



Overview & Scrutiny Board

10 November 2022

Subject Heading:

Income and Budget Performance for Havering's Joint Ventures and Mercury Land Holdings

SLT Lead:

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Policy context:

The Regeneration service delivers housing and infrastructure in line with housing and planning policies

Financial summary:

The report provides an update on financial performance against approved budgets, there are no new implications arising from the report

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

Communities making Havering
Places making Havering
Opportunities making Havering
Connections making Havering

SUMMARY

The report aims to answer the following questions set by the Overview & Scrutiny Board –

“What is the expected income and net profit from commercial and/or joint ventures organisations over the last 6 years for each year, together with the performance against budget.”

“Also, the predicted figures for the 2022/23 budget. The latter split between what we have received in the first 5 months of this year and the target for the remainder of the year.”

RECOMMENDATION

That the Board receives a financial update around income and budget performance of the joint ventures and Mercury Land Holdings, and makes any comments or recommendations in connection with this.

REPORT DETAIL

The Regeneration Directorate was established in 2018 to deliver Havering’s ambitions for creating new genuinely affordable homes for local people and shaping places and new communities. The Regeneration team oversees three Council joint ventures and the activity of Mercury Land Holdings (MLH), the Council’s private housing development company.

Regeneration creates opportunities to offset some general fund costs, such as homelessness pressures and social care placement costs, through the delivery of new affordable and supported housing. The Council tax base also increases through the provision of new homes.

Table 1 shows the overall delivery targets for each joint venture and MLH:

	Total Units	Affordable Rent	Shared Ownership	Overall Affordable %
12 Sites (Original)	3,419	1,416	418	54%
Rainham Beam Park	910	134	200	37%
Bridge Close	1,070	161	374	50%
JV's Delivery Total	5,399	1,711	992	50%
Mercury Land Holdings	568	85	81	29%

Budget Performance & Income

The Regeneration capital budget for MLH and the joint ventures for the current year, 2022/23 totals £301m, with a projected spend of £137m. The forecast is re-profiled in-year according to activity on each project, for example, negotiations with land owners dictate when land assembly funds will be spent, activity on site can be affected by timescales for relocating residents, etc.

The capital forecasts are updated each month which ensures the finance team have early sight of the anticipated year-end position to co-ordinate the Council's funding streams and overall budget position.

Please refer Table 2 within EXEMPT Appendix A for the latest capital budget position for Regeneration.

Bridge Close Expenditure

The Bridge Close scheme will deliver up to 1,070 homes, with up to 50% being affordable. The scheme also delivers a new school, medical centre and important environmental improvements to the River Rom.

The project is currently in the land assembly phase, with a planning application scheduled for submission later in 2022. Budget forecast is based on negotiations with land owners and likely acquisitions for completion in 2022/23.

Bridge Close Income

There is a services agreement in place which attracts £120,000 to the general fund each year to help offset Council costs.

Staff costs for the scheme are capitalised to the HRA capital budgets as appropriate at the end of each financial year.

Table 3 within EXEMPT Appendix A shows the capitalisation figures for 2021/22. A similar position is expected in 2022/23.

The Council uses any profits made on the sale of new homes to offset the cost of new affordable homes and reduce our overall borrowing, there is therefore a nil financial return on the project.

Sales will occur on either shared ownership (part rent/part buy) homes, or homes earmarked for market sale (full ownership), once properties are completed. This is expected to be from 2026.

Sales are expected according to the estimated profile shown in Table 4 within EXEMPT Appendix A.

12 Sites Expenditure

The 12 Sites programme will be delivered through a joint venture with Wates Residential. Wates deliver a strong social value offer for Havering and have 125 years' building and construction experience.

The 2022/23 profile is based on the completion of New Green (formerly Napier/New Plymouth) in December 2022, continued construction progress at Park Rise (formerly Solar, Serena, Sunrise) which completes in 2023/24 and pre-construction services delivered for Waterloo Estate, ready for construction of the first phase to begin in 2023/24.

12 Sites Income

Staff costs for the scheme are capitalised to the HRA capital budgets as appropriate at the end of each financial year.

Table 3 within EXEMPT Appendix A shows the capitalisation figures for 2021/22. A similar position is expected in 2022/23.

A joint venture may create income streams through profit, which are split 50/50 between partners, and sales of completed new homes. The Council uses its profit share of £47m to offset the cost of new affordable homes and reduce our overall borrowing.

Sales will occur on either shared ownership (part rent/part buy) homes, or homes earmarked for market sale (full ownership).

The first sales are due to start later in 2022 at New Green and will continue in line with programme completions. The estimated sales profile is shown in Table 5 within EXEMPT Appendix A

Harold Hill Town Centre

There are three phases for the Harold Hill Town Centre project, phase 1 being the delivery of a new Family Welcome Centre, which provides emergency accommodation for families and a new medical centre for Harold Hill. A resolution to grant planning permission has been secured, construction will begin in 2023/24.

Phases two and three consist of the regeneration of Chippenham Road and the Farnham/Hilldene shopping area. We continue to regularly engage residents in the design plans for the area and will be holding the borough's first Resident Estate Ballot in November 2022, a positive result has the potential to unlock millions in GLA funding.

As the scheme is in the early design phases, tenure mix and sales profiles are yet to be finalised, but the indicative sales profile is shown in Table 6 within EXEMPT Appendix A.

Rainham & Beam Park Expenditure

Activity has slowed due to the Department for Transport's decision to review the delivery of Beam Park station, a key piece of infrastructure for the area. Allowance has been made in the current year's budget forecast for opportunities for land acquisitions, however any acquisitions would be subject to further review and approval.

Rainham & Beam Park Income

There is a services agreement in place which attracts £120,000 to the general fund each year to help offset Council costs.

Staff costs for the scheme are capitalised to the scheme's capital budgets as appropriate at the end of each financial year.

Table 3 within EXEMPT Appendix A shows the capitalisation figures for 2021/22.

The last JV business plan earmarked 726 homes for sale, generating a profit of £22m at completion, to be split 50/50 by the two partners.

The estimated sales profile, according to the last business plan, is shown in Table 7 within EXEMPT Appendix A.

However, challenges around build costs, stagnated house prices in the area and the increased cost of land have eroded potential profits. The scheme is being revisited and a new business plan will be brought to Cabinet once a formal decision is reached on the delivery of Beam Park station.

GLA Grants

The Council has a strong track record for delivering affordable housing and is able to access affordable housing grants from the GLA to help reduce the Council cost of building new homes. This is an important external funding source for the delivery of affordable homes.

These grants will come with certain terms and conditions as well as setting high standards for design and resident engagement.

The income profile from GLA grants is shown in Table 8 within EXEMPT Appendix A.

Mercury Land Holdings Expenditure

There has been some slippage on schemes that would be impacted on proposed Government changes to MRP (minimum revenue provision), which makes viability more challenging due to the way capital schemes can be financed.

Mercury Land Holdings are currently reviewing a number of potential sites and will be bringing forward an updated business plan and revised budget profile to Cabinet within the current financial year.

Mercury Land Holdings Income

The Council generates income from MLH development schemes through onward-lending with interest via loan arrangements. The Council also has an equity stake in MLH of £12.3m.

The loan repayments are usually scheduled over 50 years and the interest generates an income to the general fund.

The company has a portfolio of private sector rented (PRS) homes that provide an income to cover debt and company running costs.

The Council will also receive dividends from MLH equity in future.

The income profile from LBH loans, according to the last business plan, is shown in Table 9 within EXEMPT Appendix A.

LEGAL IMPLICATIONS AND RISKS

Legal implications and risks are reported within individual decision reports and business plans.

There are no legal implications or risks arising from this Overview & Scrutiny update report.

FINANCIAL IMPLICATIONS AND RISKS

Financial implications and risks are reported within individual decision reports and business plans.

There are no financial implications or risks arising from this Overview & Scrutiny update report.

HUMAN RESOURCES IMPLICATIONS AND RISKS (AND ACCOMMODATION IMPLICATIONS WHERE RELEVANT)

HR implications and risks are reported within individual decision reports and business plans.

There are no HR implications or risks arising from this Overview & Scrutiny update report.

EQUALITIES AND SOCIAL INCLUSION IMPLICATIONS AND RISKS

Equalities and social inclusion implications and risks are reported within individual decision reports and business plans.

There are no equalities and social inclusion implications or risks arising from this Overview & Scrutiny update report.

ENVIRONMENTAL AND CLIMATE CHANGE IMPLICATIONS AND RISKS

Environmental and climate change implications and risks are reported within individual decision reports and business plans.

There are no environmental and climate change implications or risks arising from this Overview & Scrutiny update report.