Havering
LONDON BOROUGH

CABINET	**16th February 2022**
Subject Heading:	**Havering and Wates Regeneration LLP Business Plan and Budget 2022/2023**
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 2021 London Plan 2021 Havering Local Plan 2016- 2031 HRA Business Plan 2022-2052
Financial summary:	The report seeks Cabinet approval to invest a maximum of £106.6 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 seeks Cabinet approval to invest a maximum of £102.6 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 £10.8m. The report also seeks approval to a budget of £70.3m 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 £48.1m is forecast as a result of this regeneration scheme after meeting capital financing costs of borrowing. An estimated capital receipt of £102.6m 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 2022
Reviewing OSC:	Towns and Communities OSC

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

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

SUMMARY

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 Havering and Wates 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 fourth review following establishment of the JV in April 2018.

The Council's overarching vision for the Havering and Wates Joint Venture (HWR) is 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 ensures 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 ensuring 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 regeneration taking place in the Borough, approximately £1.5bn has been generated of which many local businesses have started to see economic benefits. This has been possible with the JV's commitment to buy British where possible and to give local businesses contracts through our local supply chain initiative. For example, 93% of the £33m build contract value for Napier and New Plymouth, Rainham went to UK companies of which 62% of businesses benefitted locally.

For Work Package One (Napier, New Plymouth, Solar, Serena and Sunrise and Waterloo and Queen Street), the key inputs into the financial models have been reviewed and externally validated. The key inputs are construction costs, expected sales revenues, s106 costs and CIL payments.

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. The JV has faced delays in supply chains, shortage in labour and increase in material costs. With the Council's support the JV 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 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 HRA Revenue 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 within this Agenda and is not included within the calculations for the average cost of an affordable housing unit within this report.

Table 1 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.

Table 1: Movement Schedule (HWR Programme, excludes Farnham and Hilldene)

Indicator	2021/22 Review	22/23 Review	Movement 21/22 – 22/23	Commentary
% return (profit on cost)	10.9%	10.6%	-0.3%	Blended return including affordable. Private sale return 15%
Peak Equity stake (£)	£28.6m	£35.7m	+£11.9m	Linked to tenure change on WQS Phase 1
Equity stake (Land value)	£8.6m	£6.6m	-£2.0m	Linked to increased costs, inflation allowance.

HRA Revenue Impact Equity 2018-2031 (£)	£1.5m	£3.3m	+£1.8m	Financing costs & income linked to advancing of equity.
Total affordable units	1,551	1,562	+11	Tenure change WQS Phase 1
Total Open Market Sale	1,629	1,617	-12	Tenure change WQS Phase 1
Total units	3,180	3,180	NIL	
% Affordable	49%	49%	NIL	

RECOMMENDATIONS

That Cabinet:

1. **Agree** to endorse and recommend the inclusion of a budget of £102.574m equity for the 12 Sites and Chippenham Road scheme together with a budget of £58.263m for potential land acquisition/CPO costs within the proposed HRA capital programme that will be considered by Cabinet in February 2022 in the annual rent setting and capital programme report and that this is recommended to Council for final approval in February 2022.

2. 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 £32.960 million; for the development of the Waterloo and Queen Street Estate (Increase of £10.198 million), and provide for an additional £0.565 million of forward funding on Napier New Plymouth and **delegate** authority to the Director of Regeneration to enter into the necessary forward funding agreements.

3. Subject to the approval of the budgets set out at recommendation 1 and 2 to approve the Havering and Wates Regeneration Joint Venture Business Plan dated December 2021, as attached as Appendix 2.

4. **Agreed** 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 and related viability assessments as may be presented under the Business Plan dated December 2021.

5. **Approve** the transfer of 30 Shared Ownership units and 31 London Affordable Rent units from the GLA Romford Housing Zone Waterloo Borough Intervention Agreement to the 2016-21 Affordable Homes Programme.

6. **Approve** the increased GLA 2016-21 Affordable Homes Programme grant funding for the Waterloo Estate. The increase is a result of updating the tenure mix to reflect the current delivery schedule, the grant funding will increase from £18.836m to £21.396m as a result of the update.

7. **Approve** a budget of £12.0 million to fund the cost of compensation and acquisitions on the 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.

8. **Approve** a bid for grant funding under the GLA Care & Support Programme for Solar, Serena, Sunrise for 26 affordable rented homes, up to a value of £3.120m.

9. **Approve** a budget of up to £1.0 million to fund the purchase of properties on the Solar Serena Sunrise estate in the circumstances set out at paragraph 2.3 and delegate authority to the Director of Housing to market and dispose of the acquired property to eligible purchasers.

10. **Delegate** authority to the Director of Housing to review the properties bought from purchasers on the Solar Serena Sunrise estate, to decide whether the properties are suitable for retention, and delegate authority to the Director of Housing to dispose of properties deemed not suitable for retention at market value.

11. **Approve** a change in the profit made by the Joint Venture on Solar Serena Sunrise from 15% on the market units to 12% on both the market and shared ownership units.

12. **Approve** a requirement that the minimum equity requirement for the purchase of shared ownership units on Solar Serena Sunrise be increased from 40% to 70%.

13. **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.

14. **Delegate** authority to the Director of Regeneration, in consultation with the Leader of the Council, the Monitoring Officer and Section 151 Officer, to accept grant funding up to the values identified in recommendations 5 and 7 and enter into any required grant agreements or variations to existing agreements.

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 17th March 2021, the third 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 March 2021 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 and to expedite the delivery of new homes where possible.

1.6 The last business plan recommended that the Farnham and Hilldene estate was removed from the 12-site regeneration programme. A separate report was included on the agenda, encapsulating the masterplan combined design strategy for Farnham, Hilldene and Chippenham Rd for consideration by the Cabinet. The Farnham and Hilldene sites have progressed separately to the JV. An update report will inform Cabinet of progress of these sites at a later date.

1.7 Since the last Business plan update the JV team have gone through an extensive exercise of evaluating the viability of the Chippenham Rd site. The Regeneration Team are now working on options for a 100% affordable housing scheme. Further details will be provided to Cabinet in a separate report at a later date.

2.0 **Progress – Work Package 1 (WP1)**

2.1 **Planning and Design Development**

Good design and place making have been important considerations since the JV was established, ensuring that each scheme acts as an exemplar housing development within the borough.

2.2 **Napier New Plymouth**

Construction on Napier New Plymouth is advancing well with first completions anticipated for autumn 2022. Work has begun to ensure all former residents that would like to return to Napier and New Plymouth have the opportunity to view the new apartments over the coming months. Initial response from former residents has indicated that 31 of the 86 people relocated would like to return to the new development.

An estate management strategy has been compiled in collaboration with the Housing team and external consultants. The sales and marketing of the development will be led by Wates Residential. There will be opportunity for the Housing team to work closely with Wates Residential to build on internal skills within the housing team.

The Napier and New Plymouth development will set the standard for new affordable homes in Rainham, being an example of good quality apartment living. A place with public open space for meeting, resting, playing or just passing through. This development will aim to provide 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 space. This development will provide 100 per cent affordable homes for local people.

2.3 **Solar Serena and Sunrise**

Construction of our later living village commenced last autumn. This scheme is the first of its kind to be developed in London by a local authority in partnership with a developer. The scheme will be a flagship later living village with facilities, such as a shared communal lounge and thriving communal gardens that are designed to encourage independent living. The development will aspire to adopt dementia friendly design principles, through careful consideration of interior design and way finding throughout the development. The new neighbourhood has been carefully designed to create an inclusive and fully accessible environment for residents and visitors.

Given the nature of later living developments, it was agreed to reduce the number of homes offered for private sale. This was to reduce the level of sales exposure, acknowledging the market information which indicated that the rate on sales would be slower than a standard development. The scheme now delivers a mix of 41 open market, 54 shared ownership and 80 affordable rented homes.

Purchase of Family Housing, the sales programme is underpinned by a Council offer to purchase family homes (3 bed and above) from prospective purchasers on the scheme. This was to be funded from the existing affordable housing budget on the scheme. Any purchases would count towards the overall target for the 12 Estates programme. As such, it was agreed to deduct the total from the future pipeline outputs.

In addition, given the nature of the commitment, it is likely that most of the acquisitions would be scattered across the borough, making management more challenging and costly. As such, it is proposed to put in a place a process where the Housing department would review every acquisition to determine if the acquisition is suitable for retention for letting or disposal.

Any properties earmarked for disposal would immediately be placed up for sale, yielding a capital receipt. This has the advantage of managing the Council's capital exposure and avoiding a significant uplift in capital funding or reducing the deliverables in later phases.

HWR shared ownership minimum receipt, the shared ownership is to be marketed under the older person's scheme, whereby qualifying purchasers will not pay rent if they acquire a minimum interest of 75 per cent of market value. The JV has therefore assumed a minimum initial receipt of 70 per cent, which overrides the current HWR 40 per cent target.

Vacant Homes, it is proposed that the Council would offer to buy, at market value, any homes on the estate which become vacant, in circumstances where the current owner has passed away. This would provide certainty to their relatives and avoid agency fees. The Council would seek to remarket the property to qualifying households.

HWR margin, it is proposed given the reduction in sales risk on the scheme to reduce the level of the profit made by the Joint Venture on Solar Serena Sunrise from 15% on the market units to 12% on both the market and shared ownership units.

2.4 **The Waterloo and Queen Street Estate (WQS)**

The Waterloo and Queen Street Estate wholesale demolition is well underway and is set to complete in spring 2022. Once demolition is complete, some areas will be assigned for meanwhile use to benefit the local community. After recently obtaining planning permission in detail for Phase 1, construction is due to begin in Winter 2022 on blocks 1 and 2 (Phase 1) of the Waterloo and Queen Street Estate. The remaining phases have an outline permission and further details will need to be submitted to the Local Planning Authority (LPA) before those phases are consented in detail.

The scheme will provide high-quality homes, with most properties benefitting from private amenity space by either a garden or private balcony. The design of the scheme will optimise the site's potential to deliver housing to meet local housing targets, including the right to return for the social-rented tenants decanted from WQS as a result of the redevelopment. The design will incorporate sustainable technologies which help reduce the carbon footprint of the development and will include Secured By Design principles to ensure the potential for crime and anti-social behaviour has been "designed out" as best as possible.

This project will enhance biodiversity by ensuring retention of water runoff via natural swale system. The scheme will benefit from the planting of 159 new trees on site (71% uplift from existing) and buildings will enjoy sustainable green and brown roofs.

Given the Council's adoption of a new Climate Change Action Plan, further consideration will be given to the possibility of additional decarbonising of the schemes energy strategy over time.

2.5 **Social Value**

The Council remains committed to ensuring we are bringing real, tangible benefit to the local community. The JV has continued to work with local social enterprises providing local people with jobs, apprenticeships, and work placements. To date 100 local people have been employed by the JV.

2.6 **Regeneration Objectives**

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.

2.7 Since bid stage, levels of affordable housing in WP1 have increased in line with the Council's objectives to maximise the delivery of affordable housing across each site.

Table 2: Affordable housing review since bid stage

Site	Affordable Housing – Bid Stage	Affordable Housing – Year 2 review	Affordable Housing- Year 3 review	Affordable Housing- Year 4 review

Napier and New Plymouth	77.7%	64%	100.0%	100.0%
Solar, Serena, Sunrise	25.8%	76.6%	76.6%	76.6%
Waterloo and Queen Street Estate	38.5%	40.4%	40.4%	41.2%
WP1 Total	**41.3%**	**46.4%**	**50.7%**	**51.3%**

2.8 The introduction of more affordable housing across WP1 has removed significant level of cross-subsidy from the development and increased the development cost linked to the affordable housing. As a result, the development of the retirement village at Solar Serena Sunrise is supported by forward funding (approved by Cabinet in February 2021) and Phase 1 Waterloo will also be supported through forward funding, which is directly linked to the increased provision of affordable housing.

2.9 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 things, 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.

Table 3: Borough wide Housing Mix

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

2.10 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. Table 4 below demonstrates that across WP1, the highest level of demand, derived from the Right to Return, is for one bedroom homes.

2.11

Table 4: Right to Return Demand

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

2.12 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 2021 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. Table 5 below shows bed-size need for the people on the housing register:

Table 5: Bed-size need

Housing Register demand by bed-size	1-bed	2-bed	3-bed	4-bed	5-bed	**Total**	
	%	**%**	**%**	**%**	**%**	**No.**	**%**
	22%	35%	37%	6%	<1%	**1918**	**100%**

2.13 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 at table 6 below.

2.14 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.

2.15 Since bid stage, levels of affordable housing in WP1 bed size mix has increased in line with the Council's objectives to maximise the delivery of affordable housing across each site. Table 6 provides a summary of the current bed size mix in comparison to the bid stage.

2.16

Table 6: Affordable bed size mix review

	Affordable bed size mix – Bid Stage				**Affordable bed size mix – Year 4 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**

2.17 In order to secure the GLA grant and ensure work progresses within programme, it is proposed that HWR enter into a framework contract for design and construction works, whilst the parties continue to satisfy the conditions precedent which remain outstanding in order that the building lease can be granted to HWR.

2.18 The Waterloo and Queen Street Estate will be developed in a phased approach due to the quantum of homes on the new development as per the Members Agreement. In total, the redeveloped scheme will deliver 1,380 new homes. Phase 1 (Blocks 1 and 2) of the development will include the delivery of 370 homes.

2.19 A review of the development costs linked to Phase 1 WQS has been undertaken. The development cost has increased linked to the quality of design, and current market pricing, inflation and reflecting ongoing supply and labour shortages in the economy. The review has led to the changes in tenures outlined at paragraph 4.3 of this report.

2.20 Table 7 below shows planning and development milestones for the sites in WP1 that have been progressed since the last business plan as well as a forecast for the remaining sites in the 12 sites programme.

Table 7: Key Planning Milestones

	Submission of Planning Application	**Resolution to Grant**	**1st Completions**	**Site Completions**
Work Package One				
Napier and New Plymouth House	May-2019	Nov-2019	Oct-2022	Nov-2022
Solar, Serena, Sunrise	Dec-2019	June-2020	May-2023	Nov-2023
Waterloo and Queen Street Estate	Jun-2020	June-2021	Jul-2024	Mar-2030
Work Package Two, Three and Four				
Chippenham Rd	Sep-2022	Feb-2023	Feb 2025	Dec-2025
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

2.21 **Vacant Possession**

The 12 estate regeneration programme 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 February 2021 update. Table 8 shows existing and proposed units across all of the 12 estates.

Table 8: Existing and proposed units across all 12 Sites

	Existing		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 Estate (and Queen Street)	202	71	356	212	0	812	1,380	41%
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	1,114	448	0	1,618	3180	49%
Total	**991**		**3,179**					

3.1 Based on the 3,180 model, the 12 sites 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 Table 10 below:

Table 10: Affordable estimated change

	Now	**Future**	**Change**
Total number of homes	991	3,180	+221%
Occupied General Needs homes	551	927	+68%
Occupied Sheltered rented homes	224	187	-17%
Low-Cost Home Ownership	0	448	+448
RTB losses	217	0	-100%
Total occupied affordable homes	775	1,562	+102%

3.2 Background technical work has continued on [the remaining phases in WQS, on Work Packages 2, 3 and 4 and on additional and blue line sites.

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 9.11.

4.3 **Phase 1 WQS** – given upward movement on cost, it is proposed that the tenure mix on Phase 1 WQS is reconsidered. It is proposed to swap out the homes earmarked for private sale in Block 2 to shared ownership and convert the 54 homes initially intended for affordable rent in Block 1 to open market sale. This change would increase the overall number of affordable homes by 11 on Phase 1, but would ensure that the Council minimises its exposure to an upward movement on costs. The changes are driving an increase in the forward funding commitment on WQS of £10.198 million, along with a reduction on affordable housing payment of £9.288 million. The net impact of the change of £0.910 million.

4.4 **Price per Affordable Rented Unit –** At bid stage an average Phase 1 offer price of £172,000 per plot was made for the affordable rented units. Forward funding has effectively increased this to £230,000 per plot (down from £233,000 in March 2021) because of build cost inflation, design and development enhancements, reduction in private sale cross subsidy, the impact of providing more affordable housing and more family sized accommodation.

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 £227k per unit. This represents good value and is significantly below what can be delivered from the market, other development partners and delivery models.

4.5 **Grant Funding Arrangements** – The Council has achieved Approved Provider status with the Greater London Authority through its strong track record of delivering affordable homes. This enables the Council to secure grant funding for our development and buy-back programmes.

It is important that opportunities are taken to secure external grant funding as this underpins the development programme, improves the viability position and protects the Council's resources. The requested changes to grant funding relating to Recommendations 4, 5 and 6 are set out in Appendix 3.

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 2022-23.

5.2 The approval of the Business Plan and related decisions will 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 WQS 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 housing 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 WQS 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 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 Work Packages 2,3 and 4 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

6.0 – 9.11 are contained in the exempt report.

9.12 **Financial risks & sensitivities**

9.13 Detailed financial information (paras 6.0 to 9.3) is contained within the exempt report. The report seeks Cabinet approval to invest a maximum of £102.574m 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 end of year equity exposure is forecast to peak at £35.695 million. Some of this investment would be in the form of HRA land, the net value of which is currently estimated at £6.603m (all sites), with the remaining £29.092m as cash funding

Financial Risks

9.14 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.

9.15 The build costs and revenues are derived from the latest analysis provided by Wates Construction Limited and CBRE. Cost plans for the detailed designs for Phase 1 of WQS reflect extensive consultation with the local planning authority and Council stakeholders. Both NNP and SSS have progressed to construction.

9.16 The next scheme scheduled to commence is Phase 1 WQS (Q3 2022). The designs for the Phase have reached a detailed design stage, with planning approval secured. The next stage is a full market tender, which is to be conducted from February 2022 over a period of six months. The outputs will determine the final construction budget.

9.17 Development – Construction Inflation, the relaxation of the COVID-19 pandemic restrictions has contributed to an increased demand on the construction industry supply chain. This has led to a significant inflationary pressure in the market, adding to costs. HWR must compete with a greater volume of developers than would otherwise be the case.

9.18 The contractor (Wates Construction) is to put the appropriate hedging strategies in place. These would include the use of forward purchase contracts where appropriate.

9.19 It is anticipated that this is a short-term problem, however, there remains significant uncertainty in the market. Should costs continue to increase at levels well above historical levels of inflation, it would likely lead to a pause on activity across the sector, including HWR

9.20 This mechanism is facilitated by the phased approach adopted by HWR, which limits risk to pre-construction costs, while viability remains uncertain. To date SSS and NNP are under construction.

9.21 WQS Phase 1 scheduled to commence in Q3 2022 but would only commence if the main works contract offer from Wates Construction falls within the approved budget parameters. Should the construction cost offer exceed the budget, then it is likely the scheme would be put on pause, with both partners' investment capped to the pre-construction costs.

9.22 The same principle applies both to the development of later Phases on WQS and the WP234 sites.

9.23 Development - Delays to the programme, delays to the programme would come at a cost, linked to the demobilisation and remobilisation of specialists and the contractor's team.

9.24 The development manager is to ensure that the appropriate project planning is in place, identifying potential bottlenecks and strategies for resolution.

9.25 Government Regulations, with the increasing emphasis on mitigating against the worst impact of climate change, it is likely that future developments would face increased costs linked to the carbon neutral agenda.

9.26 The Government have introduced a developer's levy, which would apply to developments of high rise buildings. The precise details as to how the levy would apply are yet to be confirmed, and therefore have not been factored into the current projections.

9.27 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.

9.28 The modelling above indicates that the Council over the life of the 12 Estates Programme 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.

9.29 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.

9.30 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.

9.31 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.

9.32 GLA funding, the Council will continue to maximise opportunities for capital grant. However, given the current demand for affordable housing grant, it is likely that future programmes would be over-subscribed, often resulting in a lower than anticipated funding offer from the GLA.

9.33 Given the need for sources of capital funding, the lower throughput of grant is likely to delay the progress of the future pipeline schemes.

9.34 GLA 16-21 grant Phase 1 WQS, 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.

9.35 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.

9.36 The 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.

10. Legal implications and risks:

10.1 This report follows a number of previous reports to Cabinet including the reports in February 2019 and 2020 and March 2021 which considered the first, second and third JV business plans respectively. The report in August 2020 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 February 2022, 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 £106.5m equity for the 12 Sites and Chippenham Road scheme together with a budget of £58.3m for potential land acquisition/CPO costs within the proposed HRA capital programme, which will be considered by Cabinet in February 2022 in the annual rent setting and capital programme report and recommended to Full Council for approval in February 2022. Cabinet is also asked to approve an increased amount of forward funding of up to £10.198m in respect of the Waterloo and Queen Street Estate (bringing the forward funding total for this scheme to date to £32.960m), together with a budget of up to £1.0m to fund the offer to purchase properties on the Solar Serena Sunrise estate where the owner is deceased, and a bid for funding under the GLA Supported Housing Programme for Solar, Serena, Sunrise for 26 affordable rented homes, up to the value of £3.120m. It is noted that approval to enter into any grant funding arrangements with the GLA will be subject to a further executive decision in due course.

10.6 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 Appendix 1 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.

10.7 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.

10.8 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.

10.9 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.

10.10 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.

13.0 **Health & Wellbeing Benefits**:

13.1 Havering council is committed to improving the health and wellbeing of its residents. The provision of good quality and affordable housing is an important determinant of health and wellbeing as housing impacts both our physical and mental health and wellbeing.

13.2 Inadequate or poorly designed housing is associated with increased risk of ill health including cardiovascular and respiratory diseases, depression and anxiety as well as risk of physical injury from accidents.

13.3 The Havering Wates Joint Venture partnership is key to delivering Havering's ambitions to provide more good quality, genuinely affordable homes for local people.

13.4 This will impact positively on individuals and families with housing needs including those on low income by increasing access to the number of affordable, quality homes which will, in turn, reduce risk of ill health and improve their quality of life.

13.5 A health impact assessment will be undertaken for all the Joint Venture schemes.

13.6 The Joint Venture has continued to work with local social enterprises providing local people with jobs, apprenticeships, and work placements which will have positive impact on health and wellbeing of residents.

14.0 **Health & Wellbeing Risks**:

14.1 The proposals outlined in this report do not give rise to any health and wellbeing risks.

BACKGROUND PAPERS

Appendices

- Exempt Report Appendix 1. Financial Implications EXEMPT
- Annex 1 A HWR Spend Review EXEMPT
- Annex 1B Commercial Review EXEMPT
- Appendix 2. Havering Wates LLP Business Case EXEMPT
- Appendix 3. GLA Funding Agreement EXEMPT