



**London Borough of Hammersmith
& Fulham**

CABINET

3 FEBRUARY 2014

**PROCUREMENT OF A PRIVATE SECTOR PARTNER TO
ESTABLISH A HOUSING AND REGENERATION JOINT VENTURE
- FINAL CONTRACT AWARD**

**Report of the Cabinet Member for Housing - Councillor Andrew
Johnson**

Open report

A separate report on the exempt part of the agenda provides exempt information and recommendations in connection with this project.

Classification: For information

Key Decision: Yes

Wards Affected: All

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1. SUMMARY

- 1.1 The establishment of a Housing and Regeneration Joint Venture is a key strand in the delivery of additional housing supply, and in particular additional low cost home ownership opportunities, in pursuance of the Council's adopted Housing Strategy, "Building a Ladder of Opportunity" approved by Cabinet on 15 October 2012. The approach is also endorsed in the adopted Housing Revenue Account (HRA) Asset Management Plan approved by Cabinet on 8th April 2013.
- 1.2 Cabinet on 12 November 2012 authorised the undertaking of a regulated procurement exercise to identify a Private Sector Partner ("PSP") who would enter into a Housing and Regeneration Joint Venture to bring forward development of land ownerships of the Council, so that the Council would be able to derive greater value from the disposal of surplus HRA land through the sharing of development profits, in addition to extracting land value. That report delegated authority to the Cabinet Member for Housing, in conjunction with the Executive Director of Housing and Regeneration and the Executive Director of Finance and Corporate Governance to progress the procurement process to Preferred Bidder Stage and to negotiate the terms for establishing the Joint Venture.
- 1.3 On 14 October 2013, a Cabinet Member Decision approved the appointment of Stanhope Plc as the Preferred Bidder and Berkeley Group Plc and Barratt London (BDW Trading Limited) as the two Reserve Bidders following the return and evaluation of the responses to the Invitation to Submit Final Tender ("ISFT").
- 1.4 On 15 October 2013, Stanhope Plc were invited to turn their ISFT tender submission into necessary contractual documents with the Council.
- 1.5 Following the completion of that process this report (open and exempt parts) seeks approval to appoint Stanhope Plc as the PSP. Subject to the observance, and satisfactory completion of the contractual documentation that have been agreed with Stanhope Plc ("Completion Documents") will be made on 25 February 2014, at the conclusion of the standstill period.
- 1.6 The Joint Venture will be a 50/50 Limited Liability Partnership ("LLP") formed between the Council and Stanhope Plc. The arrangement will be in place for 15 years with the option of an extension for a further 5 years. In recognition for sharing of development risk (in addition to receiving land value), the Council will receive a share of development profit.
- 1.7 The Joint Venture will adopt an agreed business plan – termed the "Strategic Plan" - on establishment which will set out in detail its aims and objectives and a strategy for achieving them.
- 1.8 The decision making levels within the Joint Venture will be the Board and the Executive Committee with delegated authority for day to day activities given to the Development Manager (i.e. Stanhope Plc).

- 1.9 In respect of each site being taken forward the Council and Stanhope Plc will agree a detailed Site Specific Development Plan (“SSDP”) which will set out the scheme details, financing plan and anticipated returns. The SSDP will be adopted by the Joint Venture on agreement and govern the Joint Venture’s activities in respect of that site until satisfactory planning permission is obtained and any other agreed conditions are satisfied at which point the site will be transferred to a Special Purpose Vehicle (“SPV”) for the site to be developed in accordance with the SSDP.
- 1.10 Stanhope Plc submitted SSDPs for Watermeadow Court and Edith Summerskill House (termed “Opportunity Sites”) in their ISFT. Those SSDPs (as updated or refined following Stanhope Plc’s appointment as Preferred Bidder) will be adopted by the Joint Venture on its establishment.
- 1.11 The establishment of the Joint Venture will lead to the development of about 301 homes on the two Opportunity Sites, of which it is anticipated that 119 will be affordable (low cost home ownership) i.e. 40%. The construction works on the Opportunity Sites are expected to create approximately 350 jobs and 14 apprenticeships. It is intended that further sites will be taken forward by the Joint Venture leading to an increase in the supply of housing in the borough.

2. RECOMMENDATION

- 2.1 To note that the report on the exempt part of the agenda sets out recommendations in relation to selection of the Private Sector Partner; terms for establishment of the Joint Venture; update on site specific issues; and terms for sale of the first two Opportunity Sites to the Joint Venture.

3. REASONS FOR DECISION

- 3.1 The Cabinet Member Decision of 14 October 2013 approved the appointment of Stanhope Plc as the Preferred Bidder. The Council has now agreed the basis upon the relationship with Stanhope Plc the contacts will be entered into that will enable the Joint Venture to be established, subject to the approval of the Cabinet.

4. BACKGROUND

- 4.1 The Council is currently pursuing three strands of housing development using its own land, under its own leadership:
- a. Hidden homes programme for small sites – generally less than 5 units per site
 - b. Innovative housing built using modern methods of construction for intermediate sites – generally between 5 – 50 units per site

- c. Joint Venture to deliver on selected larger Council owned development sites – 50+ units per site

4.2 In order for the Council to deliver at scale on selected larger Council owned development sites the Cabinet in November 2012 considered it appropriate for the Council to partner (on a long-term basis) with a credible PSP, experienced in effectively managing large scale developments and delivering high quality residential accommodation fit for the intended occupants . This approach was also endorsed by the Health, Adult Social Care and Housing Select Committee on 22 January 2013. Adopting a joint venture approach affords the following key benefits:

- De-risks projects by partnering with a credible PSP experienced in successfully delivering in the medium to high end residential market
- Enables the Council to access the skills, resources and capacity of the private sector in bringing the selected sites forward for development
- Provides the Council with a structure within which it can retain control and influence in the delivery of the selected sites
- Enables the Council to access funding from the private sector to bring the selected sites forward for development
- Maximises financial return to the Council for reinvestment in further housing and regeneration projects or repaying debt, as appropriate

4.3 As part of the 12 November 2012 Cabinet report, initial financial modelling was carried out for Watermeadow Court and Edith Summerskill House (the first two “Opportunity Sites”) to demonstrate the financial benefits of the Joint Venture approach against either straightforward disposal or direct development by the Council. The financial modelling demonstrated that the Joint Venture approach provided the greatest financial return and regeneration outcomes for the Council. .

4.4 The key advantage of the Joint Venture route, from a financial perspective in comparison with straight land disposal or development agreement, is that the Council would be sharing the development profits on an equal basis with the PSP, after the PSP has taken a priority return, in addition to a conventional land receipt.

4.5 In this instance the Council would not have to raise development finance and could simply put the land (with the possibility of potentially investing equity as well) into the Joint Venture. In comparison, under a typical disposal or development agreement, the developer would take all the development profits, with the Council only having the option of a share of any potential overage (if the developer is able to achieve a higher than projected level of return) and the land receipts.

Additional benefits include the Council’s continued involvement in the development to secure its required regeneration outcomes. In particular, key non-financial benefits to entering into the Joint Venture include:

- a. Increasing the supply of high quality new homes in line with the Mayor's Design Guide and local planning policies
 - b. Creating a housing ladder of opportunity through low cost home ownership initiatives that allow local residents and people working in the borough to get onto the housing ladder
 - c. Creation of sustainable employment, training opportunities and communities, to benefit residents of the borough and support economic growth
 - d. Delivering new infrastructure in areas of housing and economic growth.
- 4.6 The Cabinet report of 12 November 2012 proposed that the Opportunity Sites should be taken forward as the first two sites for delivery through the Joint Venture.

5. OPPORTUNITY SITES

Watermeadow Court

- 5.1 Watermeadow Court is arranged within two blocks of three and four storeys in height. The buildings are located around a central amenity and parking area. The properties, constructed in the 1980s are constructed of brick and have pitched tiled roofs.
- 5.2 The site is located within the Sands End Conservation Area which was designated in March 1991. A profile of the area noted that there are "no buildings or structures of merit on site."
- 5.3 The estate was built on contaminated land at nil cost to the Council by Bovis Homes under a planning gain agreement. A full study was carried out in 2002 which explored the benefits of conversion compared with demolition and new build. The study found that the poor space standards included inadequate food preparation areas, very inadequate circulation space and lack of storage. Room sizes compared significantly poorly to the UDP and housing association accommodation.
- 5.4 The Joint Venture proposals comprise the construction of about 147 residential units, including affordable housing (comprising 40% of the development on a unit basis). It is anticipated that a planning application for the redevelopment of the site will be submitted by the JV in August 2014

Vacant Possession

- 5.6 The Council has been successful in securing 18 of the individual leasehold interests at Watermeadow Court by private treaty.

- 5.7 Detailed negotiations have taken place with the one remaining leaseholder in Watermeadow Court in order to procure the leaseholder's relocation to another property in the Council's ownership. The detail of the proposed property exchange was set out in a Leader's Urgency report of 29 November 2013. Furthermore, as reported in a Cabinet Member Decision report of 6th January 2014, the Council is to undertake building works to the proposed relocation property. It is anticipated that these works will be complete in May 2014. It is hoped that a legal agreement will be concluded shortly so as to facilitate the relocation.

Demolition

- 5.8 The Cabinet report of 12 November 2012 gave approval subject to planning permission to demolish the buildings at Watermeadow Court. On 31st July 2013 the Planning Applications Committee ("PAC) gave Conservation Area Consent for demolition and planning permission for temporary landscaping on the site. As the site is owned by the Council, specific Secretary of State approval was needed in addition to the PAC approval. This further consent was granted on 8th August 2013.
- 5.9 A competitive tendering process was carried out for the demolition contract. A preferred bidder has been identified and subject to contract will be appointed shortly.
- 5.10 The 12 November 2012 Cabinet report stated that it was the Council's original intention to demolish these buildings in advance of the establishment of the Joint Venture. In discussion with the bidders formal appointment of the demolition contractor has been postponed and the subsequent start on site of the demolition will now be Summer 2014 (subject to securing vacant possession).

Edith Summerskill House

- 5.11 The site comprises an 18 storey tower block which currently provides 68 homes as part of a wider housing estate. These properties were vacated in 2011 to enable Decent Homes improvements to be made. Due to the anticipated cost and practicality of making these improvements the decision was made in 2011 to dispose of the site. The Council calculated in 2011 that works to Edith Summerskill House under the Decent Homes programme would cost an estimated £6m which equated to £88,235 per dwelling. The approximate site area is circa 0.1 ha which includes part of the land at the side and front elevations of the block.
- 5.12 The Joint Venture proposals comprise the demolition of the existing tower and the construction of about 154 residential units, with the total affordable provision comprising 40% of the development (on a unit basis). It is anticipated that a planning application for redevelopment of the site will be submitted by the JV in August 2014.

Vacant Possession

- 5.13 The Council has been successful in securing 4 of the individual leasehold interests at Edith Summerskill House by private treaty. There are two outstanding leasehold interests. Negotiations have been ongoing for some time and still continue.

Benefits

- 5.14 In summary, it is expected that the delivery of the redevelopment proposals for the two Opportunity Sites will secure social, economic and environmental well-being benefits for the Council's area, including the following:
- a. Improvements to the quality and range of housing available in the area. In particular, the provision of good quality, intermediate housing which is a scarce resource in the borough.
 - b. Reduce the Council's HomeBuy waiting list which has 5,765 households waiting for intermediate housing. Over two thirds of the new affordable homes on both sites would be affordable to households with incomes up to £40,000 p.a.
 - c. The replacement of accommodation of sub-standard space standards in Watermeadow Court with new homes to be constructed to Lifetime Homes standards.
 - d. Much needed affordable housing which will, for example, assist first time buyers to get a foot on the property ladder.
 - e. Wheelchair accessible homes.
 - f. In the case of Watermeadow Court, the redevelopment of a poor quality building in a conservation area.
 - g. The remediation of a contaminated, brownfield site at Watermeadow Court.
 - h. It will tackle anti-social behaviour (Watermeadow Court in particular has been the subject to squatting in the past).
 - i. The provision of high quality design and enhancements to the public realm.
 - j. Consequential beneficial impacts for local shops and businesses close to the new developments.
 - k. Approximately 350 new construction jobs and 14 apprenticeships, with 15% of the construction workforce to be taken from local residents, and 10% of building contracts to be let to businesses in the borough.

- I. Potential investment in infrastructure and public transport as part of the Section 106 agreement.

6. EQUALITY IMPLICATIONS

- 6.1 The equality implications of the appointment of the Private Sector Partner, the sale of land and the development of the Opportunity Sites has been assessed. Due to the procurement process that the Council has undertaken the appointment of the Private Sector Partner and the sale of land have no negative equality implications. The development of the Opportunity Sites has a series of positive implications as the properties are already substantially vacant and the new development will increase the supply of housing and improve the quality of the public realm in the area.
- 6.2 Implications completed by Neil Kirby, Interim Senior Regeneration Manager, HRD x 1722

7. LEGAL IMPLICATIONS

- 7.1 These are set out in the exempt report.

8. FINANCIAL AND RESOURCES IMPLICATIONS

- 8.1 These are set out in the exempt report.

9 RISK MANAGEMENT

- 9.1 These are set out in the exempt report.

10. PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 10.1 These are set out in the exempt report.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

| No. | <i>Description of Background Papers</i> | Name/Ext of holder of file/copy | Department/ Location |
|------------|--|--|---|
| | CMDs of 14 February 2013 and 29 th April 2013 and 14 th October 2013 | Neil Kirby x 1722 | HRD 3 rd floor Town Hall Extension |
| 22 | ISFT submissions made by Stanhope Plc | Neil Kirby x 1722 | HRD 3 rd floor Town Hall Extension |