London Borough of Hammersmith & Fulham **CABINET** **1st July 2019**	h&f hammersmith & fulham
Building Homes and Communities Strategy	
Report of the Cabinet Member for the Economy and the Arts - Councillor Andrew Jones	
Open Report with exempt appendix The appendix is exempt from disclosure on the grounds that it contains information relating to the **financial or business affairs of a particular person (including the authority holding that information) under paragraph 3** of Schedule 12A of the Local Government Act 1972, and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information	
Classification - For Decision **Key Decision: Yes**	
Consultation The development of this report has been informed by consultation on specific sites with tenants' representative groups, schools, and internal departments who operate existing assets that are being considered.	
Wards Affected: All	
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1. EXECUTIVE SUMMARY

1.1. This report seeks agreement in principle to a self-funding programme of investment in homes and community assets. The strategy will commit the Council to utilising its land and property assets to meet key administration priorities to deliver affordable housing and support the Council's financial challenge. The programme to deliver the strategy, will aim to deliver approximately 1,800 homes over a period of up to ten years, and generate long-term income to support the Council's financial challenge. This complements the Council strategic role as a planning authority in facilitating new housing in line with targets in the London Plan.

1.2. The report explains the rationale and sets out the budget and approvals required for early stage delivery where schemes demonstrate sufficient potential for the Council to invest resources in establishing financial viability.

1.3. The report sets out the potential for the Council to borrow to facilitate the required investment to deliver the programme, and the impact on its overall financial position, demonstrating that this is feasible and delivers clear economic and financial benefits. Each individual scheme would need to meet a set of benchmarks for financial viability and return on investment and require robust decision-making before the commitment of funds.

1.4. The report also asks for decisions to facilitate progress on the Education City to enable the Council to enter into relevant legal agreements.

2. RECOMMENDATIONS

2.1. That Cabinet approves the outline strategic case for the Building Homes and Communities Strategy set out in Appendix A which aims to:

- Build new, genuinely affordable housing which will help maintain the borough's vibrant social mix;
- Supports the Council's Business Plan priority of 'Building Shared Prosperity';
- Renew key community assets, including schools and leisure centres; and
- Generates income to reinvest in frontline services

2.2. That Cabinet notes the approach to consultation and engagement including:

(a) the principle that no individual scheme can proceed without substantial resident involvement
(b) the interdependency between the strategy and the Defending Council Homes policy currently in development
(c) the establishment of a resident panel to provide oversight of consultation on individual schemes as an integral part of the development gateway process.

2.3. That Cabinet approves the outline programme with further work being undertaken to assess feasibility of individual schemes and procure design work where schemes pass the relevant development gateway.

2.4. That Cabinet approves budget of up to £230,000 for feasibility studies and project management costs for General Fund schemes identified at appendix C, funded from previously approved developer contributions.

2.5. That Cabinet approves budget of up to £1,484,119 in relation to HRA schemes set out at appendix B for initial business case, design and survey costs to enable the Council to develop these schemes to outline design (RIBA stage 1) funded from right to buy receipts, grants, developer contributions, borrowing or reserves.

2.6. That Cabinet approves that a core programme team capital budget of up to £2,134,800 over the current capital programme to 2022/23 to be recovered from capital project costs, where these can be capitalised.

2.7. That Cabinet notes a future financial requirement of up to £6,990,150 to allow the Council to develop HRA schemes set out at appendix B to allow the Council to develop those schemes identified as feasible to planning (RIBA stage 3). This will require further approvals in line with the Council's Constitution and Financial Regulations.

2.8. That Cabinet notes a future financial requirement of up £2,165,958 for initial business case, design and survey costs to enable the Council to develop General Fund schemes set out at appendix B to outline design (RIBA stage 1). This will require further approvals by Cabinet.

2.9. That Cabinet notes a future financial requirement of up to £12,336,980 to allow the Council to develop General Fund schemes set out at appendix B to planning (RIBA stage 3) if they are considered viable. This will require further approvals in line with the Council's Constitution and Financial Regulations.

2.10. That Cabinet delegates the decision to commit expenditure to progress schemes within the outline programme from RIBA stage 0 (strategic definition) to RIBA stage 3 (developed design) to the Strategic Director for the Economy, in consultation with the Strategic Director, Finance and Governance in line with the above budget approvals.

2.11. That Cabinet delegates identification of funding of the above budget approvals to achieve RIBA stage 0 to 3 to the Strategic Director, Finance and Governance in consultation with the Cabinet Member for Finance and Commercial Services.

2.12. That Cabinet approves the Procurement Strategy and Business Case for the appointment of multi-disciplinary design teams to develop initial business cases, design and survey costs for schemes identified in the outline programme, as set out in exempt appendix C, and delegate the decision as to which of the recommended frameworks to use for each design team procurement to the Assistant Director for Growth.

2.13. That Cabinet delegates authority to the Strategic Director for Economy to agree revisions to the approved Procurement Strategy and Business Case where there are good operational or procurement reasons for doing so.

2.14. That Cabinet agrees to delegate the award of the contracts for design services to the Strategic Director for the Economy in consultation with the Cabinet Member for the Economy and the Arts provided that these have been procured in accordance with the approved Procurement Strategy and Business Case referred to in paragraph 2.11.

2.15. To Cabinet agrees to appoint Bevan Brittan as legal advisors to the Council with regards to the 50 Commonwealth Avenue through a direct award from the London Borough's Legal Alliance (LBLA) panel framework.

2.16. That the Council enters into the Master Development Agreement, a Deed of Cooperation and any other legal agreements with ARK and any subsidiary Company and any of its funders, which are required to facilitate the delivery of Education City.

2.17. To delegate authority to the Strategic Director for Growth and Place, in consultation with the Cabinet Member for the Economy and the Arts and the Assistant Director of Legal and Democratic Services, to finalise and complete negotiations with ARK and any subsidiary company and any of its funders in order to give effect to the decision in 2.16 above.

2.18. Cabinet are asked to approve a waiver of the usual tendering requirements of Contract Standing Order 10 in relation to the proposed development agreement with ARK (and its subsidiaries) for the Education City development, on the grounds that this is covered by a legislative exemption, as described in the legal implications of the Cabinet report of 29th April 2019 (exempt).

3. REASONS FOR DECISION

3.1. The decisions establish the strategic rationale for a programme of self-funding investment in homes and community assets. They provide a policy framework for the Council to progress a long-term development programme with the strategic aim of supporting new affordable housing and generating long-term income streams to support the Council's financial challenge. These constitute a significant, long-term strategic choice for the Council and therefore requires Cabinet approval.

3.2. These decisions will enable the Council to tender the appointment of a multi-disciplinary design teams of professional consultants to move forward detailed design for schemes identified within the programme. This will allow the Council to progress towards planning applications for individual schemes and determine final business cases. Accordingly, approval of a Procurement Strategy and Business Case for these design teams and for project management support is also requested.

3.3. The Ed City development in White City will create a new mixed-use education hub as well as new homes and community facilities. Cabinet has previously granted approval to enter into a Master Development Agreement and Full Council has approved the overall budget requirement. Approval is now needed to allow the Council to enter into legal agreements with its partners to facilitate delivery of the scheme and a waiver of the usual tendering requirements of Contract Standing Order 10 in relation to the proposed development agreement with Ark (and its subsidiaries) to enter into a direct award. The scheme is not part of the core outline programme but is focused on delivering the Council's strategic ambitions in regard to housing and community facilities.

4. PROPOSAL AND ISSUES

Strategic Drivers for the Homes and Community Assets Strategy

4.1. The Council's 2018-2022 Business Plan sets out a priority to build approximately 1,500 genuinely affordable homes as part of its strategic priority to build shared prosperity. At the same time, as the result of significant reductions in grant funding from central government and growing demand for services, the Council faces a substantial budget gap over the coming years, estimated to be £48.6m by 2022/23.

4.2. In response to this challenge, the Council is developing a ten-year financial strategy, which emphasises financial resilience and autonomy in the context of a prolonged decline in financial support from Government grant. The ability to 'grow the pie' will be an important component of the Council's long-term planning, and the most effective use of assets – to generate income and to reduce costs – is a key mechanism for this.

4.3. This context provides a strategic driver for the Council to review its strategic capital and asset management strategies and the way in which they can support the Council's revenue budget and the administration's future priorities.

4.4. A number of other local authorities across London and elsewhere have developed models of land disposal and community investment which use those authorities' substantial property holdings and rising land values to create programmes of investment which support their revenue budgets. These range from investment in schools and community facilities, a focus on affordable housing, and homelessness prevention through investment in temporary accommodation. The clearest commonality is investment in Council assets to produce revenue benefits either through generating new income or avoiding costs.

Strategic Review of HRA and General Fund land

4.5. In response to these drivers of change, officers have commenced a high-level review of opportunities in the Council's Housing Revenue Account (HRA) and General Fund land and property holdings to understand the size of the Council's opportunity. This work has focused on non-residential assets, only considering the potential to renew the Council's dwelling assets where there has been existing engagement with the community and there is a clear appetite from residents who will be impacted.

4.6. The working hypothesis has been that there is an opportunity to use the Council's asset base to:

- Make a substantial contribution to the number of affordable homes in the borough;
- Support outcomes by ensuring the authority's property estate is fit for future service needs;

- Generate income to contribute to the Council’s budget gap (both directly and through additions to the council tax and business rate base); and
- Support cost avoidance and help to manage demand for high cost services through increasing the supply of specialist accommodation

4.7. The review is at its mid-point, producing a high-level understanding of potential development opportunities, with some priority lines of enquiry progressed to initial studies to understand the housing capacity and income potential. Of the latter, those demonstrating high potential and impact have been progressed to initial feasibility stage to determine if they are economically viable and if it is prudent for the Council to commit funds to progress a development brief, recognising the inherent risk of these costs being abortive.

4.8. Work has also commenced to understand the best approaches to delivering a programme, what additional capacity and capability the Council would need, and what the implications might be for the Council from a financial perspective. The review has identified substantial opportunities, an initial delivery strategy, and a positive financial and economic case for such a programme. The Council now needs to decide whether to proceed with this strategy and to commit budget and provide approvals to enable early stage delivery.

Strategic Case for the Homes and Community Assets Strategy

4.9. Appendix A sets out in detail the outline strategic case for the Homes and Community Asset Strategy. This includes five sections which cover the strategic, financial, economic, commercial and management case. The most important element of this are the strategic and financial case. The strategic case sets out why the Council is pursuing this course of action and how it relates to its overall vision as set out in the 2018-2022 Business Plan. The financial case sets out how the Council can resource this and the impact on its capital and revenue resources.

4.10. The strategic case is that the approach supports the Council to deliver against two main priorities: to build affordable homes and to meet future financial challenges. By leveraging its own property and land assets and developing these with view to retaining the income from market and sub-market rent, the Council can bring forward additional housing and generate long-term funding to support front line services.

4.11. Initial analysis suggests that the Council could generate approximately 1,800 homes. There is also substantial income potential depending on whether the Council choses to retain the developed asset to benefit from the income it generates. There are few other activities that the Council could pursue which would which would provide such a substantial return on its effort. It is also likely that there are schemes which the Council could progress either directly, or with a high degree of involvement with a strategic partner, that could not be realised through a private sector model meaning that this would produce additional housing beyond that which we might expect to come forward if the Council did not commit to this course of action.

4.12. The financial and economic case demonstrates that the programme has a positive Net Present Value (NPV) and a positive cost to benefit ratio. At programme level, two options have been modelled to demonstrate the different options available to the Council – developing and retaining the asset for income, and developing the asset but disposing of it and benefiting from the increase in land value. Further iterations of the financial case will help to refine the overall strategy for the Council at scheme level, ensuring financial assumptions are robust and determining the best approach on a site by site basis.

4.13. All elements of the outline strategic case will be developed further over time, with a further report to Cabinet in January 2020 showing the final outputs of the review, and further work to demonstrate viability of prioritised schemes and requesting approvals and budgets where these are required.

Enabling delivery

4.14. While initial capacity studies for sites that demonstrate viability do not represent a business case, they do give the Council confidence that there is a sufficiently strong strategic case to commit to the strategy. Those sites reviewed so far that demonstrate initial economic and financial viability are in a position to be assessed, and if they can demonstrate a sufficiently strong financial case by meeting agreed development benchmarks, can be progressed to RIBA stage 3 (planning). This means that that the Council can commit resources to produce a development brief which can enable a planning application for the site and for decisions to be taken about the delivery of the relevant scheme.

4.15. By approving the outline programme and procurement strategy, the Council can allocate budget flexibly, enabling the programme team to progress schemes to the point at which a design team can be procured, developing a brief and viability information sufficient to submit a planning application. Further Cabinet decisions would be required at this stage, requiring a full business case to be approved for the costs of development and procurement of a delivery partner. This provides an appropriate balance between pace and flexibility on the one hand, and rigorous decision-making on the other.

4.16. The Council's Development Board, chaired by the Strategic Director for Economy and attended by the Strategic Director, Finance and Governance, would approve all schemes from initial feasibility progressing to gateway 1 (approval to procure a design team) and to gateway 2 and 3 (submission of a planning application). The decision to identify and approve expenditure would be taken by the Strategic Director, Finance and Governance in consultation with the Cabinet Member for Finance and Commercial Services. Any decisions on committing further investment and entering into a final contract would be taken by Cabinet on submission of a full business case.

4.17. The costs of achieving RIBA stage 0-3 have been modelled on the unit costs estimated for achieving this at Flora Gardens Primary, a scheme approved by

Cabinet in March 2018. This scheme is the most advanced within the programme and provides a comprehensive and up to date benchmark on which to estimate costs.

4.18. All schemes included within the programme will require extensive resident engagement at each stage of the development process. The Council has developed an inclusive design approach in relation to early stage delivery on the Flora Gardens and Avonmore Primary schools, commissioning a Client Design Advisor (CDA) to work with the school community and other stakeholders to develop a design brief. The importance of defining residents' requirements from any development proposal is a key principle of the strategy, particularly if there is a direct impact on residents through the re-provision of an existing asset in use.

4.19. The Council is committed to re-provision of any community asset that is developed, and to providing a mechanism for ensuring that no scheme progresses between initial feasibility to RIBA stage 1 (design brief) without substantive engagement with residents who are impacted. An oversight panel, comprising residents and experts in community engagement and development, will be commissioned to provide recommendations to the Development Board at each stage of the gateway process, to ensure an appropriate threshold for resident involvement has been met. This will be afforded the same weight in decisions about progress between development gateways as measures of financial and economic viability.

4.20. This approach will be developed in close alignment with the development of the Defending Council Homes policy, which sets out written commitments to provide residents with protections in the event that development activity impacts on Council homes.

4.21. Early assessment of the outline programme suggests two schemes which will be a priority for action based on their potential benefit and an initial assessment of their viability. These are set out below and will be the immediate focus of the programme team. Each priority project will be taken forward by a cross-council task and finish group including teams who are responsible for operating existing assets under consideration or who have a substantive interest the proposed scheme.

4.22. While outside of the core Building Homes and Community Assets programme, the section below also sets out the reasons for decisions required in relation to the Education City scheme at White City.

Bagley's Lane

4.23. Bagley's Lane is located in the Sands End ward in Fulham and sits next to a number of new build sites such as Chelsea Creek and Imperial Wharf which include residential, retail and office space.

4.24. The potential comprehensive development site comprises three parcels of land; H&F Depot (council owned), the Mortuary (council owned) and Laura Ashley (privately owned).

4.25. Bagley's Lane depot is managed by the Council and needs major refurbishment in the medium term to remain operational. An opportunity for comprehensive development of both parties' land interests allows greater scope for affordable housing in this part of the Borough than through piecemeal development on each site. A comprehensive development allows H&F to help shape this part of the borough.

50 Commonwealth Avenue

4.26. This site is located in White City and is adjacent to St. Michael's Church. The Council has been approached by the Dioceses of London with a proposal to work together to progress the site. By working together the Council and the Church will be able to maximise the amount of housing that can be built, and also provide new community facilities.

4.27. 50 Commonwealth Avenue is owned by the Council and has been used by community groups in the past. It is no longer fit for purpose. A comprehensive development will allow the Council to create more affordable housing and to meet community needs.

4.28. The report seeks approval to appoint Bevan Brittan as the Council's legal advisors in relation to this scheme. This will enable legal due diligence to be carried out and to progress the scheme for the benefit of residents.

Education City

4.29. The Ed City development in White City, will create a new mixed used education hub on the site of the ARK Swift Primary School at Australia Road, W12 and will include, a high-quality primary school, new and expanded nursery for 75 children, new adult education facilities, new youth facilities, an office for educational charities and 132 new homes, 50% of which will be affordable housing. The Education City Development delivers on several key Council strategies and priorities.

4.30. On 29 April 2019, Cabinet granted approval for the Council to enter into a Master Development Agreement, a Deed of Cooperation and any other legal agreements with ARK and any subsidiary company, which are required to facilitate the delivery of the Education City project.

4.31. On 15 May 2019, Full Council granted approval to the overall budget requirement of £64,831,000 to deliver the development and approved recommendations to enable the development to proceed to create a new mixed used education hub, meeting the Council's education, housing and planning objectives.

4.32. An updated decision is now required to enable the Council to appoint or enter into a direct award or an agreement with ARK's Funding Structure for the project. Cabinet are asked to approve the updated decisions in relation to the Education City project previously considered at Cabinet on 29 April 2019.

5. OPTIONS AND ANALYSIS OF OPTIONS

The development sites identified in this report will all require separate Cabinet approvals before being progressed to planning stage. Each will require a separate options appraisal when considered. The options below therefore consider the Council's different options in relation to the establishment of the Homes and Community Asset strategy as a major Council initiative, and the proposed strategic delivery model for programme, namely a self-financing programme with the Council taking a significant role in direct development in order to retain revenues and maximise community benefit.

Option 1 – continue with the Council's current development model

5.1. The Council current development model is to identify surplus land and partner with registered social landlords (RSL). In general, the Council grants a long-term lease to the RSL in exchange for nomination rights to the affordable housing units that are built, with the RSL taking the financial risk of development but benefiting from a long-term rental stream. This enables some affordable housing to be built using Council-owned land but means that all the profit accrues to another party, and the Council has more limited control over schemes.

5.2. The scale of the revenue opportunity demonstrated in the initial stages of the review has the potential to make a substantial contribution to the Council's revenue position if the Council delivers this activity directly. It is also the case that some schemes are likely only to be possible with more Council control due to the complexity of land assembly and the number of stakeholders involved.

5.3. The Council's current approach does not bring together schemes into a portfolio allowing the cross-subsidy of some sites which are financially unviable but would provide major community benefit. Organising opportunities into a single programme, with direct control by the Council and benefiting from authority's ability to borrow against future income, would unlock the development of community assets which are unlikely to be delivered by private developers or by housing association partners. For these reasons this approach is not preferred.

Option 2 - establish the Building Homes and Communities Strategy and adopt a mixed delivery approach based on site specific strategies

5.4. Directly delivering housing from Council-owned land enables the Council to deliver a substantial number of private and affordable homes which would not otherwise be delivered by the market. It would also allow the Council to benefit directly from the revenue generated from market and social rent housing as well as accruing a long-term asset. Taking a programme approach, with rigorous governance and financial oversight, enables the Council to gain maximum benefit from development in the borough while ensuring each scheme is financially viable and that the implications of borrowing are integrated into the Council's revenue and capital strategies.

5.5. The implications of this approach are that the Council needs to increase its capacity and capability to manage a programme of this nature, that it needs to be satisfied that the programme is self-funding and has an acceptable payback period, and to accept some development risk. There will be some instances where the scale of a scheme and the benefits from it do not justify the Council delivering directly, and in these cases it might be preferable to partner with an RSL. Adopting site specific delivery strategies can mitigate against the potential for a one-size-fits-all approach.

5.6. This option is preferred because on balance it provides the best strategy for meeting the Council's primary objectives of delivering affordable homes and of generating new income generating assets to contribute to the Council's long-term financial challenge.

6. CONSULTATION

6.1. The strategy has been developed in line with the emerging policy and guidance around Defending Council Homes, and main governance boards for the strategy will ensure that the strategy's approach and processes are fully aligned as this develops further.

6.2. All schemes will be subject to extensive engagement and have resident involvement built into the process for developing design briefs as schemes progress from initial feasibility to the development of more detailed designs. Schemes will not be progress to gateway 1 without demonstrable evidence of engagement with residents and other stakeholders who are directly impacted. This will be subject to independent challenge through the proposed resident oversight panel and will need to adhere fully to the Defending Council Homes policy. The Council sets a high bar for resident involvement, reflecting the strategic commitment in its Business Plan to 'do things with residents, not to them.'

6.3. The review has not explored the redevelopment of residential assets or the whole scale regeneration of housing estates. Where there is demand and communities proactively approach the Council, this type of development will be considered, but would always require extensive engagement with affected residents. This will include the requirement for a successful ballot of residents before committing funding to the development of a planning brief and design.

7. EQUALITY IMPLICATIONS

7.1. The approval of the 'Building Homes and Communities' proposals, as set out in the Recommendations, does not directly negatively impact on groups with protected characteristics under the Equality Act 2010. There may be positive impacts, and the Council will be required to produce a full Equality Impact

Assessment [EIA] at the point at which individual schemes progress to planning applications and at the point at which the Council enters into contracts.

7.2. Implications completed by Fawad Bhatti, Social Inclusion Policy Manager, tel. 07500 103617.

8. LEGAL IMPLICATIONS

8.1. This report is seeking approval for a new Strategy of investment in homes and community assets. It follows two earlier reports where approval was given to move forward with individual schemes for Flora Gardens and Avonmore Schools and the White City Estate, however this report is drawing different elements into an overall Strategy. If the Strategy is to form part of the Council's policy framework, then pursuant to Article 4 of Part 2 of the Constitution, the document at Appendix A will require approval of full Council (including any updates to it).

8.2. The Strategy will also see provision of housing and re-provision of community assets, and also aims to provide the Council with a revenue stream or capital receipt from each scheme. The report describes steps to be taken to establish initial feasibility and seeks approval for this work to be taken further as part of the Strategy.

8.3. The service department are recommended to commission Legal Services as soon as possible to investigate title to the land at the various sites, to check ownership, the existence of any restrictive covenants and the purpose for which the land is held.

8.4. In some cases, there will be statutory consultation requirements under both the Education Acts and section 105 of the Housing Act 1985, in addition to planning application consultation.

8.5. The report also seeks approval for the Procurement Strategy at Appendix B for procurement of a number of design teams. It is a requirement of Contract Standing Order 8.12 that Cabinet approves the Procurement Strategy and Business Case for all procurements exceeding £100,000 in value. Procurements may be on a "per site" basis, or it may be appropriate to cluster some sites together into one requirement.

8.6. The proposed procurement of the design team exceeds the EU threshold for services so will need to be procured in accordance with the EU rules. Here it is proposed to use one of three frameworks – as the decision as to which will be more appropriate for each procurement has not yet been taken, it is proposed to delegate the choice of this to the Assistant Director. If revisions beyond this are required to the Procurement strategy, then it is proposed to delegate this to the Strategic Director. It should also be noted that the procurements are to be run on the basis for a full RIBA process up to stage 7, with review/ break clauses at RIBA stage 1 and 3 to allow for schemes not proceeding beyond those stages. There is at present no budgetary approval beyond RIBA stage 3 for any schemes, whether in the GF on the HRA.

8.7. Legal Services will also need to review the frameworks to ascertain if there are any issues around their use, for example to ensure that they were established in compliance with the EU rules and that the proposed use is not outside the scope of services for which the framework was established.

8.8. Assuming that the proposed call-off from the selected framework and award of contract happens before any Brexit date, then the call-off will be unaffected. If however this does not happen before Brexit, and there is no withdrawal agreement setting up a transition period, then the Cabinet Office has indicated that there will be UK regulations to explain how to deal with procurements that have started before Brexit but not completed. However, where use is made of an existing framework, the impact is expected to be minimal.

Implications completed by *Deborah Down, Senior Associate with Sharpe Pritchard solicitors on secondment to the Council Ddown@sharpepritchard.co.uk*

9. FINANCIAL IMPLICATIONS

9.1. The report sets out an outline programme of 19 sites for which further work is required to assess feasibility of individual schemes. At this stage, the schemes are not sufficiently developed and sufficient information is not available to establish budgets or funding (and therefore report the full financial implications) for each scheme.

9.2. A gateway process is proposed to scrutinise and make decisions to commit expenditure required to progress schemes and these decisions are delegated to the Strategic Director of the Economy in consultation with the Strategic Director, Finance and Governance as members of the proposed Development Board. Through this gateway and governance process the high-level budgets sought in this report are expected to be controlled through additional review and approval processes which will balance the need to work at pace with minimising potentially abortive costs and ensuring that the proposed schemes are affordable. Individual schemes will be subject to further Cabinet, or Full Council, decisions in line with the Council's Constitution and Financial Regulations once a detailed brief and viability information is sufficient to submit a planning application. At that stage a full business case will set out the costs of development.

9.3. This report requests financial approvals, subject to the above governance and control arrangements, as follows:

Item	Amount	Funding Source
One-off items		
In principle budget to allow the Council to develop HRA schemes to planning (RIBA stage 1)	£1,484,119	Identification of funding delegated to the Strategic Director, Finance and Governance, in consultation with the

		Cabinet Member for Finance and Commercial Services.
Budget to enable further viability assessment and project management of priority GF schemes develop a strategic brief (RIBA 0)	£230,000	Previously approved S106 funds.
Total one-off costs	£1,714,119	
Programme team annual costs (to be capitalised where possible) £582,200 per annum (and prorata) to 2022/23	£2,134,000	Capital budgets and allocated to the respective schemes with funding delegated to the Strategic Director, Finance and Governance, in consultation with the Cabinet Member for Finance and Commercial Services.
Programme team costs	£2,134,800	
Anticipated future budget requirement to allow the Council to develop GF schemes to planning (RIBA stage 1)	£2,165,938	n/a
Anticipated future budget requirement to allow the Council to develop GF schemes to planning (RIBA stage 3)	£12,336,980	n/a
Anticipated future budget requirement to allow the Council to develop HRA schemes to planning (RIBA stage 3)	£6,990,150	n/a
Future anticipated one-off costs subject to further decision	£21,493,088	

9.4. It is anticipated that the one-off costs will be predominantly capital in nature however costs will need to be assessed on a case-by-case basis as and when schemes are worked up in detail via the Development Board.

9.5. For the project team costs (estimated to be £582,200 per annum), where there is an expectation that these costs are capitalised, capitalisation tests will need to be met and the project team members will need to maintain timesheet records to enable cost to be correctly apportioned to each scheme. Total costs over the life of the current capital programme to 2022/23 are estimated to be up to £2,134,800 including part year costs in 2019/20.

9.6. The Finance Business Case in appendix A centres on two options. First, build and sell-on and second, build and retain. The business case notes a number of items for consideration and the model will need to be refined as and when detailed schemes are worked up via the Development Board, in particular taking account of the following:

- the effect on / benefit to both revenue and capital budgets and funding
- the split of General Fund and HRA land interests which may drive different accounting and funding requirements and will govern the distribution of costs and benefits and the requirement for any appropriation of land interests between the two
- the potential impact on the Council's VAT partial exemption position
- the potential impact of corporation tax when delivered via a company.

9.7. Further work is required on the assumptions within the financial models and appraisal criteria (hurdles) which will be used to assess schemes' viability and these will be considered by the Development Board.

Financial risks

9.8. The budgets requested in this report are initial project costs that cover the development of schemes to planning. Due to the nature of the work being completed there is a risk that expected capital costs incurred on aborted schemes will need to be written off to revenue.

9.9. Whilst initial work has indicated that schemes are feasible and that there is merit in completing further work to progress the schemes, the Financial Case in appendix A shows that the viability is sensitive to a number of assumptions. There are risks therefore that on detailed work the schemes are not considered viable and the costs of work completed will need to be written off to revenue.

9.10. The report requests budget approval for a programme team, expected to be capitalised and funded from HRA capital resources. There is a risk that not all the teams' costs can be capitalised and these will be an unbudgeted revenue costs to the HRA or General Fund. In addition, there are risks to ongoing revenue budgets on completion, of the programme or in the event that the shape and scope of the programme changes if the Council, in the form of potential redundancy costs for programme team members.

HRA context

9.11. Alongside the proposed programme set out in this report, Cabinet is considering the capital expenditure budgets required as part of its Housing Compliance and Asset Management Strategy which also requires significant additional investment in the Council's existing stock in the short and medium term. That separate report recommends an additional capital programme investment of £11 million in addition to the current approved HRA capital budget.

9.12. As a result of this Building Homes and Communities Strategy and the Housing Compliance and Asset Management Strategy, a significant increase in capital investment in the HRA is envisaged over the next four years and the current business plan will need to be revisited to ensure all the investment demands are captured and are affordable. Whilst the Council has an opportunity to borrow to fund the capital investment and expects to generate income and/ or capital receipts through this strategy, additional external borrowing costs and depreciation costs will be incurred. Any future decision on taking forward these schemes and the resulting capital investment by the HRA will need to be made in the context of potentially competing demands for capital investment and the affordability of the revenue implications of these within available resources. This may need to influence the options through which new schemes can be delivered. Until the business plan can be updated with all the expected schemes it is not clear that the cumulative impact of all these commitments are affordable and therefore the gateway process and Development Board will have an important role in prioritisation.

General Fund context

9.13. The forecast General Fund reserves position shows limited capacity to enable it to set aside reserves to mitigate the risk of the need to write off any General Fund abortive costs and reserves forecasts and therefore the funding of the initial feasibility work will be funded by previously approved s106 contributions. In this context, future modelling will need to clearly identify General Fund costs and the gateway process will need to operate to avoid the risk of the need to write off abortive costs.

Other

9.14. The Council's capital programme is a key driver of cash requirements and the Treasury Management Strategy which will determine the Council's overall need to borrow internally or externally and its borrowing strategy. Furthermore any options to on-lend to any companies, if these are part of the delivery structure, will also need to be incorporated in to the Treasury Management Strategy, with additional considerations required in respect of state-aid and corporation tax implications.

9.15. The capital programme is also a significant determinant of risks in relation to the Council's partial exemption position and this will need to be carefully managed to avoid additional costs to the Council particularly in relation to any surrender of or new lease arrangements that may be required.

9.16. Tax implications including SDLT and the effect on the Council's partial exemption position will also need to be considered in deciding the most appropriate delivery mechanisms for each scheme.

9.17. Implications prepared by Emily Hill, Assistant Director, Corporate Finance, telephone 020 8753 3145.

10. IMPLICATIONS FOR BUSINESS

10.1. The implications for local businesses are potentially positive as there is scope to create opportunities for local businesses to bid for local work and maximise local economic and social value. The Council will be able to use the supply chain through construction of schemes to prioritise employment and training opportunities for local residents.

Implications completed by Albena Karameros, Economic Development, tel. 020 8753 8583

11. COMMERCIAL IMPLICATIONS

11.1. The procurement strategy is in line with the Council's Contracts Standing Orders that require calling off from an established framework agreement or seeking competitive tenders for contracts with a value over £25,000.

11.2. The strategy is also in line with Public Contracts Regulations 2015 as the proposed framework agreements have been procured in line with the Regulations

11.3. Social Value has been considered as part of the strategy development and will represent 10% of the Quality awarding criteria.

Implications completed by Andra Ulianov, Head of Contracts and Procurement, 07776672876

12. IT IMPLICATIONS

12.1. There are no apparent IT implications resulting from the proposal in this report

12.2. *Implications verified/completed by:* Karen Barry, Strategic Relationship Manager, tel. 0208 753 3481

13. RISK MANAGEMENT

13.1. Significant opportunities may arise from the proposals however there will need to be a robust governance and clear risk management framework in place so as to ensure the greatest chance for success. The establishment of governance boards as outlined in the report will help to promote or demote areas of risk as soon as they become known. The disciplines of Portfolio and Programme Management must be applied with experienced Officers in place to support the schemes as identified. The principles of Ruthlessly Financially Efficient will also apply to make sure decisions made are commercially sound, are within an affordable budget, and where monies are utilised that they are done in accordance with the Council's priorities.

Risk Comments verified by Michael Sloniowski, Risk Manager, tel 020 8753 2587

14. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None

LIST OF APPENDICES:

Appendix A – Outline Strategic Business Case for the Building Homes and Communities Strategy
Appendix B–Schemes approved for early design stage and resident consultation
Appendix C (exempt) – Procurement strategy for the Building Homes and Communities Strategy

Appendix A - Outline Strategic Business Case for the Building Homes and Communities Assets Strategy

Introduction

This document is an outline business case for the Building Homes and Communities strategy. It follows HM Treasury Five Case Model for the development of businesses cases. This approach is widely used across central government departments and the wider public sector. The purpose of a business case is to provide a management tool which supports decision making in a transparent way. The strategy is at an early stage, with initial scoping and discovery work defining an approach and delivery programme at a high-level. This document therefore represents the 'strategic outline case' (SOC). The purpose of the SOC is to confirm the strategic context of the proposal; to make a robust case for change; and to provide stakeholders and residents with an early indication of the way forward. It supports early stage decision making with the best information currently available and provides a structure and discipline for development of more detailed information.

These chapters are as follows:

- **the Strategic Case** – which provides the strategic rationale for the programme and shows how it will support the Council's business plan
- **the Economic Case** – which will show the economic and social benefits of the programme to the borough
- **the Commercial Case** – which addresses the fundamentals of any potential procurement of commercial structure for the strategy
- **the Financial Case** – discusses the likely affordability of the programme
- **the Management Case** – outlines how the programme will be set up and managed

Subsequent stages will update this document, moving from SOC to an Outline Business Case (this is a detailed plan), and finally to a final business case (a detailed final phase).

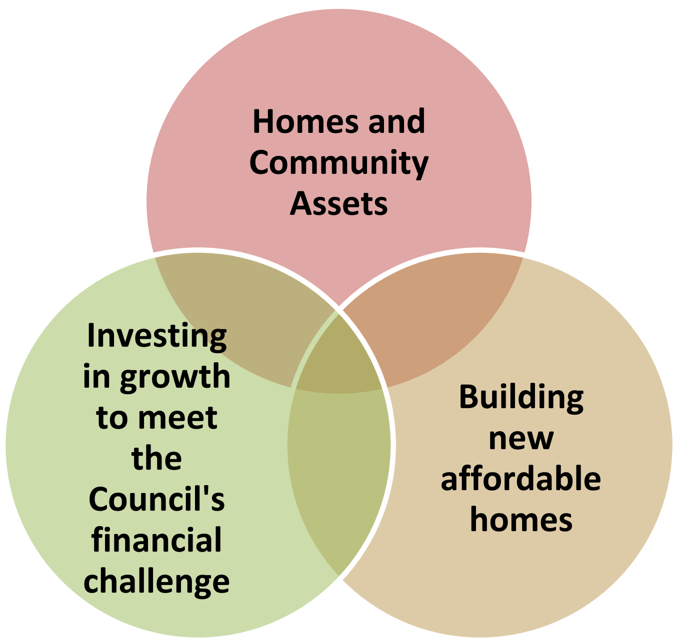
Each stage includes the same chapters, but with more detail included at each stage. An Outline Business Case, revising this document, will be presented to Cabinet in January 2020 as part of an update on the strategy.

Strategic Case

The Council's 2018-2022 Business Plan sets out how the Council will deliver the administration's vision for the borough. The broad themes of the Plan include an ambition to deliver shared prosperity for residents of the borough, ensuring all citizens can shared in the dynamic growth the borough expects to see over the medium and long-term as part of its Industrial Strategy.

The Plan also includes a thematic focus on 'ruthless financial efficiency', recognising the very significant medium-term financial challenge the Council faces, as well as the long-term decline in income from government grant and the structural challenge of increasing demand for services, in particular, for adult and children's social services.

The strategy is part of the Council's strategic response to these challenges, developing a new operating model in relation to strategic asset management and the way it influences the local housing and development market.



A New Operating Model for the Strategic Use of Assets

The approach would see the Council directly deliver housing from Council-owned land enabling the Council to deliver a substantial number of private and affordable homes which would not otherwise be delivered by the market. It would also allow the Council to benefit directly from the revenue generated from market and social rent housing as well as accruing long-term assets. Taking a programme approach, with rigorous governance and financial oversight, would enable the Council to gain maximum benefit from development in the borough while ensuring each scheme is financially viable and that the implications of borrowing are integrated into the Council's revenue and capital strategies.

The implications of this approach are that the Council needs to increase its capacity and capability to manage a programme of this nature, that it needs to be satisfied that the programme is self-funding and has an acceptable payback period, and to accept some development risk. As set out in the commercial case later in this document, there will be some instances where the scale of a scheme and the benefits from it do not justify the Council delivering directly, and in these cases, it might be preferable to partner with a housing association.

Strategic Driver 1 - Building New Affordable Homes

The Business Plan includes a specific pledge to support the delivery of 1,500 affordable homes. These ambitions are set within the context of the broader London housing crisis, with affordability and access to good-quality housing acting as a drag on London's growth and international competitiveness.

In addition to the economic cost, a lack of sufficient affordable housing has a negative impact on the social mix of the borough and exacerbates poverty, with the high cost of housing relative to income being a key driver of relative poverty in the borough.

The very high cost of private sector housing in the borough means that it is difficult for households on low to middle incomes to access suitable housing that they can afford in Hammersmith and Fulham. Many households cannot get suitable housing in either the private or social housing sectors and have to move out of the borough when they no longer want to share with others or need a larger home.

Hammersmith and Fulham's housing challenge

- A relative lack of shared ownership and intermediate options for those on low or middle incomes;
- Overcrowding, with 13% of dwellings overcrowded by at least one bedroom;
- An ageing housing stock, which is becoming increasingly expensive to maintain to a decent standard;
- Lack of accessibility with the design of the current social housing stock difficult and expensive to retrofit to support residents with disabilities; and
- A need for more family sized housing in the borough to meet both new and existing demand.

The Council has a range of levers in relation to bringing on additional housing supply. Its role as a strategic planning authority is to enable development consistent with the Local Plan, but the Council already uses it land and property assets to facilitate development. However, the main mechanism for doing this is the Affordable Housing Framework – agreed by Cabinet in 2017 – which provides a basis for partnership with developers, principally registered social landlords. In this model, the Council provides land in exchange for nomination rights to social housing that is developed, but the asset and income accrues to its partner. It is also the case that some sites, because of their complex pattern of land ownership or the challenge of bringing stakeholders together, are too challenging to be developed without strong local authority involvement, either through direct development or through a formal partnership mechanism like a joint venture.

Changing the Council's operating model in relation to development, with the Council acting in a more strategic role as a developer of assets, would enable additional housing to be brought forward which would not otherwise be possible, or would only be so with very high transactional costs.

While at an early stage of the strategy's development, with limited financial and design information available about identified sites, the programme has the potential to delivery an additional 1,800 homes over a period of ten years, and to renew a number of key community assets including schools and leisure centres.

Strategic Driver 2 – Investing in Growth to meeting the Council's Financial Challenge

The Council faces a substantial budget gap over the coming years, estimated to be £50m by 2022/23. In response to this challenge, the Council is developing a multi-year financial strategy, which emphasises financial resilience and autonomy in the context of a prolonged decline in financial support from Government grant. The ability to 'grow the pie' will be an important component of the Council's long-term planning, and the most effective use of assets – to generate income and to reduce costs – is a key potential mechanism for this.

The Strategy recognises the potential to use the Council's asset base strategically, utilising the value of Council land and property as a consequence of its local in central-west London, to develop new housing and commercial assets and retain the income from this to reinvest in frontline services. Currently the focus is on developing our land holdings and building the Council's capacity as a developer. However, subsequent phases might include the acquisition of revenue generating assets, utilising the Council's ability to borrow at low rates of interest.

While assets can generate the Council income, there is also potential to use them for avoiding future costs and managing current demand. The Council invests heavily in specialist housing and temporary accommodation to meet its statutory duties because it recognises that this investment in early intervention and prevention enable people to retain their independence for longer, while reducing costs to the Council and other public agencies. The difference in weekly costs of placements which combine housing and support for young people leaving care is £417 per week between the core block contract and spot purchased placements, with the Council commissioning 54 units core arrangements. Assuming 50% of off-contract spend could be incorporated into the block arrangement if new housing supply could be brought online, the Council could save in the order of £500,000 per year. Subsequent iterations of the business case will explore the potential savings opportunity for earmarking a proportion of the new supply to support specialist accommodation and the site assessment and appraisal will explore the potential for this as part of the feasibility and design stages, informed by strategic commissioning plans and needs assessments.

The size of the opportunity is significant. The initial review has identified capacity for approximately 1,800 units of housing, and substantial potential income. Our understanding of the capacity and income from specific sites is at an early stage. The sites included in the programme currently, with the exception of Flora Gardens and Avonmore, are at gateway 0 of the development process. This means that we do not have sufficient information to allocate budget to procure design teams to develop a planning brief – this is gateway 1 of the development process. This data cannot be used to plan the Council's future capital or revenue strategies, but it does give confidence that the Council should invest resources in further understanding these opportunities. There are few alternative activities the Council could pursue which would generate income to support its revenue budget, accrue additional assets, and meet another major strategic objective (in this case the delivery of additional affordable housing).

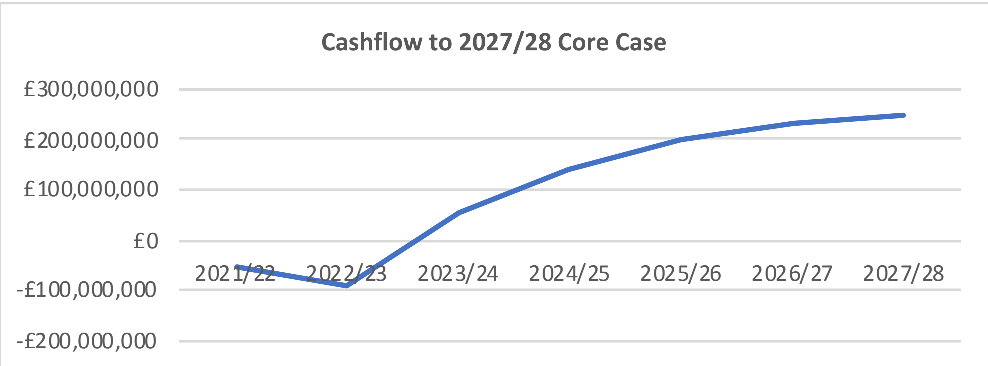
Financial Case

Summary

Option 1 The Council builds the properties but disposes of them upon completion with 50% sold at Market Rate; 30% at Target Rent and 20% at Shared Ownership

	Nominal	Present Value
Project Costs (exc finance)	-£611,385,657	
Finance (Debit)	-£8,522,893	
Finance (Credit)	+£8,665,919	
Total Project Costs	**£611,242,631**	**£520,139,060**
Total Project Benefits	**£859,133,436**	**£720,398,542**
Total Project Value	**+£247,890,805**	**+£200,259,482**
Benefit Cost Ratio		**1.39**

The total cost of borrowing to the Council is estimated at **£8.5m** over a two-year period, based on initial costs and the assumption that receipts from sales are received immediately and can be invested in further housebuilding. If a 1% credit interest rate is applied to the surplus from Year 3, this would deliver interest income to the Council of £8.6m by 2027/28, making the overall cost of borrowing neutral.



Based on these assumptions and on the information that is available and the omission of non-housing elements the programme could deliver a benefit cost ratio of 1.39. This present value assessment assumes that all the income from sales is received from all of the units when they are sold and the sales all occur in the same year that the homes are built.

Option 2 The Council develops and retains ownership of the homes, with 50% being Build to Rent, 30% being Target Rent and 20% being affordable rent (80% of market rent).

	Nominal	Present Value
Project Costs (exc finance)	-£681,318,131	
Finance (Debit)	-£328,822,584	
Finance (Credit)	+£0	
Total Project Costs	**£1,010,140,715**	**£781,392,882**
Rental Income (to 2040/41)	£623,071,109	£400,839,564
Asset Value (2040/41)	£1,597,232,707	£775,569,728
Total Project Benefits	**+£2,220,303,816**	**+£1,176,409,212**
Total Project Value	**£1,210,163.101**	**£395,016,410**
Benefit Cost Ratio		**1.51**

In Option 2 the build costs are assumed to the same as for Option 1 and the value of the retained assets in 2040/41 has been added to the cumulative rental income over the period. The cost of borrowing is considerable, as the assets will be retained. However, the value of the retained assets in 2040/41 more than offsets this, based on average annual 2% real terms house price inflation.

Assumptions

The outline financial case is based on building the programme of 1,756 homes across twenty sites within the London Borough of Hammersmith & Fulham, with a build period commencing in 2020/21 and completing in 2027/28.

Income from the homes that are built – in the form of capital receipts from the sale of property in Option 1 and rental income from and the value of from retained properties in Option 2 in until 2040/41– is assumed to commence in the same year as buildings are completed and 100% sales/occupancy has been assumed in both cases.

The estimates are based on LSH site assessments of the costs and benefits of each site. They exclude all non-housing related components of the developments. 5% of build costs have been included to account for preliminaries and a 5% contingency allowance has been applied. Real terms house price inflation is assumed to be at 2%. Finance costs are shown as 6.5% debit and 1% credit based on the cash flow analysis. The finance costs are made up of 2.5% in interest payments and 4.0% in Minimal Revenue Provision (MRP).

Issues for Consideration

1: The costs and benefit will depend on the phasing of the developments. The current estimates are based on all 1,756 homes being built by 2027/28, with a peak of 325 buildings being built in 2024/25. Homes will be occupied in the same year that buildings are complete.
2: Other non-housing costs and benefits will need to be considered on a site by site basis as part of more detailed business cases for each site.
3: The sales model involves lower borrowing risks, assuming properties can be sold at the estimated values. However, under Option 2, there are likely to be much more significant borrowing requirements, as the Council will retain the assets. The Council needs to agree the best way of valuing the assets and establish an agreed balance between income and asset value. Currently, the MRP aims to ensure that the assets against which borrowing is made are paid off over an

agreed period of time. This creates significantly cash flow challenges and, unless the value of the retained assets is included makes it difficult to make a positive case for an option where assets are retained. However, based on assumed annual real terms house price inflation of 2%, the net present value of the assets that is likely to be significant and to make the investment viable.

4: The two options are not mutually exclusive and it is likely that the Council will pursue a strategy that involves evaluating the merits of Options 1 and 2 on a site by site basis, in order to ensure the most effective financial benefits for the Council and social and economic benefits for the Borough.

The Economic Case

The economic case assesses the land value uplift of the development programme and considers the wider impacts that it may have, some of which can be monetised and others which can't readily be so.

For the economic case, the existing land value has been assumed as zero, although this is unlikely to be the case and an optimism bias factor of 15% has been applied to account for risks and under-estimating development costs. Transport impacts will need to be considered and have not been included. In addition, there are likely to be other benefits, including those associated with housing vulnerable residents, a possible place-making premium and other benefits associated with open space and better public realm, for example. In addition, there are quantifiable health benefits associated with affordable houses.

Furthermore, there may be additional benefits associated with non-housing components of the site. Resident spend is not normally included in economic impact analysis, mainly because of high displacement rates. Currently no monetised values have been attached to these other impacts, apart from to the health impacts.

The tables below show the estimated Economic Impacts of the programme with and without additionality, based on an appraisal period from 2018/19 to 2027/28.

WITHOUT ADDITIONALITY - ECONOMIC CASE		
NPV OF EXISTING LAND VALUE		£0
NPV OF COSTS		£453,897,777
NPV OF HOUSING BENEFITS (BEFORE ADDITIONALITY)		£646,390,937
NET PRESENT VALUE		**£192,493,160**
BCR		**1.42**

Assuming Existing Land Values of zero and 100% additionality, the programme has a Net Present Value of £192,493,160 and a Benefit Cost Ratio of 1.42, which would be considered reasonable.

The Net Present Value of the programme is highly dependent on house price inflation. If real terms house price inflation is assumed to be 5%, instead of 2%, the Net Present Value of the programme increases to £420,615,712 and the Benefit Cost Ratio to 1.94.

However, if house price inflation is assumed to be 0%, the Net Present Value of the programme reduces to £73,092,691 and the Benefit Cost Ratio to 1.16.

With Additionality Applied

Additionality is usually applied to all developments, because there is always some level of displacement and deadweight associated with them.

If a 72% additionality factor is applied, the Net Present Value of the programme is £11,503,698 and the Benefit Cost Ratio is 1.03.

WITH ADDITIONALITY - ECONOMIC CASE		
NPV OF EXISTING LAND VALUE		£0
NPV OF COSTS		£453,897,777
NPV OF HOUSING BENEFITS (AFTER ADDITIONALITY)		£465,401,474
NET PRESENT VALUE		**£11,503,698**
BCR		**1.03**

If real terms house price inflation is assumed to be 5%, instead of 2%, the Net Present Value of the programme increases to £177,978,725 and the Benefit Cost Ratio to 1.40. However, if house price inflation is assumed to be 0% the Net Present Value of the programme reduces to -£75,043,025 and the Benefit Cost Ratio to 0.84, suggesting that the programme may be economically unviable.

Concluding Comments

Based on the information that have been provided and the assumptions that have been made the programme could have a positive economic impact, if no additionality factor is applied. The impact is likely to be reduced if the land is given an existing value and if transport impacts are applied. However, this could be offset by applying values to other non-monetised impacts. To achieve a Benefit Cost Ratio of 1.5, these would have to have a value that is equivalent to £215 million if no additionality factor is applied and £34 million if a 72% additionality factor is applied.

The Commercial Case

In light on the strategic case, the commercial strategy is designed to balance objectives. The first is to maximise the potential for ownership and financial benefit, with the Council receiving revenue in excess of operating costs and an asset that will accrue in value overtime. This will need to be balanced against the strategic driver to deliver new affordable housing at pace.

This means that the Council will adopt a mixed economy, developing a bespoke delivery strategy for each site which balances direct financial return to the Council with speed of delivery.

Where financial returns are limited, or the number of units is small, this would favour partnership with a housing association who could deliver sites quickly and take developments risk in return for ownership. Where there is greater complexity, and or the financial returns are greater then direct delivery by the Council or through a directly owned company is likely to the best option. This is because the involvement of a partner creates an additional transaction cost.

The Council already has a housing company, established as delivery mechanism for existing committed schemes. It may be possible for the Council to adapt this vehicle to achieve the benefits the strategy is designed to achieve, or it might require the Council to set up an additional entity. At this stage, the SOC seeks approval of the case for change, the identification of an outline programme, and a set of principles for delivery. Over the course of the next six months, the Council will need to define a detailed delivery strategy which can inform operational decisions about how sites will be delivered. This will require professional advice, and engagement across services, corporate finance, legal, procurement and the Council's development division to establish a framework for assessing different options, and a framework for decision-making at programme and schemes level. Detailed below are a set of high-level criteria the Council might apply to asses delivery options, including joint ventures and wholly owned companies.

High level assessment criteria

- Set up costs
- Ability to maximise affordable and social rent housing over other tenures
- Ability to control development outputs e.g. housing, community facility
- Ability to create revenue for the Council's general fund
- Tax liabilities
- Ability to contribute to wide social and economic objectives of the Council e.g. employment, homelessness reduction, education and skills
- Ability to maximise the Council's ability to strategically shape an area

The commercial case will be developed over the next six months, alongside a clear routemap for delivery routes. This will be presented in the proposed January 2020 Cabinet report which will update the SOC.

The Management Case

The Strategy will be a significant programme, with substantial financial and development risk. It is also a new operating model for the Council, with the adoption of a commercial approach to the use of its assets with the express objective of generating income to support its revenue budget. As such, the programme requires a rigorous framework for strategic oversight and management controls. The management case describes the primary means of managing development and financial risk. These are:

I) Governance – the way the Council provides oversight of activity to ensure it aligns with its overall strategy, is delivering against agreed milestones, and is delivering the proposed benefits which justify the strategy

II) The development gateway process – the process by which the Council makes structured and transparent decisions about different stages of the development process to minimise abortive costs and to reduce development risk

III) Economic and financial assumptions – the basis on which the Council makes decisions about whether there is sufficient justification for schemes to progress between different development gateways, and which require the release of funds

The gateway process and the economic and financial assumptions are currently a direction of travel. These will be finalised through the newly established Development Board (detailed below) and will be noted in future planned iterations of the business case.

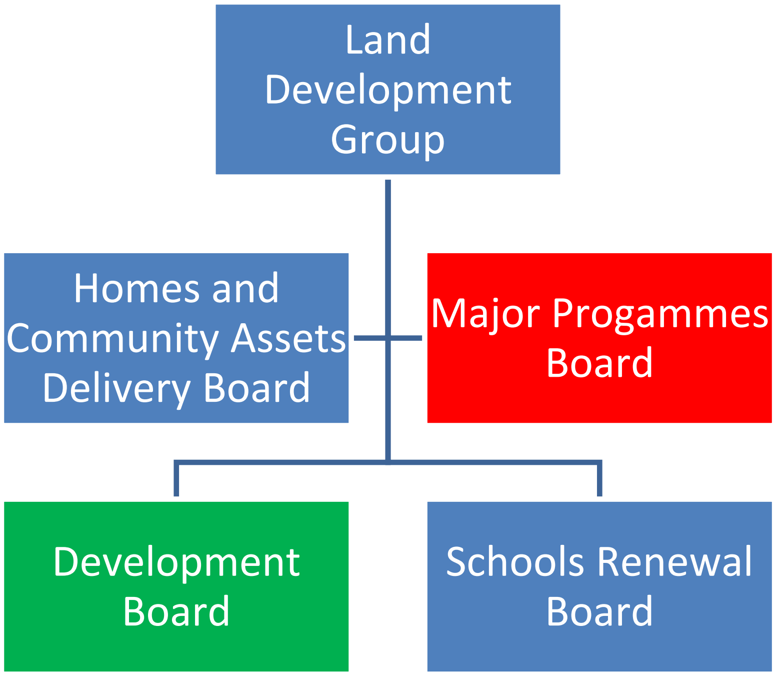
Governance

The governance arrangements for the programme are designed to provide strong strategic and political oversight and a clear approach to managing financial and development risk. The diagram below, sets out the approach and table 3 describes high level terms of reference for each group.

The Land Development Group (chaired by the Leader of the Council) provides overarching strategic and political oversight of the programme, while the Home and Assets Delivery Board (chaired by the Assistant Director for Growth) is responsible for managing the programme, ensuring milestones are met and risks and dependencies are managed.

The Development Board is responsible for managing the gateway process described in the section below. The Schools Renewal Board is primary governance for schemes pertaining to the school estate, recognising the need for discrete governance for a major component of the programme.

The Major Programme Board (provides corporate oversight of the strategy, with independent monitoring of progress, risk and dependencies by the Council's programme management and assurance function.



Group	Terms of reference (as relevant to the Building Homes and Communities Strategy)
Land Development Group	• Strategic oversight of use of the use of land and property in the Council's General Fund and Housing Revenue Account • Member oversight of the Building Homes and Community Assets Strategy
Building Homes and Communities Assets Delivery Board	• Primary governance for the delivery programme • To ensure programme milestones are met and managed • To support and challenge the develop of the business case for the strategy as it progresses from an outline strategic case to a full business case • To provide guidance and advice on resourcing. • To manage strategic risks in relation to the programme
Major Programmes Board	• Corporate oversight of major programmes with strategic and financial implications for the Council • Independent monitoring and critical challenge of progress, risk, budget, and benefit realisation
Development Board	• To determine whether individual schemes have met the relevant threshold to progress through development gateways and release agreed budget
Schools Renewal Board	• Primary governance for the development of the school renewal programme

	• To develop the strategic and financial business case for the programme and for individual schemes • To develop a programme and delivery timetable for prioritised schemes and manage progress against agreed milestones • To develop an exemplary approach to scheme design and stakeholder engagement which involves children, staff, governors and the local community at all stages in a spirit of co-design and co-production • To consider wider opportunities beyond initially prioritised schools as appropriate

Gateway Process

Development activity the Council is involved in is a mixture of directly procured developments where the Council is leading, joint ventures and through our housing association and other partners. An agreed approvals process provides due diligence on all new opportunities and ensure that all schemes are signed off at various stages in their development.

Any budgetary requirements and finance programme planning can be agreed, delegations and cabinet approvals needed identified, and to ensure any potentially abortive costs are understood and have the necessary budget.

The main decision-making body will be the Development Board. This Board is chaired by the Strategic Director for the Economy and includes the Strategic Director, Finance and Governance. Its role is to review and sign off the scheme (with any additional requirements), it is then approved by the Strategic Director for the Economy, before moving towards any other necessary approvals in line with the Council's constitution and financial regulations (e.g. CMB, Cabinet).

All schemes will need to be signed off as they pass through the main gateways of development:

Gateway 0	Approval to proceed	Opportunity identified, approval to proceed noting resources and investment required to proceed
Gateway 1	Strategic Outline Business Case	Approval to procure and appoint consultant team
Gateway 2	Outline Business case	Approval to submit planning application
Gateway 3	Final Business Case	Approval to enter into contract
Gateway 4	Completion	Review at both completion and final account, to include lessons learned

The detailed process, setting out required input and outputs is in development. The final process will be considered and approved by Development Board included in a proposed report to Cabinet in January 2020 which will update on the progress of the Building Homes and Communities Strategy, and revise and update the business case.

Economic and financial assumptions

Development is a process which has inherent risk and requires a clear and consistent basis on which to make decisions. The gateway process described above can only be effective if there is a corporate understanding of the basis for a scheme's viability. Decisions on what types of development schemes progress from feasibility stage to the point at which the Council invests in them need to be based on sound assumptions and good information.

For developing local authorities and housing associations, it is industry practice to use a range of development appraisal assumptions and scheme acceptance criteria (hurdle rates) to inform decisions on how best to invest limited resources in new housing. Benchmarking these assumptions is a useful way to help establish baselines as a guide for decision-making as it allows comparison with organisations faced which face similar investment choices. This provide a framework in which the Council can make decisions. However, any framework needs to be tailored, and agreed in the context of its own strategic objectives, appetite for risk and financial standing. These assumptions, alongside the development gateway process, is a key foundation for the Council to become a developing authority, enabling it to assess and manage the risk associated with development in order to benefit from the rewards associated with it.

While the Council is currently involved in development, both directly and in partnership, which involves a set of assumptions, these are not consistent, nor have they been formally ratified as part of a systematic approach.

As part of the development of the Building Homes and Communities Strategy, initial work to benchmark the Council's existing development appraisal assumptions and hurdle rates has been commissioned from expert advisors. These compared the Council's key development appraisal assumptions and hurdle rates used to appraise recent schemes against an industry dataset and expert understanding of the market.

Analysis from the Council's advisors has found that the Council generally had a set of assumptions that are either broadly in line with, or slightly more completive than the dataset median position.

The Council currently requires schemes to generate a net surplus from year 1 post completion to mitigate adverse impacts on its Housing Revenue Account (HRA). In practice, and for appraising future decisions, this sets a very high threshold which is out of step with other developing organisations. In addition, while the hurdle rate allows the local authority to focus on the risks and impacts of potential developments on its HRA business plan and helps ensure that rental income covers operating costs and the cost of borrowing, there is a case for assessing schemes on a range of other measures. These might include other longer-term ‘market standard’ measures (such as Net Present Value) and value for money measures (such as cost to value). This could provide a rounded assessment of development viability and account for measures that other established developing organisations are likely to consider.

Further work is ongoing to finalise and agree a full suite of key performance indicators, informed by corporately agreed assumptions. Given the centrality of this to the proposed gateway process, these will be agreed through the Council’s Development Board, which will receive a recommendation from the Building Homes and Communities Delivery Board. The agreed assumptions and benchmarks will be included as part of the revised business case in the proposed update to Cabinet in January 2020.

Appendix B – Schemes approved for early design stage and resident consultation

	GF or HRA	Status	Units	RIBA 0&1	RIBA 2	RIBA 3	RIBA 0-3
Flora Gardens School	**GF**	Approved	86	£ 451,500	£ 376,250	£ 677,250	£ 1,505,000
Avonmore Primary School	**GF**	Approved	70	£ 367,500	£ 306,250	£ 551,250	£ 1,225,000
GF Approved Sub total	**GF**	Approved	156	£ 819,000	£ 682,500	£ 1,228,500	£ 2,730,000
White City Estate	**HRA**	Approved	282	£ 864,000	£ 720,000	£ 1,296,000	£ 2,880,000
Old Laundry Yard	**HRA**	Pending	62	£ 390,000	£ 325,000	£ 585,000	£ 1,300,000
HRA Approved Subtotal			344	£ 1,254,000	£ 1,045,000	£ 1,881,000	£ 4,180,000

	GF or HRA	Status	Units	RIBA 0&1	RIBA 2	RIBA 3	RIBA 0-3
General Fund	GF	N/A	807	£ 2,165,958	£ 3,248,937	£ 8,890,338	£ 14,502,938
Housing Revenue Account	HRA	N/A	468	£ 1,484,119	£ 2,226,179	£ 4,763,991	£ 8,474,269
Total for all schemes			1275	£ 3,650,077	£ 5,475,116	£ 13,654,329	£ 22,977,207

Cabinet has provided approval that Flora Gardens and Avonmore Schools can be progressed to design stage and committed budget for a multi-disciplinary team, including a Client Design Advisor to work with the school and local community. Further decisions will be required for planning and before entering into a contract for construction work.

All schemes are at an exploratory stage and substantive progress will rely on engagement and consultation with residents and other local stakeholders.