

London Borough of Hammersmith & Fulham

Report to: Cabinet

Date: 18/07/2022

Subject: Investing in New Affordable Homes in the Borough

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

Report Author: Oliver Barker, Development Manager

Responsible Director: Jon Pickstone, Strategic Director for Economy

Summary

This report seeks approval for project budgets for four sites on Barclay Close, Becklow Gardens, Land behind the Grange, and the Land adjacent to Jepson House. Capacity studies show that the four projects are financially viable and combined could deliver 80 new homes, of which 61% (49 homes) would be affordable, prioritised for local residents.

These budgets are required to enable the development and delivery of new council homes on these sites, and form part of the development programme to deliver 1,800 new homes in the borough. The budgets will allow the council to work with local residents under the Defend Council Homes Policy to progress design development activities up to and including the submission of planning applications, and for the procurement of construction contractors.

Recommendations

That Cabinet:

1. Approves that appendices 1-4 are not for publication on the basis that they contain information relating to the financial or business affairs of any particular person (including the authority holding that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. Approves a project development budget of £900,878 for progression and delivery of LBHF's development Gateway 2 – Planning (RIBA Stages 2+3) & Gateway 3 - Procurement (RIBA Stage 4) for Barclay Close, funded from new Housing Revenue Account (HRA) borrowing.
3. Approves a project development budget of £1,677,922 for progression and delivery of LBHF's development Gateway 2 – Planning (RIBA Stages 2+3) & Gateway 3 – Procurement (RIBA Stage 4) for Becklow Gardens, funded from new HRA borrowing.

4. Approves a project development budget of £1,732,504 for progression and delivery of LBHF's development Gateway 2 – Planning (RIBA Stages 2+3) & Gateway 3 – Procurement (RIBA Stage 4) for land behind the Grange, funded from new HRA borrowing.
5. Approves a project development budget of £3,200,724 for progression and delivery of LBHF's development Gateway 2 – Planning (RIBA Stages 2+3) & Gateway 3 – Procurement (RIBA Stage 4) for Jepson House, funded from new HRA borrowing.
6. Delegates authority to the Strategic Director for Economy in consultation with the Assistant Director Legal Services and the Director of Finance to approve procurement strategies and appointments of the consultant teams for RIBA stages 2-4 and to take all necessary steps to facilitate the decisions in recommendations 2 - 6 including the completion of any associated legal agreements.

Wards Affected: Askew, Town & Sands End

H&F Values	Summary of how this report aligns to the H&F Values
Building shared prosperity	<i>The proposals will lead to the delivery of c80 much needed affordable homes in the borough. The developments will use the Council's Social Value strategy to ensure that local businesses and residents benefit from the contracts that are procured.</i>
Creating a compassionate council	<i>All schemes will be subject to extensive engagement and have resident involvement built into the process for developing designs as schemes progress from initial feasibility to the development of more detailed designs.</i>
Doing things together with local residents, not to them	<i>Consultation on design and progress of the projects will be delivered in line with the defend council homes policy and co-production principles.</i>
Being ruthlessly financially efficient	<i>The schemes will deliver quality additions to the borough in terms of housing provision. Homes will be designed to be robust and low maintenance and costs will be closely monitored throughout the design process to ensure schemes are delivered within budget.</i>
Taking pride in H&F	<i>The proposals will lead to the delivery of</i>

	<i>much needed affordable housing in the borough. The developments will use the Council's Social Value strategy to ensure that local businesses and residents benefit from the contracts that are procured.</i>
Rising to the challenge of the climate and ecological emergency	<i>The schemes will meet the key environmental challenges in that they will be designed to a standard above that required by the London Plan. We will encourage inclusion of carbon neutral design proposals and green initiatives where possible.</i>

FINANCIAL IMPLICATIONS

A total project development budget of £7,512,028 to progress these 4 projects through to RIBA stage 4 is required and will form part of the Council's housing capital programme funded from HRA borrowing. The full development cost of the schemes will be funded from a combination of borrowing, Greater London Authority (GLA) grant and the proceeds of sales receipts. The GLA grant funding of £4,152,000 for these schemes will be included in their 2021-26 Affordable Housing Programme, which will be claimable in two tranches, at Start on Site and Practical Completion of each project. The funding sources proposed to complete each individual scheme are summarised in Table 1 below:

Table 1: Sources of Funding – Barclay Close, Becklow Gardens, The Grange and Jepson House (£'000s)

Funding source	Barclay Close	Becklow Gardens	The Grange	Jepson House	Total
GLA grant	432	864	744	2,112	4,152
Sales receipts	269	1,406	4,607	13,755	20,037
Private Finance Required	2,708	4,507	2,135	4,631	13,980
Total	3,409	6,777	7,485	20,497	38,168

Note: "Private Finance Required" shown above is Net HRA Borrowing after accounting for Sales receipts. The costs funded by Sales receipts will be temporarily funded by HRA borrowing until the receipts are generated.

The budgets will be sufficient to fund project costs up to the procurement of the main build contractor based on the aspirational sustainability build standard. However, if this build standard is no longer considered viable, the projects will revert back to the baseline sustainability build standard and will not require all of their allocated budgets to RIBA Stage 4. The remaining budgets can then be carried forward to the next stage of development (build phase). It should be noted the proposed budgets in the recommendations will be ringfenced for each project so there cannot be any cross-subsidisation between projects without following the appropriate governance processes.

Should the any of the schemes not proceed as planned, there may be a need to write off some, or all, of the expenditure incurred to that point to revenue. Regular

review of the schemes' financial viability will ensure that should this risk crystallise, it will be identified at the earliest opportunity to allow for better management and mitigation of abortive costs.

Project Appraisals

Initial appraisals along with sensitivity analyses' have been carried out on the proposed schemes and confirm their financial viability. The schemes indicate that they will produce a positive financial return to the Housing Revenue Account from the developments. Further details are provided in Exempt Appendices 1-4. The appraisals will be required to be refreshed with the latest information as the projects progress through LBHF development stages and budgets are released as well as before any planning applications are submitted and ahead of any decision to progress the full schemes by Council Members.

Nicholas Falcone, SLT Finance Trainee, 5th January 2022

Verified by Andrew Lord, Head of Finance – Strategic Planning and Investment, 1st July 2022

LEGAL IMPLICATIONS

This report is a feasibility report for the development of 4 sites and the requisite budget from the HRA to facilitate the developments up to RIBA Stage 4 (note there is no funding from the GLA until the construction phase). The receipt of GLA funding will require approval from the Director of Finance in consultation with Cabinet through the Corporate Revenue of Capital Monitoring reports. The report will need to address compliance with the grant funding conditions including any milestones for delivery of the units. All 4 sites are located on HRA land and are made up of, amenity space, open space and garages. The proposed development is for 80 units, 61% of which will be affordable and half of those will be secure tenancies and the other half, other affordable tenures. The remaining 39% will be let on long leases and separate approvals will be sought for the disposal of any land utilising its powers under Section 123 (1)/127(1) Local Government Act 1972.

In the event that planning permission is approved the Council may need to enter into an appropriate mechanism for securing planning infrastructure on Council owned land as well as any associated agreements for highways works.

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.

At the point at which the Council is ready to procure the consultants required to facilitate the developments, they will be procured in accordance with the Public Contracts Regulations 2015 and in accordance with the Council's Contract Standing Orders.

Jane Astbury, Chief Solicitor (Planning and Property) 1 July 2022

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

Background

1. In July 2019, Cabinet approved the '**Building Homes and Communities Strategy**' which set out the principles of a self-funding programme of investment in homes and community assets.
2. Through the Building Homes and Communities Strategy, the Council is committed to using its assets to meet its strategic objective of delivering genuinely affordable homes.
3. The Council identified opportunities to deliver up to 1,800 homes over a period of up to ten years and generate long-term income to support the Council's financial challenges. The strategic business case sets clear objectives to:
 - Build new, genuinely affordable housing which will help maintain the borough's vibrant social mix;
 - Support the Council's Business Plan priority of 'Building Shared Prosperity';
 - Renew key community assets, including schools and leisure centres; and
 - Generate income to reinvest in frontline services.
4. This decision supported the 2018-2022 Business Plan objectives and aspirations and enabled the Council to deliver much needed affordable housing at pace.
5. The four projects described below form part of the Council's direct delivery development programme. The programme includes 12 projects and targets 1,200

homes of which 65% are affordable, as well as new community infrastructure, office schools and education facilities.

Proposals and Progress to Date

6. For each of the four sites a robust capacity study has been produced to see if a development project is deliverable and viable. This has included architectural modelling, planning advice, value and cost advice and legal and utility searches.
7. Each project was subject to a viability appraisal to ensure it met the council's financial hurdle rates, tested by the development team and finance team. These capacity studies were reviewed and approved by the Council's Development Board before being presented to Cabinet for budget approval.
8. Three of the 4 sites (excluding the Grange) have previously been considered for redevelopment under the affordable housing framework launched at the beginning of 2020. This framework allowed the council to partner with Housing Associations to deliver new homes. However, with the creation of the Council's direct delivery programme each scheme will be delivered and owned by the Council. All four sites are historically disused or underused spaces within Estates and will deliver new homes and enhanced public realm.
9. The following section describe each site and opportunity in more detail.

Barclay Close

Site Context

10. The Barclay Close site is located within the Town ward and forms part of the council owned Barclay Close Estate. The site is HRA land, occupied by a parking area with 12 parking spaces, the site area is approximately 0.1 acres (0.04 hectares). The parking area is disused, and a parking survey has found that there is sufficient existing parking capacity within the estate.



11. The site was previously offered through the Affordable Housing Framework to housing association partners. As the council now has the resources and expertise to develop its own housing, the discussions were terminated and the Development Team will lead on the development potential for the site.
12. The proposed project will target:
 - 6 (100%) affordable homes to be retained by LBHF:
 - 2 (33%) as Social Rent,
 - 4 (67%) as Shared Ownership.
13. This scheme is currently 100% affordable. The split between 33% Social Rent (genuinely affordable) and 67% Shared Ownership (intermediate) enables the viability of the project to meet the Council's financial hurdles for development, whilst providing all new homes as affordable.
14. The Development Gateway Stage 0 (Site Identification) report in July 2020 requested a feasibility budget of £25,000 and, an initial site feasibility study was undertaken in late 2020. This was funded from the existing HRA site feasibility budget and concluded that 6 homes could be delivered. As of 7th January 2022, £20,792 of this budget has been spent.
15. The latest financial appraisal identifies that a budget of £900,878 is required for associated development on-costs (i.e. professional fees, survey costs, statutory application fees) to progress this scheme to planning submission and contractor procurement stages of the development.

Becklow Gardens

Site Context

16. The Becklow Gardens site is located within the Askew ward and forms part of the council owned Becklow Gardens Estate. The site is HRA land, occupied by open space which includes a small part of play area and 16 unoccupied, void garages. It is approximately 0.20 acres (0.08 hectares).



17. The site was previously offered through the Affordable Housing Framework to housing association partners. As the council now has the resources and expertise to develop its own housing, the discussions were terminated, and the Development Team will lead on the development potential for the site.

18. The proposed project will look to deliver:

- 13 new homes to be retained by LBHF:
 - 4 (31%) as Social Rent,
 - 8 (61%) as Shared Ownership, and,
 - 1 (8%) Private Sale home.

19. This scheme is currently 92% affordable. The split between 31% Social Rent (genuinely affordable) and 61% Shared Ownership (intermediate) with a single private sale home enables the viability of the project to meet the Council's financial hurdles for development, whilst providing the majority of new homes as affordable.

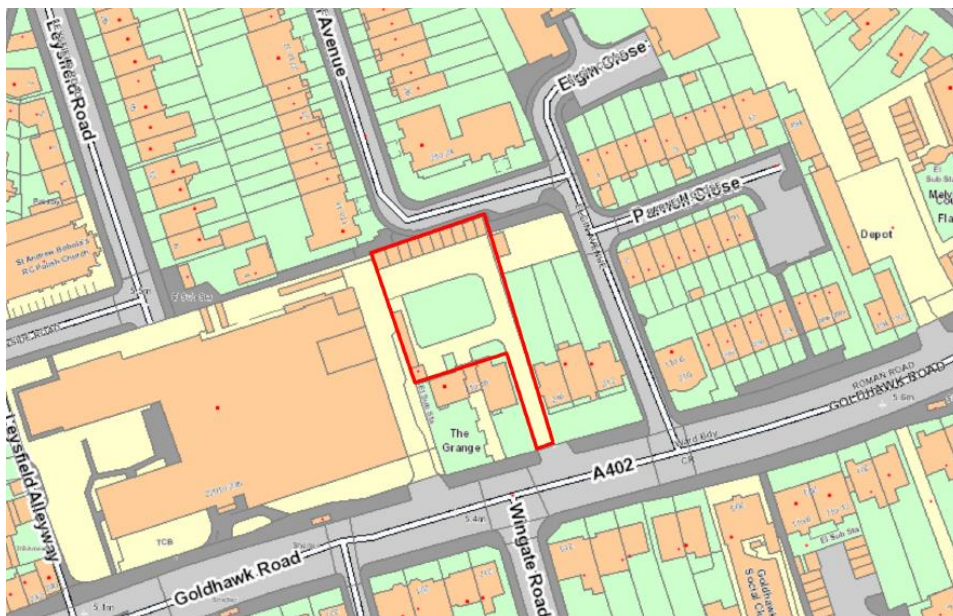
20. The Development Gateway Stage 0 (Site Identification) report in July 2020 requested a feasibility budget of £25,000 and, an initial site feasibility study was undertaken in late 2020. This was funded from the existing HRA site feasibility budget and concluded that 13 homes could be delivered. As of 7th January 2022, £24,826 of this budget has been spent.

21. The latest financial appraisal identifies that a budget of £1,677,922 is required for associated development 'on-costs' (i.e. professional fees, survey costs, statutory application fees) to progress this scheme to planning submission and contractor procurement stages of the development cycle.

Land behind the Grange

Site Context

22. The site is located within the Askew ward and is located on the northern side of Goldhawk Road, to the south and east of Elgin Avenue. The site is HRA land occupied by 10 vacant garages on the north of the site, with the remainder comprising amenity space associated with the existing 8 storey block of flats "The Grange". The site is accessed via Goldhawk Road, with the access running along the eastern side of the site to the rear of The Grange. It is approximately 0.37 acres / 0.15 hectares.



23. The proposed project will look to deliver:

- 16 new homes, of which 8 (50%) will be affordable homes with all freeholds to be retained by LBHF:
 - 5 (31%) as Social Rent,
 - 3 (19%) as Shared Ownership, and,
 - 8 (50%) Open Market Sale.

24. The Development Gateway Stage 0 (Site Identification) report in December 2020 requested a feasibility budget of £25,000 and, an initial site feasibility study was undertaken in early 2021. This was funded from the existing HRA site feasibility budget and concluded that 6 homes could be delivered. As of 7th January 2022,

£37,848 has been spent, an overspend of £12,848. The overspend has predominantly been caused by the payment of pre-application fees and the commissioning of engagement strategy work, which were not previously anticipated to be required at this stage of development.

25. The latest financial appraisal identifies that a budget of £1,732,504 is required for associated development 'on-costs' (i.e. professional fees, survey costs, statutory application fees) to progress this scheme to planning submission and contractor procurement stages of the development cycle.

Land adjacent to Jepson House

Site Context

26. The Land adjacent to Jepson House site is located within the Sands End ward and forms part of the Pearscroft Estate and fronts onto Sandilands Road. The Site is HRA land, occupied by 28 lock-up garages, 30 storage units, an electrical sub-station and open surface parking. The lockup garages are boarded up, while the storage units are in temporary use. The site is located centrally, bounded by the red line. It is approximately 0.46 acres / 0.19 hectares.



27. The proposed project will look to deliver:

- 45 new homes, of which 23 (51%) will be affordable homes with all freeholds to be retained by the Council:
 - 14 (31%) as Social Rent,
 - 9 (20%) as Shared Ownership, and,
 - 22 (49%) Open Market Sale.

28. The land adjacent to Jepson House has a lapsed planning consent for the demolition of the existing structures and redevelopment of the site to provide 33 affordable (social rent) residential units within a three to five storey building including the provision of cycle parking, hard and soft landscaping, access works and re-provision of an electricity substation.
29. In early 2020, the Council launched the site on the Affordable Housing Delivery Framework and entered into discussions with a housing association. Due to a change of priority and the Council wanting to lead on development of its own land, the discussions were terminated.
30. The latest financial appraisal identifies that a budget of £3,200,724 is required at this stage for associated development 'On-costs' (i.e: professional fees, survey costs, statutory application fees etc.) required to deliver the project from inception through to completion.

Summary of The Next Steps for All Sites

31. Following cabinet approval, LBHF will write to neighbours and local residents to notify them of proposed development, with an invitation to join a resident's panel which will feed into the project and promote involvement in the local community, in-line with the Defending Council Homes Policy.
32. The development team will then prepare procurement strategies for the commission of both design and control teams, which will form an integrated project team, supporting LBHF in the co-production of viable proposals with the local community.
33. Tender documents will be published via Capital E-Sourcing, and evaluation of prospective design and control teams will be undertaken with assistance from the newly formed residents panel for each of the sites.
34. This will allow the selection of the preferred project teams, who will work alongside the council and the local communities to produce proposals for new homes to be submitted as planning applications.
35. Development Board will continue to have strategic oversight over the deliverability, viability and design of each of the projects. This is in line with the Council's gateway process for managing developments.
36. Subject to project viability, resident engagement and following planning submission, Cabinet approval will be sought for construction budget and procurement strategy of a construction contractor in-line with the scheme specific project programmes.
37. The appointed design and control teams will be required to develop options for both traditional construction and off-site modular residential construction, as well as a combination of the two. There are various potential benefits of off-site construction including speed of delivery, reduced construction cost, quality and sustainability and reducing impact of construction on the residents living close to

the site. As part of the design process the consultants will advise the Council on the procurement route and timetable for a manufacturer and contractor for an off-site, modular-based construction method. This may result in a Cabinet report to initiate procurement earlier in the programme, should this type of construction prove to be deliverable and meet the strategic objectives for the project.

Working with residents

38. Successful development projects put existing residents at the centre of the design process. In line with the Council's strategic objectives to do things with residents, the development team will work with residents of the four projects, as well as the wider neighbourhoods through the design process.
39. In line with the Defend Council Homes Policy, the project team will work with residents and the Defend Council Homes Unit (DCHU) to, amongst other things, create a resident panel with an agreed Terms of Reference to shape design development. The panel will ensure that local residents all have equal opportunity to contribute to the evolution of design.
40. An engagement strategy for each project is being developed and the principles will be agreed with the residents' panel. This will embed DCHU policy and identify engagement and consultation opportunities throughout the design process.
41. The Council's co-production team will be involved from the start to ensure the projects adhere to the principles of co-production adopted by the council and supports the project to deliver accessible design that meets the needs of existing and future residents.
42. The aim is for an outline concept design to be produced that is then presented to residents and tested by the Council for financial viability and deliverability before the design moves on to the detailed stage of design.

Indicative Programme

43. A milestone programme for all four projects is set out below:

Milestone	Dates
Stage 1 (Feasibility)	
Cabinet Stage 1 Approval	July 2022
Procurement	Aug 2022 – Dec 2022
RIBA 1 review	Jan 2023 – Mar 2023
Stage 2: (Planning)	
RIBA Work Stages 2 & 3	Mar 2023 – March 2024
Planning Submission	April 2024
Planning Consent	November 2024
Procurement strategy Cabinet Approval	October 2024

LBHF Gateway 3 Approval	
Prep of tender report	April 2024 - June 2024
Development Board	July 2024
Cabinet/Full Council	October 2024
Stage 3: (Procurement)	
Prep of Tender Documents	April 2024 – Oct 2024
Tender Period	Feb 2025 – Apr 2025
Tender Return & Evaluation	May 2025
Stage 4: (On Site)	
Contractor Mobilisation & Detail Design	Sep 2025 - Oct 2025
Start on site – Main Construction Works	Feb 2026
Contractor completion (18 month indicative programme)	July 2027

OPTIONS AND ANALYSIS OF OPTIONS

Option 1 – Do Nothing (not recommended)

1. The “do nothing” option would either mean (1) not proceeding with this decision or (2) not proceeding with the redevelopment projects.
2. Not proceeding with the redevelopment would mean leaving the subject sites in their current ‘unused’ condition. This would also not be in line with the Council’s commitment to delivering the redevelopment and would result in no re-provision of much needed genuinely affordable housing in the borough.
3. Not proceeding with the redevelopment would also mean that costs already incurred would need to be written off.

Option 2 – Approve the budget and proceed with design development (recommended)

4. This is the recommended option as it will enable this stage of the redevelopment to proceed. The budgets approved will enable the continuation of the design work up until the production of a planning application and the procurement of a main works contractor for each of the projects.
5. This will also enable the Council to involve local residents in the concept designs and offer them real and measurable influence on the projects as early in the process as possible.
6. Ultimately, approval of this budget will enable the redevelopment of the sites for the delivery of much needed genuinely affordable housing.

REASONS FOR DECISION

7. The approval is required to allow design work for the redevelopment to proceed to planning submission (RIBA stage 3) and Gateway 3 – Procurement (RIBA Stage 4) which includes work to facilitate procurement of a construction contractor.
8. The Council has committed to using its assets and land to deliver genuinely affordable homes. The June 2019 Cabinet report 'Investing in affordable housing' committed the Council to use internal and external funding to deliver affordable homes.

EQUALITY IMPLICATIONS

9. There are no direct implications for groups with protected characteristics, under the equality Act 2010, associated with the budget approvals sought in this report.

RISK MANAGEMENT IMPLICATIONS

10. The budget requested is £7,512,028 which will be funded by borrowing against the Housing Revenue Account (HRA). Governance on expenditure is outlined in the report with consultant appointments delegated to the Strategic Director for the Economy in consultation with Cabinet Member for the Economy.
11. A full analysis of the principal risks connected with the report and proposed mitigating actions are undertaken as part of the development appraisal process. These are reviewed and monitored accordingly by the project team.
12. Furthermore, risks to the financial performance of the development are outlined in the exempt Appendices to the report.

Ray Chitty, Head of Insurance Service, 10th November 2021

CLIMATE AND ECOLOGICAL EMERGENCY IMPLICATIONS

13. On 17th July 2019 LBHF declared a climate emergency, pledging to cut CO2 emissions from the council's activities to net zero by 2030. The budget is recommended for approval on the basis that the development team will pursue and coordinate a net-zero design for construction and operation of the new homes. The project team will prioritise zero-carbon developments, subject to financial viability and internal approval, targeting the long-term efficiency of new homes provided along with the generation of renewable energy.
14. As set out within the exempt appendices, the requested budget allows for aspirational levels of sustainability to be achieved, should the decision be made via the LBHF Development Gateway process to deliver these homes to Passivhaus certification.

Robert Kyle, Climate Emergency Project Manager, 12th November 2021

List of Exempt Appendices:

- Appendix 1 – Financial Development Appraisal (Barclay Close) – EXEMPT
- Appendix 2 – Financial Development Appraisal (Becklow Gardens) – EXEMPT
- Appendix 3 – Financial Development Appraisal (Land R/O The Grange) – EXEMPT
- Appendix 4 – Financial Development Appraisal (Land Adj. Jepson House) - EXEMPT