



<b>Meeting:</b>	Cabinet
<b>Date:</b>	25 <sup>th</sup> October 2018
<b>Classification:</b>	General Release
<b>Title:</b>	Ebury Bridge Estate Renewal – Delivery Models
<b>Ward Affected:</b>	Churchill
<b>City for All:</b>	<p>This proposed estate renewal will meet the Council's three City for All objectives. <b>Civic Leadership and Responsibility</b> includes a transparent process that is fully engaged with residents and has established the Community Futures Group (CFG) to consult on all options and scenarios being considered. Renewal will promote <b>Opportunity and Fairness</b> by providing more homes of all types and tenures to create a vibrant community which is full of opportunity. Renewal of the Ebury Bridge estate is a significant chance to strengthen a <b>World Class City</b> through creating high quality homes and a healthier, greener environment that connects better to surrounding communities and the wider area.</p>
<b>Key Decision:</b>	<p>Cabinet is asked to support the findings of the initial appraisal of delivery options for Ebury Bridge estate renewal, as set out in this report, that the preferred delivery route is Council led delivery through the HRA and the Council's housing subsidiary company (informally known as the WOC). One of the benefits of this option is that it provides flexibility to amend the tenure mix of the market sale element of the scheme and create hybrid delivery options and, with Cabinet support, this will be explored further in more detailed engagement with the market and with the CFG</p>
<b>Financial Summary:</b>	<p>This paper describes the outcome of a high level appraisal of the four delivery options for the Ebury Bridge estate renewal reported to Cabinet in July. Further work is continuing to assess the risks and impact on the Council, including funding and budget requirements, risks and mitigation and sensitivity testing.</p>
<b>Report of:</b>	Barbara Brownlee, Executive Director, Growth Planning and Housing

## **1. Executive Summary**

- 1.1. The vision for Ebury Bridge estate is to provide more affordable housing and bring about long-term physical, economic and social sustainability of the area. The Council's ambition is to work with Ebury Bridge residents to create a high quality neighbourhood that offers an attractive mix of homes (including affordable homes meeting a range of housing needs) shops, public realm and community facilities.
- 1.2. Renewal proposals to date for Ebury Bridge culminated in the approval by Cabinet of a preferred scenario (Scenario 7) in July 2018.
- 1.3. Scenario 7 creates a potential 750 residential units. Within this, it re-provides the existing 198 social rented homes on-site with modern, high quality replacement homes. It further delivers at least 144 affordable homes, 35% of the additional housing the scenario envisages, comprising 87 social rent and 57 intermediate homes. The proposals also envisage improvements to the public realm, ensuring the estate is better connected to the local area, creation of community facilities and a contemporary mix of shops that cater both for the residents and wider community. The Council will retain ownership of all social and intermediate units within the development.
- 1.4. In progressing Scenario 7 as the preferred option, Cabinet agreed that further evaluation of potential delivery routes should be undertaken. Four possible delivery options were proposed, each presenting different opportunities and risks, as follows:
  - 1) Developer led delivery
  - 2) HRA self-develop
  - 3) HRA/ WOC Self Develop
  - 4) Lease/leaseback Option.
- 1.5. This report presents the outcome of the initial appraisal which has been undertaken. With Cabinet support, further engagement will be undertaken with the market and with the CFG.

## **2. Recommendations**

Cabinet is invited to:

- 2.1 Support the initial selection of Council led delivery though the HRA and WOC as the preferred delivery option for Ebury Bridge estate renewal.
- 2.2 Note that this HRA/WOC option provides flexibility to amend the tenure mix of the market sale housing, as set out in Scenario 7 approved in July 2018, and to create hybrid delivery options. Engagement with the market will commence as soon as possible to test the feasibility and support for this delivery option and also for potential tenure changes and hybrid delivery options. The Cabinet Member will then be in a position to confirm the selection of the preferred delivery route.

## **3 Reasons for Decision**

- 3.1 The Ebury Bridge Estate is one of the five priority estates identified in the Council's Housing Renewal Strategy (2010) as needing significant improvement and investment. In line with the Council's City for All objectives, the overarching objective of regenerating Ebury Bridge Estate is to create a comprehensive renewal that brings

about physical, economic and sustainable change that creates additional homes and improves the lives of residents, businesses and visitors alike.

- 3.2 In July 2018 Cabinet approved a regeneration scenario (Scenario 7) following detailed evaluation and consultation with residents. This report provides the first stage assessment of potential delivery options for that scenario.
- 3.3 Council led delivery through the HRA and WOC is viewed as the preferred approach following the high level appraisal described in this report. With Cabinet agreement, this now will be subject to more comprehensive assessment including:
- consultation with residents and businesses,
  - soft market testing with the development/construction market,
  - further detailed feasibility work by the Council team.

#### **4 Appraisal of the Delivery Options**

- 4.1 A high level but comprehensive quantitative and qualitative appraisal has been undertaken of each of the above delivery options. This has looked at the legal and financial structure including modelling Scenario 7 for each delivery model. The modelling has helped to assess the viability of each option for the Council, in relation to both the HRA and the General Fund. This has helped also to identify the risks associated with each and potential mitigation. Qualitative issues which have been considered include: Council aspirations including the ability for the Council to retain control of the development, the ability of the Council to retain land ownership, complexity, deliverability certainty, community/social value, precedents/market interest. A key consideration in the qualitative appraisal was the emerging evidence of the continuing weakening of the housing market in London, and central London in particular, and how well each option could protect this important regeneration scheme from being impacted by this.
- 4.2 There were benefits and drawbacks with each of the options but the HRA/WOC Self-Develop option emerged from the appraisal process as one which should be investigated further. This was primarily because it offered most flexibility to respond to the current market difficulties by allowing flexibility of tenure, in relation to the market sale element of the scheme, (ie by introducing market rent, and subject to viability, sub-market rent). In addition, it does not rule out combining with the other delivery options for some element of the regeneration in a hybrid delivery model. The intention of this HRA/WOC Self-Delivery model would not be to compete with the private sector in delivering market sale housing, but rather to ensure the momentum of the regeneration can be continued whilst the opportunity for the element of market housing within the scheme is refined and confirmed.
- 4.3 Key issues for the other delivery models were identified as follows:
- 1) Developer led delivery – the major concern was about deliverability given the current difficulties being experienced by developers in achieving sales of their completed homes.
  - 2) HRA led delivery – the main issues here were that delivery through the HRA alone would bring considerable risk (in relation to the market sale housing) to the HRA which could impact significantly on other priorities within the HRA. In

addition this option would breach the current HRA borrowing cap. This is perhaps less of an issue following the Prime Minister's announcement on 3<sup>rd</sup> October that HRA borrowing caps will be lifted. Depending on further announcements in relation to this, it may be that the HRA could play a more significant role in a HRA/WOC combined delivery option.

- 3) Lease/leaseback model – the key issue in relation to this model is that it is difficult to apply to the particular legal and regulatory framework of HRA secure tenancies. It works best where the income payments under the leaseback can be matched to income from occupiers (in this case rents from tenants).

- 4.2 The Cabinet Member for Finance, Property and Regeneration has been briefed in detail on the options appraisal process and the above findings and conclusions.

## **5. Next Steps**

- 5.1 Further work is progressing to refine and test the HRA/WOC self delivery model and further consider the impact on the Council and the effect of the introduction of market rent and, subject to viability and affordability, sub market rent housing. The WOC could hold the market/sub market rent housing for the long term or could sell if it was appropriate to do so.
- 5.2 In addition, engagement with the CFG, which is already reviewing the housing mix, will consider whether market rent and, subject to viability, sub market rent housing would be desirable instead of some of the market sale housing proposed under Scenario 7. This work will continue alongside the work already in train following the July Cabinet approval, on land assembly, phasing and planning, enabling works and meanwhile use together with refining the brief, including in relation to public realm and community facilities and car parking.
- 5.3 A further period of market engagement will commence now to establish how the private sector might support a HRA/WOC delivery option – through acting as development agent, contractor or, in a hybrid option, as developer supporting/providing an element of the scheme (market sale or rent housing or even the retail and community facilities) within a phased programme set by the Council.

## **6. Financial Implications**

- 6.1 The emerging preferred option involves the HRA holding all replacement and additional social rental housing and the WOC holding the intermediate housing and taking the sales risk on the market sale housing. In this HRA/WOC model an element is expected to be funded by the Affordable Housing Fund, however the majority of funding will come from the General Fund through a loan and equity investment. The loan will be charged at a commercial rate and dividends would be received in future based on the financial success of the WOC. It should be noted that there is currently no budget within the General Fund capital programme for the Ebury development but solutions to this will be explored and are expected to be approved as part of the final 2019/20 budget setting in March.

- 6.2 There is risk around self-delivery, particularly in the current market conditions there are risks around the sale housing, particularly given amount of sale housing is in the market and the number of units within the scheme. However, unlike the developer option, delivery through the WOC gives the Council freedom and flexibility to convert sale housing to market rent housing which the WOC could make available for rent either as an additional tenure, in substitution for market sale, or on a short term basis if the market sale housing proved difficult to sell. However, this change from market sale to rent does have implications on the General Fund as the loan will be outstanding for a longer period, these issues will need to be taken into consideration (this is particularly the case where sub-market rent is offered)
- 6.3 Work is continuing to examine this delivery model in greater detail. This includes examining the impact of the tenure switching set out in the paragraph above. It also includes refining the analysis undertaken as part of the appraisal process to clearly set out the impact on the HRA and the General Fund of this option, the funding requirements and budget implications (including the resource requirements for a Council led delivery) as well as detailed sensitivity analysis and mitigation strategies addressing the key commercial risks. These might include working with a developer in a hybrid solution as mentioned in paragraph 5.3 above.

## 7. Legal Implications

- 7.1 If the proposal for a HRA/WOC self delivery option proceeds then the Council will need to review whether a separate Ebury WOC should be established to deliver the scheme and also further refine and develop the legal structure between the Council/HRA and the WOC including ensuring compliance with procurement and State aid requirements. .

**If you have any queries about this Report or wish to inspect any of the Background Papers please contact:**

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## Background Papers

1. Cabinet Report 10<sup>th</sup> July 2017, Ebury Bridge – Estate Renewal
2. Outline Business Case ( Part 1) **Exempt, not for publication**
3. EQIA