

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Full Council

Date: 13/07/2022

Subject: Hartopp & Lannoy Development – Building New Affordable Homes in Fulham

Report of: The Cabinet Member for The Economy – Councillor Andrew Jones

Report author: Niral Patel, Senior Development Manager

Responsible Director: Jon Pickstone, Strategic Director for the Economy

SUMMARY

This report concerns the proposed development of the site formerly occupied by Hartopp Point and Lannoy Point tower blocks, on the Aintree Estate (“Site”). The blocks were demolished in 2020/21 on health and safety grounds due to serious structural issues identified following extensive surveys.

The proposed development (“Development”) will provide 134 homes of which 112 (84%) will be affordable and for which a planning application was submitted in May 2022. Following extensive public consultation and co-production with residents of the Aintree estate, this development will be built to Passivhaus Classic standards, reducing on site carbon emission by about 86% and reducing residents’ energy bill by about 30%. As a pilot project within the council’s housing development programme, this scheme is a substantial step in meeting council’s ambition to deliver net zero carbon by 2030.

This report seeks approval of a further capital budget of £57,304,856 to enable the successful delivery of the Development from the construction phase to practical completion.

RECOMMENDATIONS

1. That Full Council agrees that Appendix 1 is not for publication on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).
 2. That Full Council approve a further capital budget of £57,304,856 to deliver the new homes which will result in an overall Development budget, including contingencies, of £61,020,118 funded through a combination of HRA borrowing, GLA grant, Right to Buy receipts and capital receipts from private sales as set out in exempt Appendix 1.
-

Wards Affected: Munster

Our Values	Summary of how this report aligns to the H&F Values
Building shared prosperity	The Development of the site will bring about measurable local benefits including realisable benefits during construction stage where contractors, under the council's procurement policy, will be incentivised to provide Social Value that is aligned to council's strategies such as the Industrial Strategy.
Creating a compassionate council	The Development will help meet the acute need for affordable housing in the locality as well as the wider borough.
Doing things with local residents, not to them	The Development is being co-produced with residents in accordance with this value.
Being ruthlessly financially efficient	The delivery of high-quality residential homes that are operationally net-zero carbon through the use of external funding and incorporation of private sale homes demonstrates the ruthless financial efficiency of the Development while maximising the number and sizes of affordable homes.
Taking pride in H&F	The aim of the Development is to create a lasting and positive legacy through well-designed blocks and estate amenities while meeting both the climate challenge and the acute need for affordable housing in the borough.
Rising to the challenge of the climate and ecological emergency	The Development will deliver highly sustainable homes that are operationally net-zero carbon and so help create and sustain a low carbon community and neighbourhood.

Financial Impact

Development proposal

A summary of the proposed Hartopp Point and Lannoy Point scheme costs and sources of funding are outlined in Appendix 1 - Exempt. The total forecast scheme costs represent a significant capital investment in the HRA of £58,923,404 (including £3,715,262 already approved) and costs will need to be tightly managed within this envelope.

Greater London Authority (GLA) grant and Right to Buy (RtB) ringfence funding

The 2016-2023 Affordable Homes grant and RtB ringfence funding (both held at the GLA) are usually claimable in two tranches – at Start on Site (SoS) and Practical Completion. The GLA grant rate has been agreed at £100,000 per unit for Social Rent and London Affordable Rented tenures and £28,000 per unit for the Shared Ownership tenure. Both the GLA grant and RtB receipts are at risk of being lost if Start on Site is not achieved by the end of March 2023 so there is very little room for slippage from the current planned SoS of January 2023.

Costs of disposal

In the General Fund, up to 4% of the expected future receipts can be used towards the costs of disposal (legal and marketing fees directly related to private sale of units). There is no cap for the HRA but a costs of disposal budget of £585,600 is included within the overall additional budget request of £55,208,142. £585,600 is less than 4% of the expected future receipts.

Other risks and mitigation

The Housing Revenue Account (HRA) financial plan agreed by Cabinet on 7 February 2022 set out the significant financial pressures and annual deficit of the HRA requiring the delivery of £3.8m savings in 2022/23 rising to £8m by 2025/26. The financial plan modelled in the costs, financing and income expected from affordable housing development schemes, including the Development, and illustrated the importance of new developments and the resulting rental income to the financial sustainability of the HRA.

Due to the wider economic context and increases in inflation, there is a risk that the tenders received for the build contract will be higher than what is currently assumed in the financial appraisal and financial plan which will put added pressure on the HRA to finance the increased capital costs. Where this is the case, this will need to be mitigated as far as possible through value engineering.

The financial appraisal also assumes the Council will be able to borrow at an interest rate of 2% in the long term. Due to recent increases in interest rates, this needs to be monitored closely as, as an increase in the interest rate would impact on the potential future financial benefits of the scheme and add further pressure to the HRA. A fuller outline of financial risks is set out in Appendix 1 - Exempt.

If the scheme is no longer considered viable and the decision is taken for the development not to proceed, any works completed would be abortive and capital spend incurred up to that point would need to be written off to revenue. Also, if the forecast Shared Ownership and Private Sale receipts do not materialise, any costs of

disposal incurred to date would also be written off to revenue as these costs can only be funded by capital receipts.

VAT implications

There are no adverse VAT implications relating to construction of social housing. The contractor should apply a zero-rate of VAT to construction of new dwellings. There is no commercial space being created in the proposed scheme so there is no risk of contribution to the Council's VAT Partial Exemption Requirement.

Finance implications completed by Nick Falcone, SLT Finance Trainee (Economy), 9 March 2022

VAT implications completed by Joanna Monaghan, Principal Accountant (Taxation), 9 March 2022

Verified by Emily Hill, Director of Finance, 17 March 2022

Legal Implications

The recommendations in this report can be exercised subject to the following powers.

The Local Government Act 2003 sections 1 and 7 provides the local authority with the power to secure funding 'for any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs' and 'the authority shall be taken to have entered into a credit arrangement where it enters into a transaction which gives rise to a liability on its part, and the liability is a qualifying liability'.

Section 8 of the Housing Act 1985 places a duty on Local Housing Authority to carry out a review of their housing needs and provides that 'every local housing authority shall consider housing conditions in their district and the needs of the district with respect to the provision of further housing accommodation' and Section 9 of the Housing Act 1985 permits a local housing authority to provide housing accommodation.

The general power of competence in Section 1 of the Localism Act permits the Council to exercise their powers under the Act for a commercial purpose or otherwise for a charge, or without charge, and provides the power to do it for, or otherwise than for, the benefit of the authority, its area, or persons resident or present in its area.

In exercising its powers, the Council must have regard to its fiduciary duties and in securing the housing needs of the Borough it must ensure that it acts in the best interests of its taxpayers. The Council must ensure that it establishes a clear governance process for the monitoring and compliance with the conditions and milestones set out in the GLA grant funding agreements.

A Cabinet report dated 6th June 2022 with separate legal implications provides the authority to commence the delivery of this development in line with the budgetary approvals in this Full Council report.

Jane Astbury (Chief Solicitor Planning and Property) 1 March 2022

Background Papers Used in Preparing This Report

None.

DETAILED ANALYSIS

Proposals and Analysis of Options

Background

1. The council embarked on a major development programme that will see 1,800 homes delivered over 10 years under the **Building Homes and Communities Strategy (2019)**. The strategy dictated three principles to underpin all development projects:
 - a. no development to proceed without substantial resident involvement and support
 - b. an interdependency between the Building Homes and Communities Strategy and the Defending Council Homes policy; and,
 - c. the establishment of a resident panel to be an integral part of the development approval process and to provide input on development proposals and oversight regarding consultation with residents.
2. The Hartopp and Lannoy site became vacant following the demolition of two 14 storey Tower Blocks. They were located in Munster Ward and were built in early 1970s, using a construction method called a Large Panel System (or LPS).
3. Routine inspections of the blocks highlighted fire safety issues, following which the council immediately employed 24 hour watching briefs on every floor of the blocks. The council also offered tenants concerned of living there, the ability to move to other council homes in the borough. For concerned leaseholders, the council offered to buy back their properties.
4. Simultaneously, the council initiated extensive surveys to understand the condition of the blocks, as well as the causes, and potential remedies to the fire safety issues.
5. The final structural report was published in February 2019, which highlighted serious structural deficiencies of the blocks due to their construction using the Large Panel System. This report highlighted the need for either immediate remediation of the structural issues or demolition of the blocks.

6. The safety and wellbeing of the residents is always the council's priority. In April 2019, and following resident consultation, the council took the decision to demolish the blocks and acted immediately to decant tenants and empty the blocks as quickly as possible. To enable a speedy decanting of the blocks and payment of compensation, the council made a Compulsory Purchase Order which was granted in December 2019.
7. Plans for what to do with the site did not commence until the blocks were emptied and their demolition had reached a safe stage (blocks were demolished between May 2020 and February 2021). Following this, a budget was approved for a development of the site and architects and professional consultants were appointed (in December 2020) to work with residents to co-produce designs for a follow-on redevelopment of the site.
8. Substantial site enabling works followed completion of demolition, to prepare the site for development, to minimise the programme of construction and impact to residents living in the area. These works included ground remediation, removal of demolition debris and site surveys. These works took place between May 2021 and February 2022.

Co-production

9. The council's approach to development is co-production where estate residents have a direct involvement and influence over developments in accordance with council's Defend Council Homes Policy (DCHP).
10. In line with the First Notice under the DCHP, a Residents Panel of Aintree estate was created in January 2021 and the Panel was invited to work with the appointed architects to produce designs for the Development. The council also extensively consulted with and engaged residents in the wider area in line with the council's value of "*doing things with local residents, not to them*".
11. So far, the Aintree Estate Residents Panel held 10 formal meetings in addition to three public consultation events which were attended by about 140 residents.
12. Engagement and co-production with both estate residents and wider residents' groups have had a direct and material effect on the evolution of the design from a concept design to the planning submission stage.
13. The changes in the design after each engagement to incorporate residents' views and preferences meant the residents' strong support or support for the Development which initially started at 60% has reach 80% by the time the planning application was submitted.
14. Some notable changes in the design as a direct result of residents' views include lowering the height of the blocks on Pellant Road, setting back the upper floor of the blocks on Pellant Road, redesign of balconies especially on William Close and extensive planting of trees and shrubs across the site.

New homes

15. In terms of homes, the final design will deliver in 134 homes of which:
 - a. 67 homes will be social rent/London Affordable Rent;
 - b. 45 will be affordable rent and affordable homeownership; and
 - c. 22 will be private sale homes.
16. The delivery of these 112 new affordable homes equate to 84% affordable housing provision in this Development. The delivery of 22 private homes is in line with the **Building Homes and Communities Strategy** principle to a self-financed affordable development. The Development is also partly financed by Greater London Authority and Right to Buy receipts.
17. The Development was selected early on in the process to be one of first sites to be delivered under the Council's **Climate and Ecology Strategy** and transitional targets. It is the first of three planned projects that will achieve not only Passivhaus classic standards but also be operationally net zero carbon.
18. Based on design, the Development is estimated to reduce on-site carbon emissions by about 86%, and in doing so, help bring down residents' energy bills by about 30%, thereby helping meet a significant commitment for the council to reduce fuel poverty.
19. Accessibility and inclusiveness of the design has been one of the core principles underpinning the Development brief from the start. The council engaged specialist accessibility consultants to maximise accessibility within the Development. The final design deals well with a complex site with significant level changes ensuring all new and existing homes can be reached via level access and new amenity space is inclusive and welcoming. Notably, Hammersmith & Fulham Disability Forum Planning Group were engaged and were given the opportunity to feed into the design. Their feedback was valuable and overwhelmingly positive. Secure by Design principles were followed to ensure the safety and wellbeing of all residents.
20. A number of other key design principles that have underpinned the Development are optimising urban greening and ecology of the Site; providing a high level of permeability across the Site, linking the Site to the existing parts of the estate and to its surrounding; ensuring level access across the Site and providing a range of facilities, including recreational provision for all age groups.
21. This Development supports the council's 2018-2022 Business Plan objectives and aspirations and will accelerate the delivery of much needed affordable housing.
22. Importantly, the Development meets the council's financial viability tests while maximising the number of affordable homes and utilising external funding. The Development achieves a positive Net Present Value [at year 50] and Internal Rate of Return above 4%.

23. Planning application for the Development was submitted in May 2022 with a decision expected in early autumn 2022.

Next Stage

24. Following on from design and submission of a planning application, the next stage of the development is the appoint a principal construction contractor. In June 2022, Cabinet approved a Procurement Strategy to procure a principal construction contractor for the Development as well as other recommendations that are critical to the successful delivery of the Development.
25. This report seeks approval of a development budget to fund the construction stage and other development activities through to completion. Detailed finance comments are set out in Appendix 1 (exempt).
26. Appointment of a construction contractor and successful delivery of this Development are dependent on the approval of this report's recommendations. The Development budget will also fund further enabling works that may need to be carried before construction can start on site including pre-commencement of planning conditions, decommissioning of an electrical sub-station and installation of a temporary sub-station before incorporating a new sub-station within the new development.
27. In line with the DCHP, a Second Notice will be issued to residents following the granting of the planning permission and after the appointment of the construction contractor. This Second Notice will include a statement of substantive commitments to residents on matters such as how residents may continue to be involved and co-produce the Development; the timing and phasing of the construction programme; site conditions and security; engagement and consultation including on any temporary works or diversions, on-site communications and complaints including named officers residents may contact.
28. The main milestones of the Development are outlined below with practical completion being anticipated on or around August 2025.

Development's Main Milestones	Month
Cabinet approval (including Procurement Strategy)	June 2022
Commencement of the Procurement Stage	June 2022
Council approval - Development Budget (This report)	July 2022
Anticipated Planning Application Decision	Autumn 2022
Conclusion of procurement stage with an Award Decision	December 2022
Construction contractor to start on site (on or before)	March 2023
Practical completion of the Development	August 2025

29. Due to the size of the Development, a phased practical completion may be adopted which would allow sections of the Development to be ready for occupation before the rest are completed.
30. Officers will continue to update members on the progress of the construction phase of the Development through existing channels as well as holding periodic briefing sessions.

Options analysis

Option 1: Do nothing (not recommended)

31. The “do nothing” option would either mean not proceeding with this decision or not proceeding with the Development.
32. Not proceeding with this decision but proceeding with the Development would result in a significant delay to the construction and start on site which would result in loss of external funding putting the whole Development in jeopardy.
33. Not proceeding with the Development would mean immediate write-off of costs incurred by the council thus far, as well as leaving a significant part of a council estate hoarded off following demolition of the existing buildings.
34. Not proceeding with this Development will also mean restarting a new process to help decide the future of the Site and so extend the period in which the site will continue to be hoarded off further increasing risks associated with hoarded sites including vulnerability to trespass and vandalism. This may also put at risk the council’s commitment under the Compulsory Purchase Order granted in December 2019 to delivering a quantitative enhancement to housing provisions on site within 10 years of that order.
35. Ultimately not proceeding with this decision or the Development would indefinitely postpone the delivery of much needed genuinely affordable housing in the Borough.

Option 2: Approve this report’s recommendations (recommended)

36. This is the recommended option as it will allow the Development to proceed to the construction stage; deliver on the council’s commitment to increasing provision of genuinely affordable homes in the borough; safeguard the council’s investment so far; and help ensure a key external funding requirement for a start on site before April 2023 is met.

Reasons for Decision

37. To allow the Development to proceed to construction stage so as to achieve the council’s overall objectives including increasing the provision of affordable housing in the borough.

Equality Implications

38. An Equalities Impact analysis has been completed and officers are satisfied that there are no direct implications on any group with protected characteristics, under the terms of the Equality Act 2010, from the approval of recommendations outlined in this report.

Risk Management Implications

39. This is the first of the council's modern era development programme. The fact that it has been over 40 years since the council had an active development programme raises contractual, financial, and operational risks. However, these could be mitigated against through the use of external experts and consultants. While this may mitigate against contractual and operational risks, it may result in council development cost being marginally higher than comparable private developers. However, these risks have been considered by the project team and adequate mitigations have been put in place to deal with such risks.
40. The report identifies a number of risks including the currently volatility in the construction sector which could impact on the affordability of this scheme once tenders are received, potential increases in interest rates which would drive up the cost of the scheme. Officers will need to monitor the risks very closely and seek to take mitigating action wherever possible. If as either or both these risks do materialise and the scheme is considered to be no longer viable then there is a risk that costs already incurred could no longer be treated as capital and grant funding received may be lost or have to be returned. As set out in the Legal Implications, officers must ensure a clear governance process is established for the monitoring and compliance of the project as a whole and specifically in respect of the conditions and milestones set out in the GLA grant funding agreements.
41. Subject to a procurement exercise being successfully concluded, appropriate programme and governance will need to be put in place to ensure that the programme is delivered, to budget, on time and the required outcomes are achieved. This will include maintaining a programme risk register.
42. Clarification is required in respect of insurance for future works. The expectation would be that as the site is cleared this would effectively be a new development with contractor responsible for both construction and site liabilities until handover. This point should however be resolved.

Risk implications verified by David Hughes, Director of Audit, Fraud, Risk and Insurance, 9th March 2022

Climate and Ecological Emergency Implications

43. The proposals for Hartopp and Lannoy will target operational net zero for the new development and address the climate emergency via a variety of different

methods using council's sustainability tool kit. The proposals strongly support delivery of the council's Climate and Ecology Strategy, and the implications of the precise approach are dealt with in greater detail in the Procurement Strategy taken to Cabinet.

44. Approval of the budget will allow this work to proceed and does not hold further climate and ecological emergency implications.

Verified by Jim Cunningham, Climate Policy & Strategy Lead, 8th March 2022

LIST OF APPENDICES

Appendix 1 - Exempt finance comments