

LONDON BOROUGH OF CAMDEN	WARDS: All
REPORT TITLE Community Investment Programme Update: funding and delivery strategy for future projects (SC/2016/23)	
REPORT OF Cabinet Member for Regeneration and Transport	
FOR SUBMISSION TO Housing Scrutiny Committee Resources and Corporate Performance Scrutiny Committee Cabinet	DATE 4 th September 2017 5 th September 2017 6 th September 2017
SUMMARY OF REPORT <p>Camden has established itself as a major house builder delivering high quality homes for our residents. The Council is ambitious and is looking to increase the rate of housing delivery over the next few years as well as the levels of investment in community facilities.</p> <p>The Camden Community Investment Programme (CIP) was agreed by Cabinet in 2010 and is a long-term programme seeking to tackle inequality and invest in our communities to ensure sustainable neighbourhoods as well as contributing to economic growth in the borough. The CIP is a partnership between the local authority and stakeholders and residents to make informed decisions about how we can best use our assets to deliver a shared vision for the borough.</p> <p>Affordable and good quality council housing is central to the Council's vision for the borough as set out in the Camden Plan – it is pivotal to strong and sustainable communities where no one is left behind. Through CIP, Camden is building high quality replacement homes for existing tenants and new additional council homes. There is also a need to provide a wider range of tenures for people on middle incomes who are neither eligible for social housing nor able to afford private rent / sale housing. Providing a range of housing options that respond to different need is key to the social mix of the borough which has made Camden a social, economic and cultural hub, and Camden is committed to working with residents to understand and respond to their housing needs as far as possible within the CIP.</p> <p>The challenges around resourcing, financing and managing risk to achieve our ambitions for the CIP have been set out to Cabinet previously. Since then officers have explored different partnership models (referred to previously as alternative delivery methods) to see whether they would negate or mitigate some of these challenges. The work indicates that partnership models might be appropriate for particular development opportunities but the Council does not favour the approach of putting a large number of sites into a single partnership deal in the face of ongoing economic uncertainty. Delivering schemes through wholly owned companies may be an option to enable the Council to deliver a wider range of tenures and the role of Camden Living in providing intermediate housing is a good example of this.</p> <p>The report however recommends that the Council's continued preference is to act as Developer; maintaining greater control over the type and quality of new housing</p>	

and community facilities delivered. This will require access to more funding and an increase in resource to deliver the pipeline of CIP schemes. An open dialogue will be necessary with Government and partners to achieve this.

Should meaningful support from Government not be forthcoming, partnership models may be considered, and where appropriate the Council would consult and engage local stakeholders on any such approach.

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 Housing Scrutiny Committee and the Resources and Corporate Performance Scrutiny Committee are asked to note the report and forward any comments to the Cabinet.

Cabinet is asked to:

- (1) Note progress of the Community Investment Programme (CIP) since the last update.
- (2) Agree that the model of Council as Developer remains the preferred option for appropriate future CIP schemes, subject to the availability of funding, risk profile and ability to resource.
- (3) Note that, where the constraints outlined in this report would impact on the Council's ability to directly deliver a CIP scheme, partnership models may be considered, and such approaches will be informed by engagement with local residents and businesses on Camden's housing challenge.

Signed by:



Jenny Rowland, Executive Director of

Supporting Communities

Date: 23 August 2017

1. WHAT IS THIS REPORT ABOUT?

- 1.1 The central aim of the Camden Plan is to preserve the unique social mix of the borough, tackle inequality and make Camden a place for everyone. Camden is one of the most expensive places in the country to live. The average rent on a new private let is 67% of the median household income in the borough. The average house price is 22 times the median household income. Building houses is the most direct way for the Council to ensure supply of new affordable homes – both council homes for people with acute housing needs and intermediate homes for people on middle incomes being priced out of the borough.

- 1.2 This report updates Cabinet on the progress of CIP and considers how to fund and deliver future schemes in light of the key challenges around resourcing, financing and managing risk. CIP has built 316 new mixed tenure homes (including 138 affordable), improved 48 schools and children centres, delivered 1,370m² of enhanced community facilities and created new accommodation and training facilities for homeless people at Mount Pleasant. Delivery of new homes by the programme is accelerating with a further 1,300 expected to be completed by 2021/22. The programme has also generated £72m of receipts to help to fund the Better Homes programme which has improved over 22,000 council homes.
- 1.3 Cabinet approved CIP schemes represent over £1bn of investment across the HRA and General Fund. The Council is self-funding CIP by building homes for sale and by selling buildings and land that we no longer need. Every pound raised through these sales is reinvested back into Camden – helping to pay for new affordable homes, new and improved schools and community facilities and improvements to existing Council tenants homes.
- 1.4 The Council is committed to work with local people to deliver high quality new homes and facilities through CIP. Camden schemes have won multiple awards – last year Bacton Low Rise was Housing Project of the Year at the Building awards and Holmes Road was the overall winner at the New London Architecture Awards.
- 1.5 The Government's Housing White Paper in February signalled a willingness to support building of homes of all tenures, moving away from the previous focus on homes for sale. This opens up the possibility of continued direct Council development of future schemes.
- 1.6 The HRA has been the major vehicle to deliver the place-shaping ambitions of the Council. Our ability to deliver more through the HRA is constrained by the Government set debt cap and the 1% rent reduction policy.

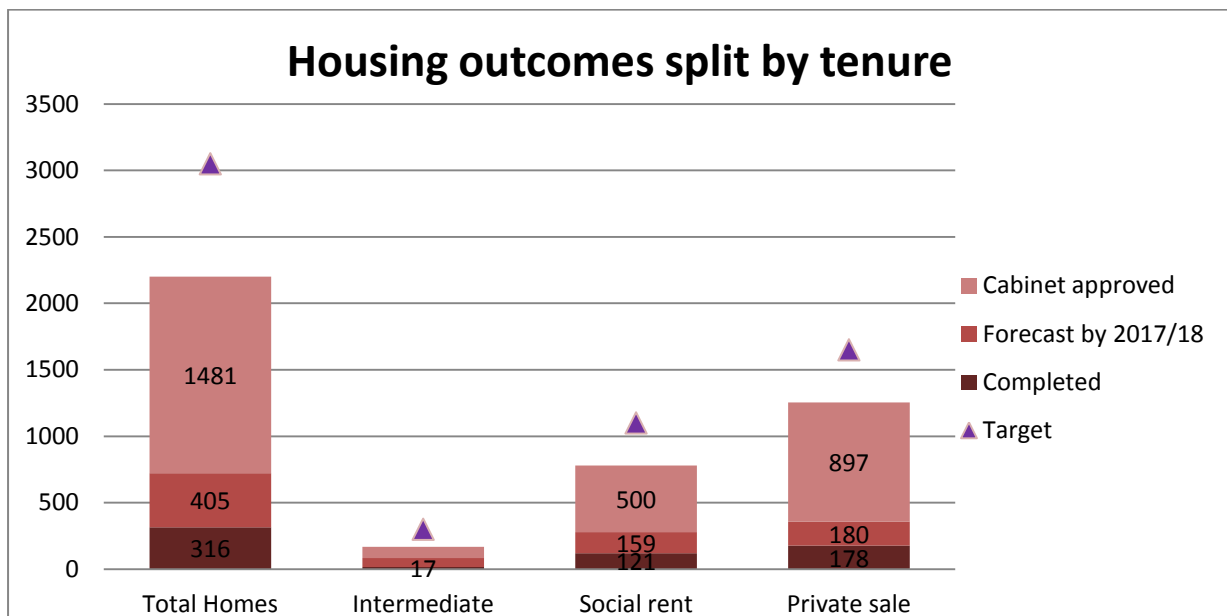
2. WHY IS THIS REPORT NECESSARY?

Progress to date

- 2.1 Since the last CIP Cabinet report in April 2016, significant progress has been made and the Council has committed to £100m+ further investment over the last year; delivering new and replacement homes, improving schools, community facilities and green spaces:
 - 70 homes completed with a further 405 completions expected in 2017/18.
 - £30m invested into improvements to schools and children's centres – taking the total investment to £81m.
 - St Pancras Community Centre on Plender Street opened last summer.
 - Construction of the first block of Agar Grove is progressing well. The regeneration of the estate will build 493 mixed tenure homes, improve the layout and provide new communal space and community facilities.
 - Work has started on a new community resource centre at Greenwood Place which will provide dedicated, high-quality services to both younger and older adults with complex needs. It will also house a centre for independent living and will act as a community hub where people can access information and signposting to local community services.

- The Kingsgate Primary School building at Liddell Road opens this September, with capacity for up to 420 additional places to meet long-term demand.
- Work has started on the first phase of the Central Somers Town project which will deliver a new building for Edith Neville Primary School, a new building and facilities for Plot 10 play project, a new home for St Aloysius Nursery, public realm improvements and 10 new affordable homes.
- The Highgate Newtown Community Centre project received planning consent in April. The project will deliver a new community centre, sports hall and premises for the Fresh Youth Academy funded by 31 private sale homes.
- Work commenced on the first phase at Abbey Area, which will deliver 141 new homes (66 affordable and 75 private) and construction of homes at Camden Street, and at Barrington Close in Gospel Oak is under way.
- Camden Living, the Council owned company designed to expand the range of housing opportunities for people in the borough, has been set up and will offer 66 intermediate rented tenancies later this year.
- Regeneration plans for Tybalds estate are currently under review

2.2 The chart below shows progress against CIP housing targets across all tenures. CIP schemes already approved by Cabinet are forecast to deliver 70% of the planned housing target. There is potential within the pipeline to meet the target – Camley Street and Gospel Oak alone could deliver the remainder. An asset review is being conducted that may identify further opportunities for new homes.



Other Capital investment funded/facilitated by the Council

2.3 In addition to CIP the Council is delivering and facilitating new homes and improved council buildings and community facilities. We anticipate that land sales through CIP and our Accommodation Strategy will enable 1,528 new homes including 523 affordable (171 social rent and 352 intermediate rent).

2.4 We are building 116 replacement homes for council tenants and resident leaseholders set to lose their homes to High Speed Two, to ensure all affected tenants can be rehoused locally. This includes 90 replacement homes, 11

council homes, five intermediate homes and ten private homes, as well as a new community hall, shops and shared gardens.

- 2.5 The Accommodation Strategy is providing new council buildings, allowing us to offer new and improved public services, making savings and generating income. Cockpit Yard will be remodelled to provide a new Holborn Library and Local Studies Centre, flexible new creative business space and affordable and private sale homes. The Town Hall will be refurbished to deliver improved modern space for civic functions and new space for business.
- 2.6 38 residential “extra-care” units and a community resource and hub for carers will be built opposite the site of Charlie Ratchford Centre. We are developing an older people’s hub at the current Kingsgate resource centre specialising in dementia and frailty, merging the centre with services from Netherwood, Raglan and Charlie Ratchford.

Uncertain economic environment

- 2.7 CIP is almost entirely self-financed through land sales, HRA and General Fund borrowing and sale of private homes. By directly delivering most CIP schemes the Council is exposed to full development risk as the programme is sensitive to market changes in terms of construction costs and house prices.
- 2.8 Cost increases during the first few years of the programme were more than matched by house price inflation, but during the previous year cost inflation has begun to outstrip house price growth as London has become one of the most expensive cities in the world to build in. The decision to leave EU has led to financial volatility and increased uncertainty and prime London housing transactions are starting to see a fall in prices. This uncertainty is likely to continue as negotiations with the EU progress.
- 2.9 CIP needs to sell 248 homes in the next few years to generate receipts for reinvestment. We have completed or exchanged contract on 129 but the remaining homes represent circa £100m of sales risk. Prudent budgeting and the length of programme provide resilience but if house prices fall significantly and do not recover, the structure of CIP and its projects may need to be reviewed.
- 2.10 Based on the assumptions we are able to make about the environment that the Council and the HRA will operate in until 2020/21, the Council is rapidly approaching the limits of our financial capacity to deliver further development schemes. We have a further 1,500 homes pipeline capacity that could be delivered in phases, if we had certainty over future government policy and the active funding support from government. A combination of certainty and flexibility in the following areas would significantly assist in delivering future CIP schemes:
- Opportunities for grant funding.
 - Greater flexibility around the use of Right to Buy receipts and the application of grant.
 - HRA borrowing cap flexibility combined with more certainty around future rent levels for social housing to ensure robust debt repayment plans.
 - Other options for the funding of new investment into housing including retained business rates.

Changing policy environment and housing needs

- 2.11 The February 2017 Housing White Paper signalled a change of attitude within government. The Paper welcomed councils building new affordable homes and proposed bespoke deals between Government and local authorities to help to build them. Whilst there is uncertainty over the Government's position following the General Election and the appointment of a new Housing Minister we anticipate that Government will continue to prioritise house building.
- 2.12 The local demographic context is also changing. 28% of council tenants are aged over 65 including nearly 1,000 over 85, which poses challenges such as the suitability of stock and under occupation. Very high rents and house prices mean that younger residents cannot afford to stay in Camden. CIP has begun to respond to these challenges. CIP builds to lifetime home standards and Camden Living will provide genuinely affordable housing for middle income households. However, the scale of these challenges may require a more ambitious response with greater focus on housing for older people and intermediate housing. The Council will consider new construction methods for future CIP projects where they allow us to deliver more housing without compromising our commitment to quality.

3. OPTIONS

Continued direct development with more certain support from government

- 3.1 The Council's ability to finance and deliver further CIP projects in changing economic circumstances is constrained by the HRA debt cap, internal resources and financial risk across the programme. Access to additional funding via government support opens up the possibility of continuing to directly deliver further CIP schemes. This would ensure that the Council retains full control over projects and captures any uplift in value that can be used to maximise affordable housing levels on schemes or reinvested back into the programme.
- 3.2 The Council has engaged with the Department for Communities and Local Government (DCLG) and the Greater London Authority (GLA), promoting its track record of building new homes, and outlining the options for increased certainty and flexibility (previously outlined) in funding that we would wish to have a further discussion about. Camden will prepare a business case setting out its aspirations for working with its communities to deliver more housing in the borough over the coming years and use this to proactively engage with Government.

Alternative funding and delivery options

- 3.3 Due to political and economic uncertainty, officers have considered a range of different models for funding and delivering future schemes in case a 'plan b' is needed. These included looking at partnerships with developers and registered providers, joint ventures and the use of a Wholly Owned Company (WOC).
- 3.4 Camden already has a WOC in Camden Living which will start providing homes at intermediate rents this year. The Council could widen the scope of activities of Camden Living and/or establish another WOC to undertake development. The advantage of a WOC is that it would allow the Council to fund further schemes through borrowing and to retain significant control over the type and quality of future schemes, ensuring meaningful dialogue with residents about how to

improve their neighbourhoods. A WOC would have an independent commercial status but its objects would be focussed on improving housing opportunities and the Council would exercise control as shareholder – with key strategic matters such as the Company’s policies and business plan subject to Council approval.

- 3.5 Any profit generated by a WOC would be subject to Corporation Tax before it could be transferred back to the Council as a dividend. Despite the tax implications a WOC should allow the Council to retain a much greater share of any value uplift than it would through a deal with a development partner that would likely expect a 15-20% profit on the overall cost of development as opposed to circa 20% corporation tax on just the profit. Although the sharing of risk would not be built into its basic structure (since it would be wholly owned by the Council) the WOC would be able to buy in private sector skills and resources more straightforwardly than the Council and if appropriate, could also share risk and bring in partner expertise by entering into joint venture or development agreements with private sector partners on a scheme by scheme basis.
- 3.6 The Council also considered options to work with development / funding partners on bringing forward CIP schemes. There are concerns around putting multiple sites into a single Joint Venture in the face of market uncertainty and changing government policy. Experience of large scale Joint Ventures from other areas is mixed: there are examples of Joint Ventures that have stalled or have required further public subsidy. Added to this is the concern that a large multi-site Joint Venture may prioritise more attractive sites for development with the more challenging sites being pushed back. Whilst it is possible to subsidise financially challenged sites within a JV, it means that delivery of individual sites are dependent on receipts from other sites so that delay on a single site could delay the whole programme. Partnerships which focus on individual sites would be preferred.
- 3.7 There are some interesting models around Community Housing, including custom build and Community Land Trusts (CLTs). CLTs are membership organisations formed by community activists to deliver affordable housing. CLT developments still require access to finance and generally require the Council to dispose of the land at less than market value to the organisation. CLTs also tend to ring-fence any surplus to that particular area whereas the Council may wish to reinvest surplus elsewhere in the borough. Any decision to proceed with a Community Land Trust would need to demonstrate how the social and financial outcomes of that approach would be better than direct delivery by the Council and/or other partnership approaches.
- 3.8 Officers’ research into alternative funding and delivery models highlighted that although it is possible to get partners to share risk, they will price it into any deal – i.e. any risk transfer will involve a partner taking a greater share of any value generated. The option of a risk sharing deal may be attractive or necessary at future points in the programme but the Council’s preference is to retain the flexibility to consider this on a scheme by scheme basis rather than to attempt to share risk with a partner across a long programme of development sites.

4. WHAT ARE THE REASONS FOR THE RECOMMENDED DECISIONS?

- 4.1 The Council's preference is to secure additional funding and/or flexibility to allow direct Council delivery of further projects which will allow the Council to retain a high level of control and reinvest any surplus generated.
- 4.2 Directly delivering further projects will mean taking on more risk and require additional staff resources to manage them effectively. Government funding for future schemes could help to mitigate risk but the Council will continue to monitor risk across the programme. The Council will take a flexible approach and can consider the option of sharing risk or accessing specialist expertise as necessary on a scheme by scheme basis – for example where future schemes have substantial employment space we may want to work with partners with a track record in mixed used development.
- 4.3 Should a different delivery model be considered for a particular development then, where appropriate, the Council would consult and engage local stakeholders on any such approach.

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

- 5.1 There is a risk that additional funding and/or resourcing may not be realised and therefore the Council will be unable to bring forward development of pipeline sites. The mitigation would be to explore and consult on different delivery methods.
- 5.2 Continuing to deliver projects directly will result in the Council retaining all development and sales risk. If the HRA is permitted to borrow more than the current debt cap, consideration needs to be made on ability to repay principal and interest. The Council took a deliberate decision to directly deliver CIP schemes, accepting the risk involved on the basis that it could be managed across a programme of sites and the Council would fully retain benefits. The programme is managed so that schemes are at different stages of delivery at any one time (e.g. in contract or pre-tender) thereby minimising exposure to risks in the external market. CIP's robust governance process assesses project viability at key stages of development. The capital programme will be monitored to ensure the Council is not overexposed to sales risks.
- 5.3 Further direct delivery will increase pressure on internal resources. To manage this we will consider measures to improve recruitment and retention including an enhanced training and development offer for staff. We are also engaging through London Councils on plans to give councils access to additional development resource as required.

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

- 6.1 The Council will continue to engage the Department for Communities and Local Government (DCLG), the Homes and Communities Agency (HCA) and the Greater London Authority (GLA) to promote our track record as a house builder and to seek support such as grants or additional borrowing headroom.
- 6.2 The Council will continue to work with local people to explore possible future projects that could deliver new affordable housing and community facilities, in

particular around the wider regeneration of Gospel Oak and options for individual estates in the area.

6.3 The Council will continue to monitor changes to the construction and housing markets and assess CIP's financial performance and levels of financial risk across the programme to inform decisions about how to fund future projects.

6.4 The fundamental aim of the CIP is to develop a programme of work that reflects both our corporate priorities as an organisation, and the investment priorities of our communities. We use a range of community engagement tools including citizen assemblies, our community researchers and online tools, to obtain views from a representative cross-section of our communities.

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 is delivering well designed buildings to high environmental standards and new and improved facilities and public space that design out anti-social behaviour.
- *Providing democratic and strategic leadership fit for changing times:* CIP addresses two key challenges faced by Camden: how to increase the supply of affordable housing and improve community facilities despite funding cuts. CIP schemes are developed 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 to young people.
- *Delivering value for money services by getting it 'right first time':* inclusive consultation and quality means CIP schemes address investment needs in a comprehensive way and deliver value for money.

8. CONSULTATION

8.1 Housing and maintaining mixed communities is at the heart of the Camden Plan and will continue to be a key strategic priority over the next five years. Cabinet set up the Camden Commission in December 2016 to help develop a successor to the current Camden Plan. Whilst it will report in the Autumn, the Commission's emerging findings, informed by extensive engagement with the community, underscore the importance of affordable, high-quality housing to maintaining the rich social mix of the borough. New solutions to the housing challenge is likely to be a key focus of Camden's next strategic plan, and further public engagement over the next nine months will be necessary to understand the nature of that challenge over the coming years, and develop approaches with residents and partners. These will feed into the more specific CIP consultation which will occur both on our priorities for investment, and individual schemes as appropriate.

8.2 In the short-term, Camden is interested in working with residents to look at how the Council might use partnerships and different delivery models for affordable and social housing, and having a public deliberation of the advantages and

disadvantages of these approaches. The Council is looking at deliberative workshops and citizen assemblies as models of how this engagement could be conducted, and is looking to organise events in Autumn 2017.

9. LEGAL IMPLICATIONS (comments from the Borough Solicitor)

9.1 The report recommends that the Council's preferred option is to directly deliver appropriate future CIP schemes subject to the availability of funding, risk profile and ability to resource. This represents a continuation of the current approach to delivering most approved CIP schemes. The report acknowledges that should constraints around funding, risk or ability to resource limit our ability to directly deliver a scheme, alternative partnership models may be considered. The report confirms that the Council will undertake engagement with local residents and businesses on Camden's housing challenge to help inform any future use of partnership models. This is in addition to any consultation (statutory or otherwise) which is required be undertaken on future schemes and to the Council taking all other relevant factors into consideration when considering the best delivery method for each scheme.

10. RESOURCE IMPLICATIONS (Finance Comments of the Executive Director Corporate Services)

10.1 This report highlights the significant successes of CIP and what it continues to deliver towards the regeneration of the borough and creation of new social assets such as homes, schools and community facilities.

10.2 Camden continues to act as developer for a large number of CIP schemes. The Medium Term Financial Strategy report at July's Cabinet set out some of the CIP risks and how these are being mitigated. These may be summarised as follows:

- Challenges in construction industry – high demand, particularly in London, has contributed to a number of tender returns being in excess of budget. The weakening of sterling has also increased import costs.
- Project delays – contractors have struggled to sufficiently resource some schemes, leading to delays and extra costs.
- Reliance on receipts – the programme is primarily funded from receipts and is therefore highly sensitive to fluctuations in land and private residential values.
- HRA debt cap – the government imposes limits on how much the Council can borrow, which limits our capacity to fund further investment. Delays to receipts and increased costs increase pressure on the debt cap.
- If the Higher Value Void Levy is implemented as planned this will be a further drain on HRA resources.

10.3 The Council manages these risks by estimating receipts prudently; by operating a comprehensive governance review process; and by managing the staging of projects so that a limited number are in delivery at any one time.

10.4 The Chalcots evacuation will place further pressure on resources, at least in the short-term. The Council is still exploring the precise legal position and is also in discussions with Central Government about accessing support to mitigate the financial consequences of the remedial works to Chalcots. However, for prudence we must financially plan on the basis that additional funds may not become available. Therefore the immediate costs of the works are likely to be

met from a combination of borrowing, HRA reserves, and the re-prioritisation of the capital programme, all of which are likely to have consequences for the ability to fund any extension to the CIP programme.

- 10.5 The report notes that continuing with the approach of Council as Developer is our preferred route to expand the programme, which means the Council retains the ability to reinvest into further CIP schemes but also continues to be fully exposed to development and sales risks. There are a number of ways which would help us to do this, including greater flexibilities around borrowing and the use of grant and right to buy receipts.
- 10.6 However, if other funding routes discussed in the report are not successful, the Council would consider alternative delivery options such as partnerships or a wholly owned company. At this point, comprehensive financial modelling would be needed for any chosen sites to demonstrate viability and to understand the impacts on Council borrowing, any new tax liabilities and the ability to finance any debt from revenue resources. The Council would need to carefully consider the risk profile and any internal and external resourcing pressures of managing a new legal entity. Alternative delivery options cannot fully mitigate the Council's development risk exposure or improve overall financial viabilities but they offer alternative means of delivering schemes and potential access to new resourcing, in addition to Council as Developer.

11. **APPENDICES** None