| | |
|---|---|
| **LONDON BOROUGH OF CAMDEN** | **WARDS:** All |

**REPORT TITLE**
Community Investment Programme Update (CENV/2016/11)

**REPORT OF**
Cabinet Member for Regeneration, Transport and Planning

| | |
|---|---|
| **FOR SUBMISSION TO**<br>Resources and Performance Scrutiny Committee<br>Cabinet | **DATE**<br>5th April 2016<br>6th April 2016 |


**SUMMARY OF REPORT**
This report updates Cabinet on the progress of the Community Investment Programme (CIP) and outlines the challenges and risks to delivering current and future projects. The report considers options for how to fund and deliver future projects to help fully achieve the programme's aims and objectives.

The report is coming to the Cabinet because it considers a change in approach to the delivery of a key Council Programme that supports the objectives of the Camden Plan.


**Local Government Act 1972 – Access to Information**
No documents were used in the preparation of this report which are required to be listed.


**Contact Officer:**
Jeremy Shapiro, Head of Community Investment and Regeneration, 5 Pancras Square, London, N1C 4AG. Tel: 020 7974 5906.
E: Jeremy.shapiro@camden.gov.uk


**WHAT DECISIONS ARE BEING ASKED FOR?**
The Resources and Performance Scrutiny Committee is asked to note the report and forward any comments to the Cabinet.

Cabinet is asked:

(1) To note the current timescale and funding challenges around delivering the CIP programme.

(2) To authorise the Executive Director Corporate Services in consultation with the Borough Solicitor and the Cabinet Members for Finance and Technology Policy; Housing; Regeneration, Transport & Planning; and Children to develop a detailed proposal for further consideration by Cabinet based on Option 2 in para 3.4 for working with external partners to fund and deliver future CIP projects.

Signed by:
Mike O'Donnell, Director of Finance

Rachel Stopard, Director of Culture and Environment

Rosemary Westbrook, Director of Housing and Adult Social Care

Martin Pratt, Director of Children, Schools and Families

Date: 22 March 2016

## 1. WHAT IS THIS REPORT ABOUT?

1.1 This report updates Cabinet on progress of the Community Investment Programme (CIP) – Camden's 15 year plan to invest money in schools, homes and community facilities. CIP is delivering much needed investment and building new homes despite severe cuts in funding from government. The programme is helping to deliver the objectives of the Camden Plan by building new affordable homes and providing people with better homes, facilities and places.

1.2 Overall CIP is progressing well but there are significant challenges and risks to delivering current and future projects and fully achieving the programme's aims and objectives within the timescales envisaged. The Council's ability to finance and deliver new CIP projects is constrained by our government-set borrowing limit, stretched internal resources and the level of financial risk across the programme. In addition the Housing and Planning Bill 2015 is likely to require the Council to make significant annual high value void payments to government that will make it harder to finance future projects.

1.3 This paper considers options for how Camden can continue to fund and deliver CIP projects. It recommends further work to explore alternative delivery options for CIP pipeline schemes to bring back to Cabinet for consideration.

## 2. WHY IS THIS REPORT NECESSARY?

*The need for CIP*

2.1 CIP commenced in December 2010 as a way to fund much needed capital investment and regenerate parts of Camden in the face of significant reductions in central government funding including the withdrawal of most of the Building Schools for the Future grant. The programme aims to build 3,050 homes including 1,400 affordable homes and invest in capital improvements to schools and children's centres, existing Council housing and other community facilities.

2.2 CIP supports the Camden Plan's central aims to preserve the social mix of the borough and make Camden a place for everyone. The need for affordable housing is greater now than at the programme's inception: house prices and rents have risen sharply in Camden over the last 5 years making the borough less affordable to households on average incomes.

2.3 The proposals within the Housing and Planning Bill 2015, if enacted, will reduce the supply of social housing in the borough through the extension of the Right to Buy to housing association homes and the likely need to sell Council homes to finance high value void payments to government. Whilst CIP is unlikely to be able to build sufficient affordable housing to make up for these losses it can help limit the reduction in the overall supply.

*<u>CIP's progress to date and towards targeted outcomes</u>*

2.4 Five years into the CIP programme significant progress has been made, with 5 projects completed and another 7 schemes currently under construction. At the end of December 2015 CIP had built 246 homes, 130 of which are affordable, at Holly Lodge, Chester Balmore, Netley and Bacton Low Rise. £51m has been invested into improvements to schools and children's centres including new buildings for Netley Primary School and Montpelier Community Nursery. The refurbished Mount Pleasant studios opened last summer providing a state of the art facility for single homeless people to help them move on to independent living and get into work.

2.5 Delivery will accelerate over the next few years with the completion of many more new homes and other major projects including the expansion of Kingsgate Primary School at Liddell Road, improvements to Parliament Hill and William Ellis Schools and the new Greenwood Centre in Kentish Town.

2.6 The table below shows progress towards CIP's overall target outcomes: what has been delivered to date and outcomes forecast to be delivered by CIP projects with Cabinet approval. Approved projects are forecast to deliver 2,177 (71%) of the programme's targeted 3,050 homes and £259m (66%) of the targeted net capital receipts of £300m. There are 21 identified pipeline projects (without Cabinet approval) at different stages of development which collectively could deliver 1,250+ further homes and additional capital receipts but challenges as to how they can be funded and delivered. Pipeline schemes include possible regeneration of estates that would need to be phased so that existing tenants can be housed throughout the development and make a single move into their new homes. Decisions will need to be taken in the next few years about how to fund and deliver these schemes if CIP is to meet the overall homes targets within the original 15 year timeframe.

| **CIP target outcome** | **Progress to date** | **Forecast outcomes from approved schemes** |
|---|---|---|
| Build 3,050 homes including 1,400 affordable homes | 246 homes completed, of which 115 social rent, 16 intermediate | 2,177 homes (71% of target) 942 affordable (67% of target) |
| Invest £117m in 53 schools and children's centres | £51m invested in 47 schools and children's centres | On track to deliver target in full. |
| Provide 9,000m$^2$ of improved community floorspace | 200m$^2$ completed | 9,900m$^2$ of improved community space |
| Generate £300m of net capital receipts for re-investment | £99.6M disposals to 2014/15. | £259m forecast net receipts (86% of target) |

*<u>Issues in delivering Cabinet approved CIP schemes</u>*

2.7 CIP schemes have experienced a range of issues including delays and significant cost increases, issues in managing consultants and contractor failure. These issues are not unique to the Council - developers across all sectors are facing challenges delivering to time and cost due to a shortage of skilled labour across London in a buoyant market – but some private developers may have sufficient market power and flexibility in procurement to manage their supply chain more effectively.

2.8 The cost of CIP schemes has risen regularly since the inception of the programme. Individual scheme budgets within the programme have grown on average by 44% from their original approved amounts. These cost increases have two main causes: changes to the scope and design of some schemes in response to stakeholder consultation and higher than anticipated build cost inflation.

2.9 However to date budgeted receipts on CIP schemes have increased faster than costs: average receipts from individual schemes have increased by 57% from their original approved amounts. This reflects higher than anticipated house price inflation in Camden.

2.10 Projects have experienced delays at different points in the development process. It is difficult to predict timescales needed for stakeholder engagement on complex schemes and any resulting changes to designs and some projects have taken longer than anticipated to get to procurement. Projects under construction have experienced delays due to main contractor's inability to sufficiently resource projects and the unavailability and/or unwillingness of sub-contractors to comply with pre-negotiated prices based on tenders over 12 months old due to the high inflation running in construction industry. Steps have been taken to reduce optimism bias at every stage of project development and delivery and additional resources put in place to monitor contractor progress and resourcing on live construction sites.

*Challenges to funding and delivering future CIP projects*

2.11 The Council's ability to fund and deliver further CIP projects is constrained by three main issues:

- limits to further borrowing because of a lack of headroom to the Housing Revenue Account (HRA) debt cap;
- lack of internal resources to deliver further CIP projects; and,
- concern about the level of financial risk borne by the Council across the programme.

In addition some potential future projects are more financially challenging than projects approved to date and may require cross subsidy.

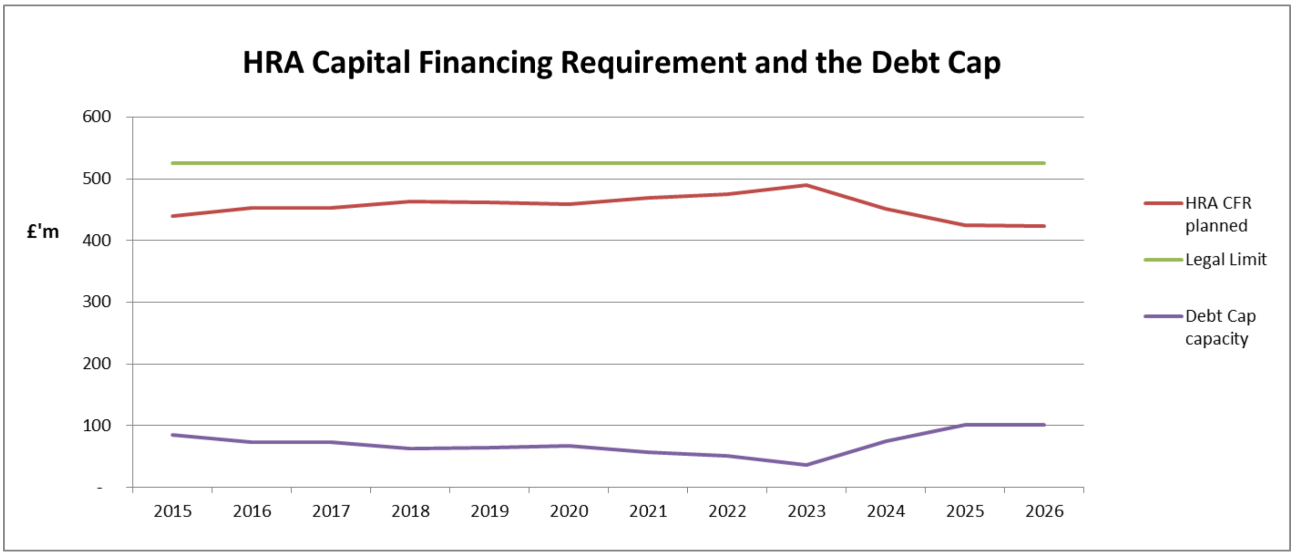
2.12 CIP is predominantly funded through:

- the sale of Council owned property and land identified as out of date, expensive to maintain, underused and/or difficult to access; and,

- borrowing against the Housing Revenue Account (HRA) to deliver development projects on Council owned sites to be repaid through sale of private housing.

2.13 To date the Council has acted as a land owner developer for most CIP projects, taking schemes through the full development process and contracting construction companies to build them. The Council has taken this approach on the basis that by acting as developer any surpluses achieved on projects can be fully retained and reinvested back into the programme. In addition to this model some schemes on General Fund sites are being taken forward through a mixture of direct delivery alongside the disposal of land with part of the scheme delivered by external partners through a development agreement.

2.14 The Council is close to full capacity in terms of what can be delivered through existing financial structures and cannot commit to additional HRA borrowing in the short to medium term because of the government set debt cap. The figure below shows the projected HRA Capital Financing Requirement (CFR) to 2026 compared to the legal borrowing limit. Headroom to the debt cap is forecast to reduce to a pinch point in 2023 before increasing again.




2.15 Beyond the restrictions of the debt cap the Council is carrying significant financial risk, including housing market risk, across the programme. The Second Capital Review approved by Cabinet in December 2015 increased CIP's total capital receipt budget to £1,021m. Over 80% of these budgeted receipts are yet to be received so the delivery of the programme is heavily reliant on future receipts.

2.16 To date house price increases have outstripped construction cost inflation but a levelling off or fall in prices coupled with ongoing cost increases could reduce CIP capital receipts available for reinvestment or even put the programme in deficit. Should the programme's financial position worsen then steps would need to be taken to reduce costs, increase income or find subsidy from elsewhere.

2.17 CIP is making significant calls on internal resources within the Council and is highlighting areas of skill shortage. CIP delivery teams are facing staffing shortages and difficulties retaining and recruiting staff in a competitive labour market and do not have the capacity to manage significant further projects.

2.18 To date almost all Cabinet approved CIP projects are budgeted to make a surplus and contribute receipts for reinvestment into existing buildings. Some potential future CIP projects will be more financially challenging to deliver both in terms of overall viability and the need to pay significant up front costs before any receipts from sale of private housing can be generated. In particular initial financial modelling of regeneration options in Gospel Oak suggests that many will be difficult to deliver without subsidy from elsewhere in the programme.

*Context and criteria for decisions about how to fund and deliver future projects*

2.19 In view of the challenges set out above this paper considers broad options for delivering future CIP schemes with the aim of:

- putting in place plans in the next few years to bridge the forecast gap against CIP's housing and capital receipt targets;
- unlocking additional funding to enable the regeneration of places and services across Camden, with a focus on delivering additional affordable housing and/or mixed use holistic regeneration;
- limiting the Council's overall financial risk and sales risk;
- reducing calls on internal resources; and,
- ensuring continued community support for CIP schemes and their delivery methods.

2.20 Decisions about how and when CIP pipeline sites are taken forward need to take into account the following issues:

- **Wholly owned Council company to hold housing and other assets.** A separate report to Cabinet recommends the establishment of a wholly owned Council company to hold rental housing (and possibly employment space). Any private sale or intermediate housing built through future CIP schemes, regardless of how they are financed and delivered could be sold to and held by the Company. This would allow CIP to deliver intermediate rental homes in place of shared ownership which is unaffordable in Camden for households on average incomes.
- **Intermediate housing policy**. A separate report to Cabinet recommends changes to the Council's intermediate housing policy to ensure affordability. If agreed this will in effect replace some of the shared ownership homes to be built through CIP to homes to be let at intermediate rents based on eligibility criteria set by the Council. Any change in approach can be fed into approved and

future CIP projects regardless of how they are delivered. Delivering intermediate rental homes in place of shared ownership may have financial implications depending on the rent levels set.

- **Capital versus Revenue as priority.** Over the last few years the Council has prioritised the generation of capital receipts to help fund investment through CIP and other programmes. The Cabinet Members for Finance and Technology Policy, Housing, Regeneration, Transport & Planning and Children have discussed and agreed next steps to consider ongoing revenue streams from Council owned sites alongside capital receipts. However this approach is not without challenges e.g. outline financial modelling suggests that proposed regeneration in Gospel Oak may require significant subsidy from Camley Street and/or other pipeline opportunities which would reduce potential revenue from these sites.
- **Impact of the Housing and Planning Bill**. In particular the proposed High Value Void Levy will require the Council to meet large annual payments through sale of housing stock or other means. There may also be potential to retain some of the Levy to fund CIP schemes through the proposed '2 for 1' amendment. Work is ongoing to understand and mitigate the likely impact of the Bill but there remains significant uncertainty about how the Bill will work in practice.
- **Consultation and consideration on future CIP sites.** Work to consider options for possible future CIP projects is ongoing. Of particular significance are the results of consultation on the Gospel Oak Strategic Framework that ended in January and ongoing discussions with residents of individual housing estates within Gospel Oak.

## 3. OPTIONS

3.1 Options are set out below for how the Council can deliver new CIP projects that regenerate places in the borough and achieve targeted outcomes. This includes consideration of options that would allow the Council to continue to act as developer and deliver projects through all stages and options that involve external partners or structures to help fund and deliver future CIP projects. A further option is to continue to deliver CIP schemes with Cabinet approval but not to approve further schemes until there is greater headroom against the HRA debt cap.

3.2 There is also a choice to be made about whether to take a single approach to all or a number of future CIP sites or consider financial delivery options on a project by project basis.

3.3 Option 1: Ongoing Council led delivery of future CIP schemes. For the Council to continue to act as developer, new sources of up front funding will need to be found as an alternative to HRA borrowing and/or ways to increase and bring forward income from sales of private housing. Funding could come from further sales of Council Land or from other sources such as the Community Infrastructure Levy (CIL) or section 106 (s106) affordable housing funding. More radical measures to increase and bring forward income could include reducing the level of affordable housing and bulk pre-sale of private homes to investors.

3.4 Option 2: Seeking an external partner to help fund / deliver future CIP schemes. The Council could seek external partners to help fund and/or deliver future schemes either through a joint venture or a development agreement. This option has a large number of possible variants but is likely to involve the Council putting land into a deal and an external partner providing finance and expertise to deliver either a programme of sites or individual sites. The Council would retain the freehold of the land and receive a share of any surplus through the scheme, part of which would be in the form of new and replacement Council homes. A further variant of this option is that a Council influenced company could be used to deliver development schemes which if sufficiently independent could be funded through General Fund loans.

3.5 Option 3: Wait until borrowing headroom increases. The Council could wait until sufficient receipts from approved CIP projects have been received to allow for further borrowing against the HRA to fund new projects.

3.6 Delivering further projects internally (option 1) would require identifying circa £100m of additional funding through land sales or other sources. Significant additional land sales would be challenging and risk reducing ongoing revenue streams to help fund Council services. CIL funding over the medium term has been allocated to highways and school maintenance and in any case can only be used to fund infrastructure costs rather than housing. S106 affordable housing contributions are largely allocated and future contributions will not be sufficient to pay for major schemes. It may be possible in the future to retain some high value void levy through the ‘2 for 1’ amendment to the Housing and Planning Bill. Bulk pre-sale of private homes on future schemes could help fund development but at a cost. Reducing levels of affordable housing on schemes would reduce the number of people in housing need that can be supported and may not be planning policy compliant. Delivering further projects internally will place further strain on already stretched resources. There is not sufficient existing capacity to manage this and further recruitment in the current market will be challenging.

3.7 Working with external partners (option 2) has the potential to deliver new CIP schemes without recourse to further HRA borrowing, give Camden access to external innovation and skills and reduce calls on internal resources for delivery. A partnership approach would limit the Council’s exposure to financial risk on new projects compared to the ‘Council as Developer’ model. But working with an external partner will come at a cost - any partner will require a return on their investment – and involves relinquishing some control over future projects.

3.8 Waiting for more borrowing capacity before approving any new projects (option 3) would mean that CIP's targeted outcomes for housing could not be met in the original 15 year timeframe. Headroom to the HRA debt cap is currently forecast to ease from 2023 onwards. Even if design of pipeline schemes were progressed ahead of formal Cabinet approval it is likely that CIP delivery would extend to at least 2035. As with option 1 waiting would mean that the Council could continue to act as developer and retain all surpluses made on schemes.

3.9 It is recommended that further steps are taken to explore option 2 - working with external partners and structures to fund and deliver a programme of future CIP projects. Next steps would include a detailed review of CIP pipeline schemes which would allow for consideration of which sites might be included in any partnership deal(s) or delivered in other ways.

## 4. WHAT ARE THE REASONS FOR THE RECOMMENDED DECISIONS?

4.1 A strategic partner(s) could provide the finance and expertise to deliver a programme of future CIP schemes. This would bring forward the regeneration of further places in Camden, build additional affordable housing and ensure the Council achieves the CIP programme targets. Residents and Council tenants would benefit from improved places and new homes, more families would have access to affordable housing in the borough and more community facilities would benefit from new or refurbished buildings.

4.2 As noted above a strategic partner(s) could help to address the Council's lack of HRA borrowing capacity, desire to limit further financial risk across the programme and challenges in resourcing the delivery of further projects. Working with a partner(s) would mean giving up some control of projects although clear outcomes to be delivered on each site could be set as part of any agreement.

4.3 Although potentially a good fit with the Council's objectives working with a partner would come at a cost. Finance from partners is likely to be more expensive than Council borrowing. Similarly any partner will require a return on their investment in contrast to the current 'Council as developer' model where any surplus is retained by the Council, although the Council may not be able to deliver schemes as efficiently as the private sector. A strategic partnership could also have more flexibility in procurement than the Council which may also generate efficiencies.

## 5. WHAT ARE THE KEY IMPACTS / RISKS? HOW WILL THEY BE ADDRESSED?

5.1 This report recommends further work to explore the potential to work with external partner(s) to fund and deliver future CP projects. This will include a detailed consideration of risks, including:

- How to ensure that any partnership vehicle secures build out and delivery of CIP objectives of less financially attractive CIP schemes (rather than just building out more financially attractive schemes).
- How to limit the impact on any partnership vehicle of a worsening economic outlook and/or a housing market crash.
- How to limit the rate of return on investment required by a partner through a competitive procurement process.
- Options for reducing the cost of finance for any partnership vehicle.
- How to find a partner whose long terms interests are a good fit with the Council's.

## 6. WHAT ACTIONS WILL BE TAKEN AND WHEN FOLLOWING THE DECISION AND HOW WILL THIS BE MONITORED?

6.1 This report recommends further steps to explore the option of working with external partners and structures to fund and deliver future CIP projects. Following this meeting, officers in consultation with the Cabinet Members for Finance and Technology Policy; Housing; Regeneration, Transport & Planning and Children will develop a more detailed proposition to come back to Cabinet for decision.

6.2 The following next steps are recommended:

- A review of potential future CIP schemes.
- Procure any necessary legal, finance & tax and property advice.
- Undertake engagement with potential partners.
- A detailed proposition to be worked up for decision by Cabinet.

## 7. LINKS TO THE CAMDEN PLAN OBJECTIVES

7.1 CIP supports the Camden Plan objectives as follows:

- Investing in our communities to ensure sustainable neighbourhoods: CIP projects are delivering environmental performance, high-quality architecture, fit for purpose community spaces and safe spaces that design out anti-social behaviour.
- Providing democratic and strategic leadership fit for changing times: CIP investment is tackling some of the biggest challenges facing the borough in the face of significant cuts in capital funding from central government. Camden is working with residents to develop the solutions through inclusive engagement and consultation.
- Developing new solutions with partners to reduce inequality: CIP is building new homes, improving existing Council homes and replacing poor quality housing, reducing overcrowding, and providing new and improved school, community & health facilities.
- Creating the conditions for and harnessing the benefits of economic growth: CIP projects will provide new and improved employment

spaces, increased employment density and result in direct/indirect investment in the local economy. CIP projects offer apprentice opportunities for young people.
- Delivering value for money services by getting it 'right first time': CIP's commitment to inclusive consultation and quality means developed solutions address investment needs in a comprehensive way and deliver value for money.

7.2 The approach recommended in this report should allow for continuing investment and regeneration of parts of the borough through CIP.

**8. CONSULTATION**

8.1 The Cabinet Members for Finance and Technology Policy, Housing, Regeneration, Transport & Planning and Children are updated regularly on the progress of CIP and have been consulted on options for funding and delivering future schemes and agreed the approach recommended in this report.

8.2 Plans for future CIP sites are at different stages of development. In some areas significant consultation with residents, ward members and other stakeholders has been undertaken. In other areas plans are at an initial stage and will require further consultation.

**9. LEGAL IMPLICATIONS (comments from the Borough Solicitor)**

9.1 Comments of the Borough Solicitor's department have been incorporated in the report.

**10. RESOURCE IMPLICATIONS (comments from the Director of Finance and others as appropriate such as AD (HR))**

10.1 This report notes the range of financial challenges in delivering an ambitious regeneration strategy in the present financial climate.

10.2 To deliver the range of new and improved housing and community assets for the borough, the Council is heavily reliant on the generation of sales receipts, both from the sale of surplus or underused assets, and the sale of private residential units constructed alongside social and intermediate housing. The current capital programme (of which CIP is a part), at £1.57bn, is very large, particularly for a Council the size of Camden. 53% of this programme is to be financed by receipts yet to be generated. This therefore means that the Programme carries a degree of financial risk should sales values plateau or decrease. On the expenditure side there has been a sharp increase in costs due to constraints in the construction market, which has seen a number of tenders returned significantly in excess of their anticipated costs. The Council manages these risks in a number of ways, particularly by splitting major projects into multiple-phases to allow us to curtail schemes should the overall programme become unviable.

10.3 The report notes that on current projections there will be little available HRA borrowing headroom over the next 10 years, particularly when allowing for the risks outlined above. Government changes through the Housing and Planning Bill will add a further degree of complexity and risk, which is currently difficult to quantify. The government will levy Councils with a bill relating to its estimation of the amount of high value void properties in the HRA in order to reimburse Registered Providers for the discount they must offer to their tenants through the extension of Right to Buy. It is currently not possible to reliably estimate the scale of this levy, but it could be many millions of pounds per year and put a significant further resourcing restraint on the capital programme and HRA more generally. While the government has indicated that local government may receive some of this levy back for ‘2 for 1’ replacement, it is not clear if this would be on a borough or London level, whether ‘2 for 1’ replacement would be feasible given property values in London, and what sort of terms (e.g. timeframes) would be attached to this.

10.4 Amid this challenging backdrop, the report proposes that the Council takes steps to explore options that could help the borough manage risk and continue to deliver the CIP targets. One option is exploring whether it would be beneficial to work with external partners who may be able to offer technical expertise and capacity, financial support, and shared risk. Although it is unlikely any significant agreement could be reached with partners until the implications of the Housing and Planning Bill are clearer, the experience of other Councils suggests that reaching an agreement with external providers in the form of a joint venture or similar partnership is often a technical and resource intensive process in order to ensure the Council procures the best possible outcomes, and therefore it is likely the Council will have a more thorough understanding of the Bill by the time any recommendations are proposed.

10.5 The report recommends that legal, property and tax advice is procured to support this approach. These costs are as yet unquantified but must be met from general fund or HRA budgets as appropriate.

10.6 The challenges in the capital programme cannot be considered in isolation. The report notes that the Council is exploring options to generate revenue from capital assets as a means to help maintain services as the government continues to cut core revenue grant significantly year on year. Such decisions will involve a case by case prioritisation of limited resources between capital and revenue.

10.7 The Director of Finance has been consulted in the production of this report and has no further comments to add.

## 11. APPENDICES

11.1 No appendices.

**REPORT ENDS**