London Borough of Hammersmith and Fulham

Housing Development Programme

Business Plan

April 2013 – March 2017

Vision

“Build a Housing Ladder of Opportunity”

Contents

1. Executive summary

The Council is currently moving forwards with three strands of direct housing development to deliver additional low cost home ownership opportunities in pursuance of the council's adopted Housing Strategy "*Building a Housing Ladder of Opportunity".* This report presents the Housing Development Programme Business Plan for the period 2013-2017 (for Hidden Homes and New Build Innovative Housing).

The current four year programme is based on delivery of 100 Discount Market Sale and 33 private for sale new housing units across 16 sites[1]. The total development cost is circa £30m (funded from the decent neighbourhoods fund, complimented by £2.7m grant from the Mayor's Housing Covenant fund (subject to final due diligence and contracts) and reinvestment of surpluses realised from the sale of a limited number of private units). This will realise a Gross Development Value of circa £46m (producing a cash surplus of circa £4m and retained equity of circa £14m).

Further to the freedoms and flexibilities introduced by the Localism Act 2011 and the Housing Revenue Account Reform - together with the Council's adopted Housing Strategy (2012) - recent legal and financial advice has confirmed that it is appropriate that the housing development programme can be undertaken directly by the Council, without the need to utilise the Council's arms length special purpose vehicle arrangements that have previously been put in place.

Funding approval will be secured in accordance with the proposed Scheme of Delegation set out in the Business Plan. The delivery of the housing development programme will be overseen by the Housing Development Programme Board, which consists of the Executive Director of Housing & Regeneration & the Cabinet Member for Housing along with senior Directors and Heads of Service from Housing & Regeneration Department.

The Programme Board meets on a monthly basis to review progress and authorise project progress through gateways within the Cabinet approved frameworks. In addition, quarterly reports will be presented to the H&F Business Board (HFBB) and Members setting out scheme by scheme progress, and seeking approvals for variances to the programme.

The Business Plan will be reviewed by the Programme Board on an annual basis and presented to Cabinet for approval.

[1] In addition to 2 DMS units delivered at 67/68 Becklow Gardens in June 2012

2 Background

Hammersmith & Fulham has the fourth highest property prices in the UK which means that getting on the housing ladder is virtually impossible for many people with large numbers forced to rent or live outside of the borough. The Council wants to *build a housing ladder of opportunity* whereby hard-working local residents, on modest and middle incomes, can fulfil their housing aspirations and buy a local home for a reasonable price.

The Council recognises that local authorities have a key role to play in unlocking new housing growth through effective asset management and maximisation of capacity arising from Housing Revenue Account (HRA) self-financing reform.

As set out in the Council's housing strategy - *Building a Housing Ladder of Opportunity* - the Council has an ambition to create a ladder of housing opportunity through increasing levels of home ownership for local people, especially low cost home ownership. The broader objective is to treat affordable housing as a valued, integrated, and more accessible part of the housing market, playing a greater role in regenerating local communities and local economies. It seeks to create more genuinely mixed-use communities in standards of accommodation fit for the 21st Century.

3 Vision & Objectives

The vision is to ***'Build a Housing Ladder of Opportunity'***

The Council's overarching objectives are to:

- *Deliver major economic and housing growth* – achieved using housing investment as a catalyst for wider socio-economic change.

- Tackle economic and social polarisation – achieved using more innovative and flexible approaches to: estate regeneration; allocation policies prioritising working households; local lettings plans; flexible tenancies; and supply of low cost home ownership initiatives.

The Council is currently pursuing the following three main strands of direct housing development to achieve its housing and regeneration aims and objectives set out in the Housing Strategy:

- Hidden Homes – a programme for small conversions, generally less than 5 units per site
- New Build Innovative Housing – focused on sites of between 5 – 50 units, built using Modern Methods of Construction (MMC) where it provides better value for money and ease of construction.
- Housing & Regeneration Joint Venture – partnership with a private sector partner to redevelop selected larger Council owned development sites, delivering 50+ units per site. The JV will have separate governance arrangement and its own Business Plan with the joint venture partner following completion of the procurement process and therefore is outside the scope of this Business Plan.

In one of the most ambitious local authority house-building projects of its kind in the country, the Council is determined to make it easier for residents to purchase an affordable home in the borough by developing low cost home ownership schemes.

4 Market overview

Hammersmith and Fulham has the fourth highest property prices in the UK at the same time as having one of the highest proportions of social housing in London (c31% socially rented compared to a West London average of 21%). This, combined with a large private rented sector means the borough has a low percentage of homeownership and limited opportunities for working Londoners, on modest incomes, to fulfil their aspirations of achieving homeownership.

There is a significant demand for new housing in Hammersmith and Fulham, and London as a whole. It has been one of the strongest performing London boroughs and was one of the first to return to peak values following the economic downturn (2007), led by demand both internationally and domestically. Prices in Hammersmith & Fulham now stand at circa17% above their previous 2007 peak, with the average house price of circa £650,000 in December 2012. Recent market forecast produced by Savills, for the Council, anticipates a 23.7% rise in values over the next five years.

In addition to the significant forecast demand for private housing, the borough is also seeking to increase affordable homeownership for the middle market. Out of the total of circa 88,000 homes in the borough, less than 2 per cent are currently Low Cost Home Ownership (LCHO).

Demand for LCHO is high in the borough and in December 2012 the Council had 4,711 applicants on its HomeBuy register. The income bands of the registered households are presented below.

Household income	Registered residents and workers	
Less than £20,000	493	10%
£20,001 to £30,000	1,422	30%
£30,001 to £40,000	1,355	29%
£40,001 to £60,000	1,441	31%
Total	4,711	100%

The Council prefers to see low cost home ownership housing delivered on a Discount Market Sale (DMS) basis, to improve the mid-market offer and deliver a more flexible product. DMS is preferable to Shared Ownership as no rent is charged to the purchaser on the unsold portion of the equity. This has the advantage of making homeownership more affordable by reducing the proportion of household income which is spent on housing costs and in some cases allows the purchaser to buy a bigger percentage share of the property.

House prices and market rents are high in the borough which means that low cost home ownership housing needs to be affordable to a broad range of incomes. It also needs to be on average affordable by the midpoint income set by the Mayor in the London Plan.

Analysis of the status of applicants on the Council's HomeBuy register shows that the majority of these have income between £20,000 - £40,000. Therefore, generally the Council targets a third of the low cost home ownership housing developed to be affordable to households with an annual gross incomes of up to £30,000, a third to be affordable to households with an annual gross income of up to £40,000 with the remaining third to be developed for annual gross household incomes of up to £60,000. This equates to an average household income of £43,300.

5 Business Model

The model is predicated on identifying and delivering, in consultation with the local community, opportunities within the Council's existing HRA property portfolio to provide new affordable and private homes. This is achieved through undertaking the following activities:

a. Opportunity Identification
b. Feasibility Assessment of Potential Projects
c. Planning & Engagement
d. Development Delivery
e. Sales Delivery

<u>a. Opportunity Identification</u>

The Council appointed CBRE, property consultants, in 2007 to undertake a review of all Housing Revenue Account (HRA) properties to determine their potential for additional housing development. The study identified a wide range of schemes that varied from small conversions of existing properties to larger redevelopment sites. These sites have been reviewed and a pipeline of 16 sites has been prioritised for housing development in the next four years, including:

- premises previously used for non-housing purposes but are no longer required for those uses (e.g. offices, community facilities) which can be converted to housing
- existing estate storage / parking facilities (including garages) that can be redeveloped / remodelled to build new housing, and where required, re-provide storage / parking facilities that meets resident's needs and achieves good value for money for public asset / resources
- housing amenity land that can be utilised for new build housing that also allows for the provision of improved high quality usable open space / public realm for residents of the estates.
- Larger decanted developments sites

The Council from time to time will undertake further reviews of the Council's housing stock with the purpose of identifying additional housing development opportunities.

<u>b. Feasibility Assessment of Potential Projects</u>

Identified sites are progressed into schemes for consideration by Housing Development Programme Board and an initial feasibility assessment completed by the Council's advisors to ascertain if the sites meet the Council's objectives and:

- can accommodate housing that meets lifetime homes and London Design Guide standards
- can accommodate new housing without any adverse structural impacts on existing / neighbouring residential buildings and are free from any subterranean services that would prohibit new development
- comply with Council planning policy (including parking capacity and daylight / sunlight requirements)
- would meet mainstream mortgage lenders borrowing requirements; enabling households on low to middle incomes to secure a mortgage for low cost home ownership properties in these locations
- are financially viable

The viability assessment requires each scheme to:

- maximise the proportion of DMS units delivered
- deliver units which are affordable to households with a modest household income (average income of £43.3k; capped at £60k, or £77.2k if 3 bedrooms or more)
- achieve surplus on cost of 20 per cent (excluding retained equity)
- deliver dwellings which meet the required bedroom mix of the Council's HomeBuy register

The Council may also seek grant funding for development schemes to support viability, increase the proportion of DMS units included within the scheme, enable the delivery of large units and/or improve affordability levels for the prospective buyer (see Section 7 – Mayor's Housing Covenant)

c. Planning & Engagement

Before sites are taken forward for development it is important to undertake a formal pre-application process with the Local Planning Authority and to carry out a detailed resident engagement exercise. The outcomes of these two processes are assessed and used to decide scheme designs before a planning application is submitted.

A range of consultation approaches may be used which include:

- Ward Councillor briefing
- Tenants and Resident Association (TRA) engagement
- Resident newsletter
- Letters to tenants/leaseholders
- Drop-in session / design exhibitions
- Questionnaires
- Formal planning consultation

d. Development Delivery

Following securing of planning consents a contractor is engaged to undertake the construction of new housing. Where possible this will be undertaken in conjunction with the planning stage as the early engagement of a contractor, as set out in the Government's Construction Strategy (2011), has been demonstrated to create efficiency within the design and development process.

The building contractor may be appointed either from a framework (e.g. SCAPE, GLA developer panel and Westminster development panel), or through an appropriate competitive tendering exercise or the Council's term major voids contractor (where they provide better value for money).

Going forward the Council intends to undertake a procurement exercise to establish a local contractor framework which will engage local contractors on schemes and potentially further improve value for money.

e. Sales Delivery

The affordable homes will be sold to local residents on the HomeBuy register under the Discount Market Sale (DMS) scheme with the expectation that, overall, one third of homes will be available to households with an annual gross income up to £30,000, £40,000 and £60,000 respectively.

Where the viability of a scheme does not achieve a 20 per cent return on cost higher household incomes, with a cap of £60,000, (or £77,200 if a home has 3 bedrooms or more) or private purchasers may be targeted, in order to maximise the number of affordable homes being delivered.

Valuation services will be provided using the Council's existing contract, which is currently being retendered, where appropriate. The new contract will include sales and marketing agent services, which can be used by the Council and or its subsidiary companies.

The marketing strategy will be tailored for each scheme to maximise the value per home whilst maintaining a clear focus on completing sales as quickly as possible once practical completion has been achieved. It is anticipated that new homes will be targeted at local and UK buyers.

Low Cost Home Ownership (LCHO)
LCHO delivered as DMS is preferred to Shared Ownership as no rent is charged to the purchaser on the unsold portion of the equity which can help the purchaser to buy a bigger percentage share of a property. A requirement of DMS is that it must be available in perpetuity which means that the unsold equity will be retained by the Council or a designated third party dependent on taxation and legal advice at the time of sale. If, at a future date, the purchaser wishes to buy-out the remaining equity any receipt would be ring-fenced for housing and regeneration purposes.

Private sales
Sales and marketing agent services will provide marketing advice in terms of property layout and specification, prepare sales and marketing literature and manage the sales process on behalf of the Council. They will also advise on the optimum time to market the property and where possible promote the sales of properties off plan.

6 Corporate Structure, Responsibilities and Governance

Housing Development Company Structure

In April 2011 the Council agreed to establish a local housing development company structure to deliver new affordable housing and take forward the first two programmes of work. The structure allowed the Council to deliver housing and regeneration outcomes using its own land, under its own leadership.

The local housing development company structure was chosen after reviewing the models used by other local authorities, including Westminster City Council and Woking Borough Council, and taking legal and financial advice. This comprises H&F Housing Development Limited (HFD) and H&F Housing Limited (HFH).

- H&F Development Limited (HFD) - a wholly owned subsidiary company that can undertake building of new homes on Council owned land that is vested in it for the purpose. This company has a three person Board and these are H&F senior officers and the Cabinet Member for Housing.

- H&F Housing Limited (HFH) - a company with charitable aims, established under the Industrial and Provident Society rules, that will be able to access grant, provide housing management, and accept gift aid to achieve greater tax efficiency. Under the rules this company can be run initially with an interim Board which has now been set up with Officers as Board Members pending the transfer of any assets into the company.

In April 2011 it was anticipated that all developments would be undertaken through HFD, which would require the Council to dispose of the development sites to HFD and for HFD to secure a loan, at a commercial interest rate from the Council, to undertake the development.

Updated Legal & Financial Position

Following the enactment of the Localism Act 2011 and HRA Reform, recent legal advice from Eversheds has confirmed that the Council is able to undertake the development activity directly as the rationale for this is clearly set out in the Council's adopted Housing Strategy. PricewaterhouseCoopers have also provided taxation advice looking at SDLT, VAT and corporation tax which confirms that there is no financial disadvantage to the Council if the housing development activity is undertaken directly and administratively it is more efficient.

Whilst the Council's housing development company structure remains an appropriate delivery mechanism, the freedoms and flexibilities introduced through the Localism Act and HRA Reform – together with the Council's clear policy articulation through the adopted Housing strategy - allows the Council to now undertake a greater range of housing development activities directly. This includes the Council directly developing private for sale and low cost home ownership housing (such as DMS) to achieve its aims and objectives of creating a ladder of housing opportunity as set out in the Housing Strategy.

Going forward it is proposed that the Council undertakes development of the schemes in the current programme directly within the Council without the need to utilise the Council's arms length special purpose vehicle arrangements that have previously been put in place. However, it is not intended that the housing development companies will be dissolved straightaway, rather they will remain dormant and the position reviewed in one year's time.

Scheme of Delegation

In January 2012 the Cabinet approved the Hidden Homes programme funding envelope of £2.7m. Approvals to initiate individual schemes and drawdown of funds were delegated to the

Executive Director of Housing & Regeneration and the Deputy Director of Finance. In addition, a report is being presented to 13 May 2013 Cabinet meeting seeking approvals for full development funding of £3.4m to initiate the Spring Vale Pilot site and £0.2m to undertake feasibility, consultation, and design to planning submission stage for two further new build sites at Becklow Gardens and Barclay Close. Further programme details are presented in section.

Further funding approval process to undertake development of current schemes and future opportunity sites are set out below:

Scheme Category	Scheme Development Cost	Approval
Hidden Homes conversion schemes (within the Business Plan approved envelope)	Up to £1m	CMD report- Executive Director of Housing and Regeneration and the Executive Director of Finance and Corporate Governance in conjunction with the Cabinet Member for Housing, Cabinet Member
New Build Innovative Housing Schemes & Other Opportunity Sites (within the Business Plan approved envelope)	Up to £1m Up to £2m More than £2m	CMD report- Executive Director of Housing and Regeneration and the Executive Director of Finance and Corporate Governance in conjunction with the Cabinet Member for Housing, Cabinet Member CMD report- Cabinet Member for Housing and the Leader Cabinet report – Cabinet

Monitoring

The delivery of the housing development programme will be overseen by the Housing Development Programme Board, which consists of the Executive Director of Housing & Regeneration & the Cabinet Member for Housing along with senior Directors and Heads of Service from Housing & Regeneration Department.

The Programme Board is supported by the Council's development management team and has appointed the following advisors:

- Baily Garner, development agent and architectural services for the Hidden Homes programme
- City House Project Limited (Rational House), design and development management services for the New Build Innovative Housing Schemes
- PricewaterhouseCooper, finance and tax advice
- Browne Jacobson & Sharpe Pritchard's, legal advice
- Halcrow, technical surveys and assessments
- Lambert Smith Hampton & Savills, valuation, sales and marketing advice

The Programme Board meets on a monthly basis to review progress and authorise project progress through gateways within the Cabinet approved frameworks. Funding and scheme progression are authorised by the board in accordance with the Business Model set out in Section 5.

In addition, quarterly reports will be presented to the HFBB and Members setting out scheme by scheme progress, and seeking approvals for variances to the programme.

The key responsibilities of the Programme Board are set out below:

Governance
- to ensure robust and regular business, and financial, reporting process in place
- to ensure appropriate internal controls (including a fully documented approvals process for business decisions and financial commitments) and risk register in place

Business Strategy
- Ensure that the Business Plan is developed, updated and approved
- Ensure that appropriate Council approvals are in place to support the Business Plan
- Ensure that appropriate resources are in place to deliver the Business Plan
- Ensure that projects remain focussed on delivering the key objectives
- Ensure that financial budgets are approved
- Ensure that appropriate funding is available before committing to expenditure

Business Execution
- Agree the scope of the projects
- Ensure each scheme in the development pipeline is correctly identified as either Prospective, Planning, Committed or Completed (definitions are set out in the development appraisal template)
- Approve development appraisal for each project prior to approval as set out under the delegations above
- Monitor the financial metrics for each project on a regular basis (at least monthly)
- Provide overall guidance and direction to projects
- Approve all major plans and budgets and authorise any major deviations prior to approval as set out under the delegations above
- Ensure required resources are committed for each stage of the projects
- Arbitrate on any conflicts arising within the projects
- Review periodic reports from development managers highlighting progress against the project plans and management of risks
- Request and review “lessons learned” papers from projects as appropriate

Reviews

The Business Plan will be reviewed by the Programme Board on an annual basis and presented to Cabinet for approval.

7 Business Update

Strand 1: Hidden Homes

A pilot programme was approved by the Cabinet in January 2012 to build 25 new affordable homes. Expenditure of £2.7 million was approved from the decent neighbourhoods fund.

The first development was completed at Becklow Gardens Estate, where two new units were built and sold to applicants on the Council's HomeBuy register. Sale proceeds of £468,000 were realised against development costs of £123,000, producing a positive gross return of £345,000 (including retained equity).

Planning consent has been secured for seven further sites. Five of the consented schemes are due to start on site from spring 2013. Residents at each of the estates have been notified and consulted regarding the proposals and have inputted into the design process.

At Verulam House planning consent has been achieved for a new private 4 bedroom family dwelling (development site) in addition to the three DMS homes. It is proposed that the development site be sold rather than developed by the Council through the Hidden Homes programme. This will limit the Council's sales risk of a high value private development and accelerate programme thereby improving the cash flow due to the earlier than forecast receipt of income from the land sale.

Due to the programme re-profiling as a result of the grant from the Mayor's Housing Covenant and re-prioritising the larger development opportunities for the New Build Innovative Housing strand (sites where the Rational House model may be better suited due to site constraints/challenges) this strand will deliver 16[2] new homes costing circa £2.3m.

The table below sets out the current Hidden Homes programme site details.

Site Name	Proposal	Housing Output	
		DMS	**Private**
Strand 1: Hidden Homes (conversions)			
129/131 Bloemfontein Road	Conversion of former doctor's surgery to create new affordable housing	2	
28 Comeragh Road	Conversion of disused basement to create new affordable housing	2	
St Peter's Terrace	Conversion of undercroft to create new affordable home	1	
The Grange	Conversion of pram stores to create new affordable housing (scheme incl. re-provision of storage facilities)	2	
Verulam House	Conversion of ground floor to create new affordable house	3	1[3]
1-9a Lakeside Road	Conversion of undercroft to create new affordable home	1	
23 Baron's Court Road	Conversion of disused basement to create new affordable housing	2	
TOTAL		**13**	**1**

[2] Including 2 completed units at 67/68 Becklow Gardens
[3] Assumes new build house site (1 private unit) land sale with planning consent

Strand 2: New Build Innovative Housing

In December 2012 Cabinet approved the establishment of a Framework for Innovative Housing Built Using Modern Methods of Construction (the 'Framework') with City House Projects Limited (CHPL) as the single provider. CHPL is a subsidiary company of Rational House and was created to provide all the services and commercial expertise necessary to deliver the Rational House product. This framework now allows the Council to build innovative new housing using the Rational House model, where this approach provides value for money and the construction methodology is better suited due to complex site constraints.

The Cabinet authorised expenditure of £50,000 in December 2012 for professional services to undertake resident consultation, site investigation surveys, and design of the Pilot Site at Spring Vale Estate to planning stage.

Following feasibility work and resident consultation a further Cabinet report was presented in May 2013 setting out detailed development proposals for the Pilot Site and approval for funding to undertake detailed design and construction of ten new homes (60 per cent affordable as Discount Market Sales). In addition Cabinet approval has also been secured to undertake initial feasibility, design, resident consultation and submit planning applications for two further sites at Barclay Close and Becklow Gardens (these together can deliver an additional 18 homes), there is one further site under consideration in the pipeline that has not yet reached the approval stage.

The table below sets out the current proposed New Build Innovative Housing programme site details. For the Becklow Gardens and Jepson House sites[4] returns would be benchmarked against traditional construction approaches before schemes are progressed.

Site Name	**Proposal**	**Housing Output**	
		DMS	**Private**
Strand 2: New Build Innovative Housing			
Spring Vale	Redevelopment of parking forecourt and garages to create new affordable and private housing (scheme incl. re-provision of parking facilities where required)	6	4
Barclay Close	Conversion of parking forecourt to create new affordable housing and private housing (scheme incl. re-provision of parking facilities where required)	3	3
Becklow Gardens	Redevelopment of garages to create new affordable housing and private housing (scheme incl. re-provision of parking facilities where required)	6	6
Jepson House	Redevelopment of garages to create new affordable housing and private housing (scheme incl. re-provision of parking facilities where required)	21	2
TOTAL		**36**	**15**

[4] Barclay Close is a constrained site and therefore would be more suitable for modern methods of construction as opposed to traditional approach.

New Build Opportunity Sites

In November 2012 the Council submitted a bid to the Mayor of London for grant funding from the Mayor's Housing Covenant to maximise delivery of DMS housing within the Council's housing development programme, targeting low and middle income households to get onto the housing ladder. The prospectus for the Mayor's Housing Covenant was strongly aligned with the Council's adopted Housing Strategy *"Building a Ladder of Opportunity"* in seeking to encourage the delivery of additional low cost home ownership opportunities and the Council was therefore well positioned in relation to this funding opportunity. Subject to final due diligence and contract, the Council's bid will secure £2.7m grant (at a rate of £27,000 per unit to be drawn down on a per unit basis following completion). This will be payable on practical completion of new units delivered by March 2016.

The grant application was based on a higher target of Council delivering 100[5] DMS and 33 private (to cross subsidise) units over the three year period. In order for the Council to achieve this target further development sites would need to be brought forward for delivery. Therefore, in addition to the sites already identified in the programmes above a further five opportunity sites have been identified - and based on initial feasibility assessments undertaken - could potentially deliver a further 51 DMS and 17 private units, achieving the expected overall Mayor's bid target.

The table below sets out the opportunity sites details.

Site Name	Proposal	Housing Output	
		DMS	**Private**
Additional New Build Opportunity Sites			
Willaim Church	Conversion of undercroft to create new affordable home	4	
Darlan Road	Conversion of parking forecourt and amenity land to create new affordable housing and private housing (scheme incl. re-provision of parking facilities where required)	4	2
Lancaster Court	Conversion of parking forecourt and adjoining amenity land to create new affordable housing and private housing (scheme incl. re-provision of parking facilities where required)	4	2
Sullivan Court	Development of underutilised housing amenity land adjoining existing residential blocks to create new affordable housing	22	
Linacre Court	Redevelopment of parking forecourt and garages to create new affordable and private housing (scheme incl. re-provision of parking facilities where required)	17	13
TOTAL		**51**	**17**

[5] Excludes 67/68 Becklow Gardens 2 DMS units completed in June 2012

8 Financial Plan

The Council has identified a pipeline of 16 sites for the direct delivery of DMS and private for sale housing over the next four years. The pipeline will deliver 100 DMS homes and 33 private for sale homes (including land at Verulam House being sold following advice from Lambert Smith Hampton with planning permission for the construction of one 4 bedroom house) at a total cost of £30.3m. The capital element of this will be funded from the decent neighbourhoods fund (DNF)[6] by sales under the Limited Asset Based Voids Disposal Policy, with schemes programmed to allow the maximum level of proceeds to be recycled thereby reducing reliance on asset sales for both new development and for the maintenance of the HRA stock in later years, complimented by £2.7m of GLA grant funding from the Mayor's Housing Covenant (subject to final due diligence and contracts). Approximately 10% (£2.9m) of the direct developmentl cost is forecast to be revenue in nature (i.e. pre planning costs) which will be funded from s106 monies[7] and from HRA reserves[8].

It is anticipated that in addition to direct development costs up to £400k per annum of oncosts related to the development programme would be capitalisable. This will include salary cost of 4 full time officers in the development team and an element of cost for the capital finance team within HRD.

The development will be undertaken by the Council in the HRA – sales receipts will be Housing Capital receipts.

This financial section of the Business Plan excludes the financial aspects of the Council's Joint Venture activities.

Target Returns

As set out in Section 5.b. "Business Model : Financial assessment of potential projects" the financial target for each scheme is a surplus on cost of 20%[9] (excluding retained equity), to be balanced against maximising the level of DMS housing on each site and targeting an average Household Income for DMS purchasers of £43.3k pa. The flat rate nature of the GLA grant funding (£27,000 per DMS unit) will require an "Internal grant pool" to be established to distribute the grant received across the DMS units as required to ensure each scheme targets a surplus on cost of 20%. Further details are provided in the Funding Section.

Where a scheme has a development surplus in excess of 20% the assumptions around the level of DMS housing and the household incomes being targeted will be reviewed to ensure that the homes are as affordable as possible; whilst targeting a surplus on cost of 20%, grant adjusted.
The pipeline has been split into the following workstreams for funding purposes:

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[6] Where possible this will be supplemented by s106 affordable housing commuted sum payments, however these will be prioritised for pre-planning works where possible to mitigate potential revenue cost to the HRA. Due to the uncertainty with timing of future s106 receipts no s106 monies have been assumed over and above those currently banked.

[7] A s106 agreement is currently being negotiated in relation to the Land Bounded By Harbour Avenue and Lots Road (Tent) site whereby a financial contribution of £4.5m to the Council will be agreed in lieu of on-site affordable housing provision, to fund delivery through the Council's Hidden Homes programme. It is anticipated that the terms of the S106 agreement would enable these funds to be applied for revenue costs at feasibility and pre construction stage of developments.

[8] These numbers were not in the HRA business plan taken to Cabinet as part of the Asset Management Plan but have been included in the latest draft plan which is being considered as part of the 2013/14 Council business planning process. The HRA business plan can accommodate these numbers, although they slow the level at which reserves are built up and additional void sales will be required to initially fund the programme.

[9] Before internal capitalised oncosts

Current schemes:

- Hidden Homes[10]
    - The Grange
    - Verulam House
    - 28 Comeragh Road
    - St. Peter's Terrace
    - 129/131 Bloemfontein Road
    - 1-9a Lakeside Road
    - 23 Baron's Court Road

- New Build Intermediate Housing (NBIH)
    - Spring Vale Estates (pilot scheme)
    - Barclays Close
    - Becklow Gardens
    - Jepson House

New Build Opportunity Sites (schemes identified but only high level feasibility undertaken)
- William Church
- Darlan road
- Lancaster Court
- Sulivan Court
- Linacre Court

The table below summarises the current direct delivery pipeline – all schemes in the pipeline demonstrate a surplus on cost of 20% (excluding Retained Equity) after including GLA grant funding (net of internal grant pool adjustment):

<u>EXEMPT TABLE</u>

Development appraisal assumptions

The development appraisals will evolve for each scheme from high level feasibility appraisals based on indicative construction costs and professional fees based on pounds per square meter estimates through to detailed investment case appraisals which will support the Council's decision to proceed with each scheme. As schemes progress towards detailed investment case appraisals the costs will be supported by detailed cost plans from the appropriate advisors reflecting the designs and specifications for the approved planning consent. The investment case appraisal will be frozen once a scheme has received full Council approval in line with the delegations set out above (which will allow the main construction contract to be placed and the full scheme to proceed) and actual performance will be monitored against the investment case and variances reported back to HFBB and Members on a quarterly basis with full project analysis vs investment case appraisal reported on completion.

The following principles and assumptions apply:

- Sales values and development costs are included within the current Business Plan at present values.

- Construction costs are provided by external advisors, for the Hidden Homes pipeline this is Baily Garner, with the Council adding the following assumptions where appropriate:

    - 20% professional fees
    - £50psm Mayor CIL

[10] This excludes the completed scheme 67/68 Becklow Gardens

- appropriate level of LBHF CIL
    - Selling costs (private) – 2% OMV plus £2k legal costs
    - Selling costs (DMS) - £1k legal costs
    - £1k per unit marketing
    - 10% project contingency[11]

- Where practical the new private and DMS units will be marketed off plan to achieve sales in advance of the target dates set out below. Following practical completion it is assumed that sales will be completed, dependent on the number of homes in the scheme, as follows:
    - one home – 2 months post PC to complete sale
    - two homes – 3 months post PC to complete sales
    - more than two homes – 4 months post PC to complete sales

- All schemes are assumed to be zero rated for VAT purposes, which is the best outcome for the Council's partial exemption calculation. It should be noted that the sales on a small number of the smaller schemes are likely to be the second grant of an interest in the property and therefore exempt from VAT where they are refurbishment in nature. Detailed VAT advice will be taken on each site as part of the approval process for each development appraisal based on the rules in force at the time, this will include consideration of any impact on the Council's partial exemption calculation.

- The financial projections assume that no staircasing[12] occurs

- Nil land values have been assumed as the land remains within the HRA. As part of the appraisal process the land value will be identified and considered. If the land has some value[13] then this will be considered as part of the options appraised to ascertain if selling the site might provide a better return (as for example the Council has chosen to do with a small site at Verulam House).

- No cost of funds has been included in the figures. Both the revenue reserves and capital receipts being utilised can only be used for housing purposes, including the repayment of HRA debt. Excess receipts held only currently attract a negligible interest rate and we currently have sufficient funds expected over the next four years to fund both debt repayments and the housing capital programme therefore it is not considered appropriate to include a cost of funds.

Funding and programming principles

A £2.7m funding envelope from the DNF for the Hidden Homes workstream (now currently £2.3m) was approved by Cabinet on 30 January 2012, at the time via loans to HFD. Funding for the pilot scheme for New Build Innovative Housing (NBIH) at Spring Vale Estates (£3.4m, again from the DNF) is due to be approved by Cabinet on 13 May 2013.

In order to manage the risk to the Council, as the direct delivery model is implemented, the Council does not expect to commit to the scheme at Barclay Close until the Hidden Homes schemes have been built and proceeds realised. The approval of Becklow Gardens and Jepson House, which are substantial NBIH schemes will be dependent on the success of the pilot scheme at Spring Vale which will allow a substantial recycling of funds; funding for these schemes may be advanced from the DNF earlier if significant pre sales are achieved at Spring Vale or if alternative, lower risk, methods of delivery are identified.

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[11] Contingency levels will reduce as schemes are worked up in detail and programme board will approve all use of contingency budgets

[12] Staircasing: the sale of further tranches of equity to a buyer subsequent to the initial sale

[13] Sites such as undercrofts may have a virtually nil value as they may be difficult to sell off separately

The remaining Opportunity Sites will inevitably change as more detailed pre planning work is undertaken and further sites are identified, these have all therefore been deferred until March 2014. The delivery of these Opportunity sites will be reviewed as more detailed design and viability work is undertaken and as the Current schemes progress.

The table below sets out the current funding strategy:

EXEMPT TABLE

Mayor's Housing Covenant (MHC)

Subject to final due diligence and contract £2.7m GLA grant funding to support the delivery of 100 new DMS homes has been secured.

Funding will be paid at a rate of £27,000 on Practical Completion of each DMS unit delivered, thereby minimising any risk of claw back as the grant is not paid in advance. The GLA's funding will sit within the Retained Equity of each DMS unit and will be the first element released on staircasing. The value of the GLA grant will increase at 50% of the rate of the percentage increase in open market valuation, but with no downside risk. Released funding will only be repayable to the GLA if the Council cannot identify a new DMS opportunity for reinvestment). The GLA grant funding will expire with the term of the lease (125yrs).

Internal grant pool

A key measure of scheme viability is the ability to demonstrate a surplus on cost of 20%[14] (excluding retained equity). The GLA funding (subject to final due diligence and contracts) has been secured to support the development of 100 DMS units without specifically looking at viability hurdles on each individual scheme but considers viability issues across the programme. This means that £27,000 will be received at practical completion for each DMS unit delivered even if a scheme is viable without the grant funding and conversley only £27,000 per DMS unit will be received where a scheme may need more than that to achieve the 20% hurdle.

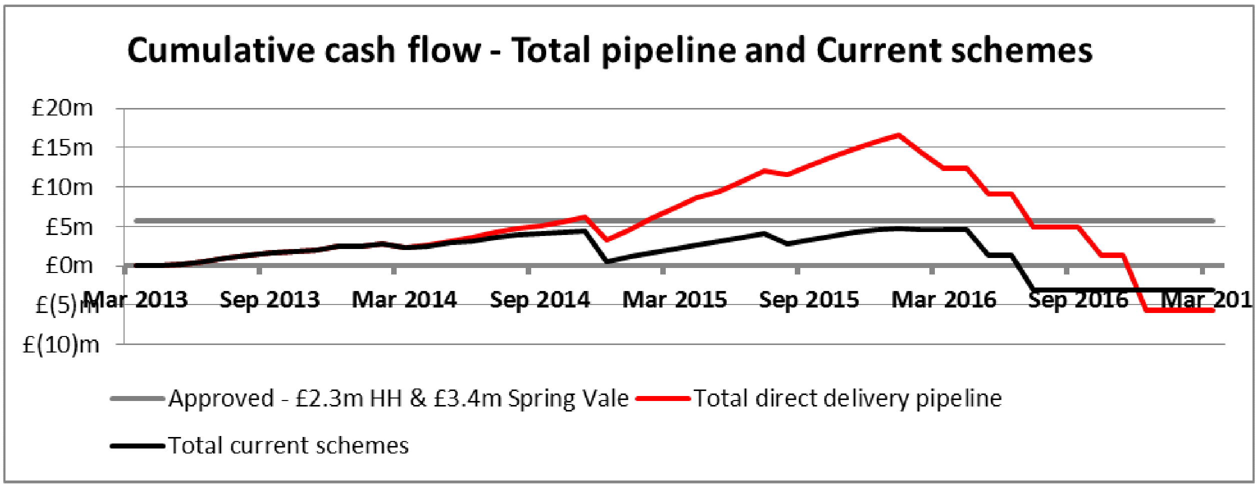
In order to monitor the programme at any point in time to ensure it meets the viability target the Council will establish an Internal grant pool which will effectively reallocate the GLA grant from the schemes that exceed the 20% threshold to those that are forecast to fall short of the 20% threshold with just £27,000 per DMS unit. This will not alter the claw back rules which apply to the grant.

This Internal grant pool will be very closely monitored and will form part of the monthly reporting. The programming of the schemes will be monitored to ensure that the mix of schemes being advanced at any point in time will not create a funding shortfall in the Council, i.e. that sufficient has been received from the GLA to ensure the net programme of approved schemes at any point in time achieves the 20% surplus requirement.

Cash requirements

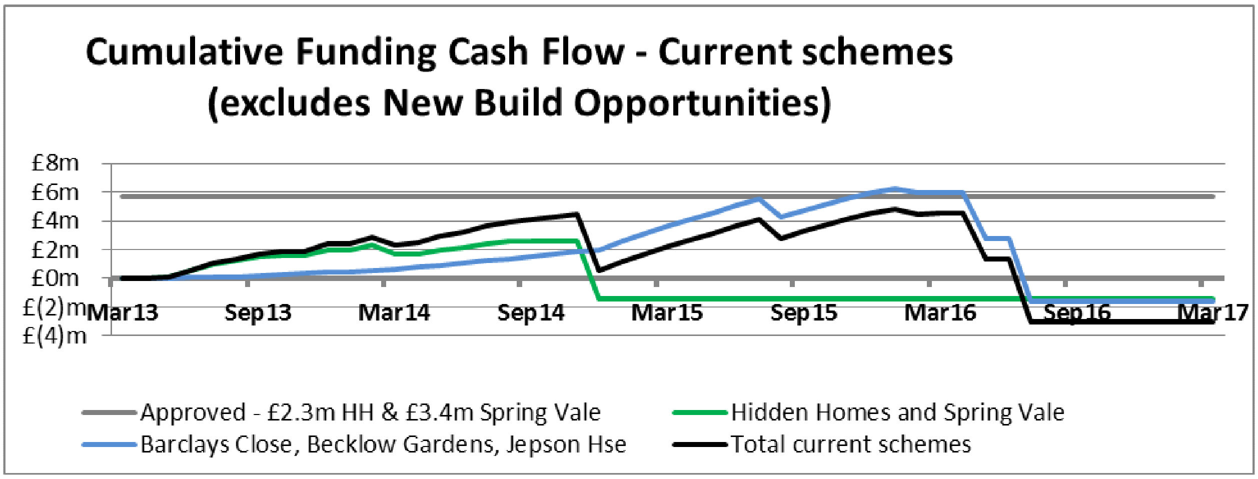
The graph below sets out the total funding requirements of the programme, capital funding comes from the DNF, revenue funding from S106 monies and HRA reserves.

[14] Before internal capitalised oncosts



- The approved funding on the above graph of £5.7m reflects £2.3m in respect of the Hidden Homes schemes (Jan 2012) plus £3.4m for Spring Vale (May 2013).
- Peak funding requirement for the total pipeline is £16.6m in January 2016 (cash requirement, capital and revenue).
- The graph represents net development cash flow – i.e. it includes development expenditure that is revenue in nature and excludes internal capitalised oncosts.
- The total pipeline will deliver a development surplus of £4.1m in cash (including GLA grant funding) by Dec 2016.
- Total Current schemes on the above graph comprise the Hidden Homes sites plus Spring Vale, Barclays Close, Jepson House and Becklow Gardens.
- The difference between the two lines represents the Opportunity sites which have been identified as potentially good development sites but only high level feasibility work has been undertaken.

The next graph sets out the Current schemes and the cash flow profiles achievable from clear programming and recycling proceeds.



The phasing of the three schemes at Barclay Close, Becklow Gardens and Jepson House demonstrates a peak funding requirement of £6.2m. Programming these to follow the successful sale of units at Spring Vale and the hidden homes schemes, the peak funding of the current schemes is contained at £4.8m, for the delivery of schemes with a GDV of £23m. This assumes that:

- Barclay Close is programmed to be committed and fully funded from the sale of Hidden Homes units
- Jepson House is programmed to be committed and fully funded from the sale of Spring Vale

- Becklow Gardens is programmed to be committed following the successful sale of units at Spring Vale

Note: the three schemes above are in the final feasibility/pre planning stages and do not yet have full approval to progress.

Capital / revenue impact of the HRA

The table below summarises the position by financial year, including an estimated capital/revenue split:

Summary cash flow forecast for direct delivery pipeline (Combines Current schemes and New Build Opportunity Sites)					
	2014 **£m**	**2015** **£m**	**2016** **£m**	**2017** **£m**	**Total** **£m**
Gross development value (GDV)	2.9	6.5	8.7	27.5	45.6
Retained equity	0.9	1.8	2.3	8.9	13.9
Capital receipts: Sales proceeds	2.0	4.7	6.4	18.6	31.7
Grant received	0.3	0.4	2.0	0.0	2.7
Total Capital Receipts	**2.3**	**5.1**	**8.4**	**18.6**	**34.4**
Capital expenditure:					
Development costs	3.6	8.3	13.3	0.6	25.8
On costs capitalised	0.4	0.4	0.4	0.4	1.6
Total Capital Costs	**4.0**	**8.7**	**13.7**	**1.0**	**27.4**
Net Capital (Costs) Receipts	**(1.7)**	**(3.6)**	**(5.3)**	**17.6**	**7.0**
Revenue Costs	**1.1**	**1.8**	**0.0**	**0.0**	**2.9**
Net Capital Receipts less Revenue Costs					**4.1**

<u>Assumptions</u>

All sales on each scheme complete at the end of the forecast sales period

Costs are included when incurred (ie cash flow basis - no accruals)

Revenue costs, equivalent to 10% of total costs, are the first costs incurred on each scheme (pre planning costs)

These numbers were not in the HRA business plan taken to Cabinet as part of the Asset Management Plan but have been included in the latest draft plan which is being considered as part of the 2014/15 Council business planning process. The HRA business plan can accommodate these numbers, although they slow the level at which reserves are built up and additional void sales will be required to fund the programme.

10 Sensitivities Analysis

A high level sensitivity analysis of the current schemes (excludes the New Build Opportunity Sites) is presented below.

Current schemes : Surplus on cost £m and % sensitised for development costs and private sales values (GDV)							
			Development costs				
			£16.0m	£15.3m	£14.5m	£13.8m	£13.1m
			10%	5%	0%	(5)%	(10)%
Private sales	£7.5m	(10)%	£0.6m	£1.4m	£2.1m	£2.8m	£3.5m
			4.0%	8.9%	14.4%	20.4%	27.1%
	£7.9m	(5)%	£1.0m	£1.8m	£2.5m	£3.2m	£4.0m
			6.6%	11.6%	17.2%	23.4%	30.2%
	£8.3m	0%	£1.5m	£2.2m	**£2.9m**	£3.6m	£4.4m
			9.2%	14.4%	**20.1%**	26.4%	33.4%
	£8.7m	5%	£1.9m	£2.6m	£3.3m	£4.1m	£4.8m
			11.7%	17.1%	22.9%	29.4%	36.6%
	£9.1m	10%	£2.3m	£3.0m	£3.7m	£4.5m	£5.2m
			14.3%	19.8%	25.8%	32.4%	39.8%

The Current schemes (Hidden Homes schemes plus Spring Vale, Barclay Close, Becklow Gardens and Jepson House) are forecast to produce a surplus on cost of £2.9m (20%) (Including grant funding and excluding retained equity and oncosts) for re-investment in the New Build Opportunity Sites.

The Current scheme development appraisals include a 10% project contingency and assume household incomes across the 49 DMS units of £42.4k.

In the event that the entire project contingency is used and costs overrun by a further 10% the Current schemes would deliver a cash surplus of £1.5m in addition to retained equity of £6.8m.

If 10% cost overruns were combined with a 10% fall in the values forecast for the 16 private for sale homes the Current schemes would deliver a cash surplus of £0.6m.

Additionally, increasing the household incomes across the 49 DMS units to £43.3k would increase the surplus achieved by a total of £0.2m.

Further analysis of risks and the opportunities to mitigate those risks is discussed below.

11 Key Risks

Individual risk registers are maintained for each project, the key programme risks are set out below:

Forecast GDVs are not achieved

On larger schemes such as Spring Vale advice has and will continue to be sought from external agents on the range of values that could realistically be expected for the various units. This range of values is then scrutinised by the Council and appropriate values assumed for the development appraisal – on Spring Vale the middle of the range was adopted. Sensitivity analysis is undertaken, looking at 5% increments up and down, and reviewed by the Programme Board.
Values are regularly reviewed, at least quarterly, to ensure the Programme Board is alerted early to any viability issues.

Homes delivered fail to give mortgage providers the confidence to lend

A view on the lending appetite from the main mortgage lenders is obtained regularly. This is particularly important due to level of affordable DMS homes being advanced and the relatively new methods of construction being used, i.e. at Spring Vale.
A rental appraisal[15] is also undertaken before committing to schemes to ensure that there is a "Plan B" if the appetite of mortgage lenders changes during construction.

Sales are not completed swiftly delaying the pipeline delivery

An external agent is being appointed early in the process for all schemes with private for sale homes to ensure that the specifications are aligned with achieving best value and to secure pre sales where possible. Sales progress will be monitored weekly by the development and finance teams and monthly by the Programme Board. As the programme is funding from the DNF which is a very low cost source of finance this risk is mostly reputational. However, slippage in sales would delay the start of site of future phases putting £1.6m of grant receipts at risk if practical completion of all the later schemes was not achieved by the grant funding deadline of March 2016.

Viability risk - Surplus on cost drops below 20%

The starting point for all schemes is to deliver the highest quantity of DMS housing (Borough planning policy is for 40% of units to be affordable – the current pipeline is targeting 75%) targeting households with an average income of £43.3k (split one third £30k, £40k and £60k respectively).

If a scheme hits viability issues pre planning, due to the high levels of DMS being targeted, the Council have the option to switch a home being delivered under DMS a higher average level of affordability or to private for sale. Increasing the targeted household income from a scheme from £43.3k to £60k increases the proceeds received by £64k per DMS unit delivered – more viable schemes can then target lower household incomes to maintain the average at or below £43.3k.

The development appraisals are also assuming a 10% project contingency which, following sign off from the Programme Board can be released to cover cost overruns or may compensate for a GDV shortfall when released on PC.

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[15] Appraised at both market and slightly sub market rents, the later being to enable the classification of the properties as dwellings as opposed to investment properties to ensure that the revaluation risk is removed from the HRA. (If properties are classified as investment properties any valuation movements are a direct charge to the HRA, exposing HRA reserves significantly to property market volatility)

Construction costs escalate

Construction costs are fixed when the main construction contract is placed which reduces the risk of cost overruns – assuming there are no significant, Council led, specification changes. This will be achieved using the JCT standard build contract for the Hidden Homes programme and NEC contract for the New Build Innovative Housing Schemes (fixed price option).

However there remains a risk that pricing on the individual sites may not come in as expected when contracts are placed, despite continued value engineering or that site investigations and pre planning work may result in unexpected additional costs over and above those covered by the contingency allowance. E.g. site contamination..

Construction cost benchmarking is being undertaken as part of the appraisal process independently of the Council's development management advice to ensure that costs remain competitive on all schemes - benchmarking provides an easy tool to identify anomalies and opportunities for value engineering.

The advice, which is sought from an independent property agent, provides a view on the level of costs proposed for each development scheme by reference to Building Cost Information Service (BCIS). The index reflects the regional impact of the schemes location, but other site and scheme specific adjustments will also need to be made by the agent to make a reliable, like for like, comparison on individual schemes to ensure the Council achieves VfM.

Initial benchmarking advice has also been sought to establish an appropriate contingency level for schemes of this nature, which is currently set at 10%. This will be further reviewed and reduced as projects progress through project gateways.

Programme delays mean that all properties have not practically completed by March 2016 and all the GLA grant monies cannot be drawn down

The programme has been phased so that at any point including grant money received from the GLA to date the programme shows a 20% surplus. This means that even if some funds are lost due to programme delays the returns are to some extent protected, however any programme delay which prevented the draw down of grant money would put completion of the later sites at risk. This will become especially important as the March 2016 deadline becomes closer and careful management of the individual sites will be required by the development team and by the programme board.