loss of confidence in the housing market, although at the time of writing house prices are still very buoyant. However, given the units for sale are not being released to market until mid-2022, this should provide sufficient time for the market to stabilise.
- 9.17 Appropriation and compensation claims, there is a degree of uncertainty with regards to any claims linked to the appropriation to planning. Any claims for compensation must be met from the HRA capital Programme and would be funded from the project contingency budget.
- 9.18 Macro-economic and regulatory risks, overall, the prospect of realising the outcomes for the programme 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.

Legal implications and risks:

- 10.1 This report follows a number of previous reports to Cabinet including the reports in February 2019 and 2020 which considered the first and second JV business plans respectively and the report in August 2020 which set out the options to deliver the Napier New Plymouth development in light of the COVID-19 implications.
- 10.2 The Council is being asked to approve the business plan dated March 2021, which includes a number of changes from the previous business plan that was approved.
- 10.3 The Council has entered into the joint venture LLP with Wates pursuant to a number of powers including the Housing Act 1985, the Housing and Regeneration Act 2008, the Local Government Act 1972 and the general power of competence in section 1 Localism Act 2011.
- 10.4 The Council is now contractually committed to progress the project in accordance with the agreements that have been entered into with Wates and the JV, unless variations are agreed by the parties.
- 10.5 This report seeks Cabinet approval to the inclusion of a budget of £102.3m equity for the 12 Sites and Chippenham Road scheme together with a budget of £58.7m for potential land acquisition/CPO costs within the proposed HRA capital programme, which were approved by Cabinet in February 2021 in the annual rent setting and capital programme report and recommended to and approved by Full Council on 3 March 2021. Cabinet is also asked to approve an increased amount of forward funding up to £9.7 million; comprising an additional £1.6m for the development of Solar, Serena and Sunrise Courts (bringing the forward funding total for this scheme to date to £17.5m) and £8.1m in respect of the Waterloo and Queen Street Estate (bringing the forward funding total for this scheme to date to £22.7m). In view of the increase in affordable housing offered by the revised work package, the proposed increase in funding needs to be considered in the light of the new Subsidy control regime. Subsidies to economic actors from state resources which may affect trade or investment in between the UK and the EU are caught, and there is a currently incomplete regime which is due to be amplified following a consultation launched 3 February 2021. The base rules in force at the moment incorporate a similar exemption to the EU rules for SGEI. These are now known as Services of Public Economic Interest (SPEI), but the exemption is less clear. The basic principle is that subsidies within the definition need to be considered by grantors as to whether or not they are consistent with 6 principles, although where compliance with those principles would obstruct the performance of the relevant service an SPEI is exempt.

As detailed in the Exempt Report, these principles have been considered and the additional funding is consistent with these principles therefore the funding will fall within the Services of Public Economic Interest exemption.

- 10.6 The Council has broad powers under Part 2 Housing Act 1985 to promote or deliver housing of any tenure for the purposes of meeting housing need which permits the proposed acquisition of housing set out in this report.
- 10.7 The Council intends to use the power to override easements and other rights in section 203, Housing and Planning Act 2016 for the property to be disposed of to the JV. To do so, it must first appropriate the land for planning purposes. Once the land has been appropriated, if the Council intends to grant a build lease to the JV then this will constitute a disposal. The Council has the power to dispose of property appropriated for planning purposes in section 233 of the Town and Country Planning Act 1990.
- 10.8 If there is any HRA land that will not be appropriated, or if appropriated land is returned to the HRA before development, Secretary of State consent would be required before it could be disposed of to the JV (disposal is broadly defined and includes not only a transfer of the freehold but also the granting of a lease, as is the intention here). However, a general consent has been issued by the Secretary of State that would be relevant in these circumstances. Consent A3.2 of the General Housing Consents 2013 permits disposal of vacant land, which includes land on which dwellings have been built provided (1) they have been demolished, or (2) are no longer fit for habitation and are due to be demolished.
- 10.9 The Council has a broad power to appropriate land for the purposes of Part II housing under section 19(1) of the Housing Act 1985. This power can be used by the Council to transfer the freehold of the land back into the HRA.
- 11.0 **Human Resources implications and risks:**
- 11.1 There appear to be no HR implications or risks arising that impact directly on the Councils workforce.
- 12.0 **Equalities implications and risks:**
- 12.1 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.
- 12.2 Officers are due to embark on a commissioning process to update site

Specific EIAs to re-evaluate the need of individuals and households affected by this regeneration programme. This will also include a site specific EIA for the Napier New Plymouth Blue Line site.

BACKGROUND PAPERS

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| • Exempt Report Appendix 1 Financial and Legal Implications | EXEMPT |
| • Appendix 2. HWR Movement Schedule | EXEMPT |
| • Appendix 3. Havering Wates LLP Business Case | EXEMPT |
| Annex A- JV Business Case Risk Register | EXEMPT |
| Annex B – JV RIBA Guide | EXEMPT |
| Annex C - Havering Wates LLP Cash flow- | EXEMPT |
| Annex D - Havering Wates LLP Phase 1 Havering Wates LLP Phase 2 | EXEMPT |
| Annex E – Havering and Wates Standard Processes | EXEMPT |
| Annex F- JV Programme Draft | EXEMPT |
| • Appendix 4. 12 Estate Dashboard | EXEMPT |