**CABINET**

**20 October 2020**

| | |
|---|---|
| **Title:** Development of Land at Beam Park, Dagenham | |
| **Report of the Cabinet Member for Regeneration and Social Housing** | |
| **Open Report with Exempt Appendix 2** (relevant legislation: paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972) | **For Decision** |
| **Wards Affected:** River | **Key Decision:** Yes |
| **Report Author:** Neil Double, Be First | **Contact Details:**<br>E-mail:<br>neil.double@befirst.london |
| **Accountable Director:** Ed Skeates, Development Director, Be First | |
| **Accountable Strategic Leadership Director:** Claire Symonds, Chief Operating Officer, and Graeme Cooke, Director of Inclusive Growth | |


**Summary**

In 2019 Be First were approached by developer 'Countryside Properties' with the opportunity to purchase three phases of a turn-key development at the site known as 'Beam Park'. The site (shown in appendix 1) measures approximately 31.5 hectares and is located directly east of Kent Avenue. The site is currently vacant and was previously occupied by the Ford Car Factory which closed in 2003.

The proposal is that the Council purchase 936 homes over three phases for a fixed price plus indexation (total cost £309m including finance costs) on a turn-key basis, subject to satisfactory due diligence.

Be First, on behalf of the Council would manage the transaction and development process to practical completion of the last phase in 2028. The scheme would then be held and operated by BD Reside as part of their residential portfolio with any financial surplus made being paid back to the Council.

The Greater London Authority own the freehold of the site and selected Countryside and L&Q as Development Partners in 2016. Countryside secured outline planning permission in 2019 (planning application no: 19/01724/FUL) for 3000 homes (50% affordable) across eight phases. Countryside are currently on site with Phase 1 which is due to complete next year.

There are significant regeneration and financial benefits for the Council in purchasing these phases and bringing forward and securing the delivery of the development ahead of the original programme by up to 5 years. In addition to this the council's involvement will secure approximately 100 additional London Affordable Rent units in this phase of the development, which will be made available to residents on the housing waiting list. The site is one of the largest regeneration schemes in the borough and is of strategic importance to London's growth plans. It forms part of the wider Dagenham regeneration

area alongside other significant regeneration sites backing onto the former Ford DTSO (stamping plant) and being close to two sites adjacent to Dagenham Dock station.

Buying the scheme as a whole from an integrated developer contractor also enables the Council to acquire units at a price below that at which we could construct them, making it a financially viable proposal. In addition, with Council intervention the proposal attracts a significant amount of financial support from the GLA through their Build Homes for Londoners grant programme and allows the Council to deliver over a hundred more London Affordable Rent (LAR) homes than would otherwise be built.

**Recommendation(s)**

The Cabinet is recommended to:

(i) Agree the proposal to purchase up to 936 homes, comprising 50% affordable and 50% private housing;

(ii) Agree to enter into a Development Agreement with Countryside Properties to deliver these units across three development phases for a fixed price plus indexation, on a turn-key basis;

(iii) Agree to the borrowing of up to £309m within the General Fund to finance the entire development subject to satisfactory due diligence;

(iv) Note the scheme meets the Investment and Acquisition Strategy financial performance metrics delivering a positive net present value of £69m;

(v) Agree to the use of an existing or the establishment of a Special Purpose Vehicle(s) as required within the Barking & Dagenham Reside structure to develop, own, let, sale and manage and maintain the homes in accordance with the funding terms in a loan agreement between the Council and Special Purpose Vehicle;

(vi) Agree to allocate £23.1m GLA London Affordable Rent grant funding to support the financial viability of the scheme;

(vii) Agree to allocate £7.4m GLA Shared Ownership grant funding to support the financial viability of the scheme;

(viii) Delegate authority to the Chief Operating Officer, in consultation with the Director of Law and Governance, to agree and execute any legal agreements and contract documents to fully implement the project;

(ix) Delegate authority to the Finance Director, in consultation with the Cabinet Member for Finance, Performance and Core Services and the Chief Operating Officer, to agree the funding and finance arrangements to fully implement the project; and

(x) Delegate authority to the Chief Operating Officer, in consultation with the Cabinet Member for Finance, Performance and Core Services, the Cabinet Member for Regeneration and Social Housing, the Director of Inclusive Growth and the Finance Director, to agree the purchase of a small and limited number of additional units at the site from Countryside Plc, above the 936 units already proposed, to specifically deal with any minor changes as the scheme progresses through detailed design to planning, and subject to any additional purchases being on the same commercial terms and in accordance with the Council's Investment and Acquisition Strategy.

**Reason(s)**

This project primarily helps deliver on the objectives of Inclusive Growth and A New Kind of Council

- Building affordable housing and sustainable communities
- Support the social and economic regeneration of the South Dagenham area
- Accelerate the delivery of new homes that might otherwise not be delivered as quickly
- Contribute to growing the Council's residential portfolio
- Deliver a financial return to the council through a long-term income stream

## 1. Introduction and Case for Action

1.1. The site known as 'Beam Park' isthe Former Ford Factory New Road, Dagenham which closed in 2003. It comprises 31.5 hectares (77.8 acres) of vacant, former industrial land to the north of the A13 and south of the A1306, which straddles the boundary between the London Boroughs of Barking & Dagenham and Havering, with the border of the boroughs broadly demarcated by the Beam River, which runs north to south (refer to appendix 1 – Site Plan)

1.2. The development opportunity has been offered to the Council by Countryside Properties (Registered No: 09878920) as a circa 936 home turnkey scheme to help accelerate delivery of housing within the borough and for the Council to take a long-term ownership stake in one of the largest regeneration projects in London.

1.3. Countryside Properties is one of the country's largest housebuilders completing circa 5,000 homes annually. They have been operating for over 60 years and have built schemes across the country, including Fresh Wharf in Barking. They have recently completed a residential scheme for the Council ('Becontree Heath') comprising 87 affordable homes. Sales and lettings for this development are performing strongly.

1.4. Beam Park is a 3,000+ mixed use development scheme in South Dagenham, constructed in eight phases over a forecasted 15 year development period. The scheme was granted outline planning permission in March 2018 by Barking & Dagenham's planning committee. As well as delivering these new homes the development will provide new public spaces including a new park, two new schools, a health centre and a new train station on the c2c line to Central London and Essex.

1.5. On offer to the Council are three of these phases totalling circa 936 homes consisting 50% affordable (203 LAR homes, 106 more than the current Countryside mix, and 265 Shared Ownership homes) with the remaining 468 homes (50%) being market rent homes. The unit mix is 33% 1 bed homes, 65% 2 bed homes and 3% 3 bed homes. There are significant regeneration benefits for the Council in purchasing this scheme and helping bring forward its development ahead of the original timescales. The site is within the wider South Dagenham regeneration area which is undergoing significant investment and regeneration, including adjacent new build schemes by Peabody and Clarion. It is also close to the Chequers Lane development which the Council have just recently agreed to purchase from developer Hollybrook which is expected to complete in 2022.

1.6. Countryside do not plan to bring forward development of these phases until 2026, but with Council involvement this could be accelerated by up to 5 years (starting the first phase in 2021) and act as a wider catalyst to get the market moving, helping to speed up regeneration efforts in the surrounding area. This is a particularly important intervention in light of the current market uncertainty created by the pandemic.

1.7. Buying the scheme from an integrated developer contractor also enables the Council to acquire units at a price below that at which the Council could build them. In addition, 106 of the units (LAR) would likely not be delivered without Council intervention. The council's involvement would mean attracting a significant amount of financial support from the GLA, who are keen to support 'turn key' developments to secure housing delivery on strategically important sites. Without the council's involvement this grant would not be made available.

1.8. The project helps achieve the Council's emerging Inclusive Growth Strategy and Investment & Acquisition Strategy by accelerating the delivery of much needed homes, supporting social and economic regeneration, working in partnership with the private sector and generating a financial return on investment.

## 2. Proposal and Issues

2.1 The proposal is that the Council purchase the development for a fixed price with a total cost £309m inclusive of fees and finance costs from Countryside on a turn-key basis via Development Agreement, subject to satisfactory due diligence. The purchase will not be made in one large payment but instead will be spread over the three phases, over an eight year period, with each phase costing between £70m to £100m.The lease for each phase would then be granted upon satisfaction of various conditions precedents. Be First, on behalf of the Council would manage the transaction and development process to practical completion. The completed scheme would be held and operated by BD Reside as part of their residential portfolio with any financial surplus being paid back to the Council.

2.2 Head of Terms have been agreed with Countryside. Payment terms are subject to agreement, but will include a payment upon on entering into contract, upon planning consent and start on site, followed by a monthly drawdown for the duration of the development. The site freehold is held by the GLA who will grant a Head Lease to CPUK. Ownership will transfer to the Council following granting of the 999 underlease.

2.3 The Development Agreement will have provision for Be First to have step in rights to complete the development should the developer fail, and a full suite of warranties will be provided from all designers and sub-contractors who have design input into the scheme.

2.4 Subject to Cabinet approval, final due diligence will be undertaken by Be First prior to the Council signing the Development Agreement. The cost of undertaking this work has been included in the Total Scheme Costs.

2.5 The scheme has planning permission for 50% affordable and 50% private. The council, Be First and Reside have agreed that this broad tenure split is the right one for this development, although it does provide a lower amount of affordable housing than on typical Be First projects (which normally provide at least two-thirds affordable housing). This proposed mix will allow for the project to make a return on investment for the council, while still providing over 450 affordable homes, including 203 at London Affordable Rent. In addition to this the concentration of a significant number of Private Rented Sector units in this development provide a meaningful way for the council and Reside to move into this part of the housing market. These homes will be marketed to local people and will be priced as an alternative to insecure tenancies in the private sector.

The indicative target tenure mix is outlined in the table below. Countryside are responsible for securing detailed planning permission for each phase and therefore the totals and unit mix may be subject to minor change, although the Council will need to approve any changes.

| INDICATIVE TARGET ACCOMODATION SCHEDULE | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1B2P | 2B3P | 2B4P | 3B5P | 2B4P | 3B5P | Total | % |
| GIA m2 | 50 | 63 | 70 | | | | | |
| | Flat | Flat | Flat | Flat | Duplex | Duplex | | |
| LAR | 35 | 25 | 125 | 0 | 15 | 3 | 203 | 22% |
| AR/LLR | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0% |
| LSO | 117 | 59 | 73 | 2 | 12 | 2 | 265 | 28% |
| Private/PRS | 156 | 93 | 169 | 14 | 34 | 2 | 468 | 50% |
| **Total** | **308** | **177** | **367** | **16** | **61** | **7** | **936** | **100%** |
| % | 33% | 19% | 39% | 2% | 7% | 1% | 100% | |

| PHASE 3 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1B2P | 2B3P | 2B4P | 3B5P | 2B4P | 3B5P | | |
| | Flat | Flat | Flat | Flat | Duplex | Duplex | **Total** | % |
| LAR | 35 | 25 | 125 | 0 | 15 | 3 | 203 | 50% |
| AR/LLR | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0% |
| LSO | 51 | 28 | 0 | 2 | 0 | 0 | 81 | 20% |
| Private/PRS | 26 | 27 | 41 | 14 | 16 | 0 | 124 | 30% |
| **Total** | **112** | **80** | **166** | **16** | **31** | **3** | **408** | 100% |

| PHASE 4 | | | | | | | |
|---|---|---|---|---|---|---|---|
| LAR | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| AR/LLR | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| LSO | 54 | 18 | 49 | 0 | 11 | 2 | **134** |
| Private/PRS | 62 | 20 | 52 | 0 | 4 | 0 | **138** |
| **Total** | **116** | **38** | **101** | **0** | **15** | **2** | **272** |

| PHASE 5 | | | | | | | |
|---|---|---|---|---|---|---|---|
| LAR | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| AR/LLR | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| LSO | 12 | 13 | 24 | 0 | 1 | 0 | **50** |
| Private/PRS | 68 | 46 | 76 | 0 | 14 | 2 | **206** |
| **Total** | **80** | **59** | **100** | | **15** | **2** | **256** |

2.6 Discussions have been held with the Greater London Authority (GLA) to optimise available grant funding to financially support the affordable housing element of the scheme. The GLA has allocated £20.3m of grant to support the 203 London Affordable Rent (LAR) homes and £7.4m to support the 265 Shared Ownership homes should the Council decide to proceed with the proposal.

2.7 The proposed indicative programme for each phase is outlined below set against the current programme without Council involvement, showing a 4 to 5 year delivery acceleration.

| **Proposed with LBBD** | **Phase 3** | **Phase 4** | **Phase 5** |
|---|---|---|---|
| Planning Approval | Mar-21 | Jan-23 | May-24 |
| Surcharging Commence | Nov-20 | Jan-22 | Jan-24 |
| Construction Commence | Sep-21 | Jan-23 | Jan-25 |
| 1st Completions | Mar-24 | Jun-25 | Apr-27 |
| Phase Completion | Apr-25 | Mar-26 | Mar-28 |

| **Current CPUK** | **Phase 3** | **Phase 4** | **Phase 5** |
|---|---|---|---|
| Planning Approval | Nov-26 | Jun-28 | Jul-29 |
| Surcharging Commence | Jul-26 | Feb-28 | Mar-29 |
| Construction Commence | Jul-27 | Feb-29 | Mar-30 |
| 1st Completions | Oct-29 | May-31 | Jun-32 |
| Phase Completion | Jan-30 | Jul-31 | Sep-32 |

| **Acceleration** | **Phase 3** | **Phase 4** | **Phase 5** |
|---|---|---|---|
| Phase Completion Acceleration | Circa 5 years | Circa 5 years | Circa 4 years |

2.8 The scheme is divided into three phases. Phase 3 will be the first phase to start on site in 2021 consisting of circa 400 homes, followed by Phase 4 in 2023 and Phase 5 in 2025.

2.9 There is a significant provision of supporting social infrastructure being delivered in the earlier phases (2021-2024) across the masterplan to support the new residential communities and build a truly sustainable neighbourhood. This includes a new Train Station, a new 3FE primary school including nursery provision and ballcourt, 3,000 sqm support uses made up of retail including a food store, a management suite, a medical centre and a pharmacy and a portion of the new 3.5 hectare park. The infrastructure is being delivered and funded by Countryside as part of their planning obligations. The delivery will be ensured using planning requirements/conditions and legal mechanisms in the Development Agreement. The rephasing of phases 6-8 to 3-5 has timing consequences for the agreed s106 and Countryside are in discussion with both LPA's and the GLA on this so infrastructure provision and timings may change.

2.10 Ground remediation will be carried out by Countryside in accordance with Planning requirements. This includes 'surcharging' of the ground prior to construction. Surcharging consists of breaking out the existing slabs, putting crush fill on the phase and installing band drainage. Countryside propose each phase will be surcharged individually with phase 3 commencing first. Be First will monitor the surcharging process to ensure it meets all relevant planning and statutory requirements.

2.11 Supporting social infrastructure is being delivered and funded by Countryside in parallel with the residential as part of their Section 106 legal agreement. This includes; a new train station, health facilities, gym, retail and cafes. A portion of these supporting infrastructure costs are included in the fixed price to Countryside, no additional contributions will be incurred by the Council.

2.12 Reside will be responsible for the Block and housing management of Phases 3 to 5. The wider Estate and public realm will be managed by L&Q with Reside having voting rights through the Management Company which will be created to run the development. An Estate Charge will be payable to L&Q which has been included in the scheme financial appraisal, and will help to ensure a good quality place is maintained in the long term.

2.13 The Total Development Costs are estimated at £309m including finance costs. This includes the fixed price paid to Countryside, plus Tender Price Inflation, contingency and all other Professional Fees related to delivering the scheme. The long-term borrowing requirement after deducting grant and sales receipts is £255m. Further details of the financial proposals are set out in Appendix 2, which is in the exempt section of the agenda as it contains commercially confidential information (relevant legislation: paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

| **Financial Summary Table** | | | | |
|---|---|---|---|---|
| | Phase 3 | Phase 4 | Phase 5 | **Total** |
| Gross Development Cost (inc. Finance) | £113.1m | £97.1m | £98.9m | **£309m** |
| Long-term Borrowing required | £82.9m | £79.6m | £92.3m | **£254.8m** |
| Gross Development Value | £112.2m | £95.7m | £105.6m | **£313.6m** |
| Net Present Value (5% DR) | £23.6m | £22.2m | £23.4m | **£69.2m** |

2.14 The proposal achieves the investment metrics set out in the Investment & Acquisition Strategy 2019, generating a Net Present Value of £69m over 50 years. Once the entire scheme is fully let, the proposal should generate a healthy financial return to the Council in excess of £1m per annum .

2.15 There are several ways the Council could fund this proposal including borrowing from PWLB, a Bond or a leasing finance arrangement (further detail is in the finance section). PricewaterwouseCoopers were appointed to assess the pros and cons of different options available to the Council. Their conclusion was that both public and private finance options were available and broadly comparable in net present value terms. As this will be a funding by phase proposal, only phase 3 (the first phase) needs funding commitment now of £113m, with future phases open to being funded by the most suitable arrangement at that time. In addition, Be First are working to include a funding clause into the legal agreement that would give the Council an exit plan in the event that the Council couldn't raise finance at an acceptable rate.

2.16 Given the current economic market due to Covid-19 and looking ahead to the impact of Brexit some sensitivity modelling has been undertaken (refer to appendix 2) to test the impact on project viability if rental and sale values decrease below current pricing levels provided by Savills. It shows that rental and sale values would have the greatest impact for the proposal and they would need to decrease by at least 20% before each phase failed to make a sufficient profit.

2.17 Savills have advised on property values and absorption rates for the market rent and shared ownership properties. Savills have advised that the market rent properties can be let at a rate of 20-25 per month, we have used the lower end of this range in the financial appraisal to be conservative. We have also allowed for a significant marketing budget to ensure a high-quality and targeted marketing campaign, with appropriate incentives and launch timings can be put in place.

2.18 There are also wider economic benefits arising from the proposal which includes Council Tax income arising from the homes of approximately £1.1m per annum to help cover the cost of providing council services to these new residents. Due to the accelerated delivery, up to 5 years worth of additional Council tax totalling £5.4m will be collected. The Council should also receive New Homes Bonus of £4.8m 5 years earlier than planned.

## 3. Options Appraisal

3.1 The following options have been assessed.

| Option | Advantages | Disadvantages |
|---|---|---|
| Do Nothing | • No cost to the Council<br>• Homes would still be delivered and regeneration take place<br>• No risk | • Homes on the site are not delivered as quickly, or at all if housing market contracts<br>• Homes not added to Council's residential portfolio<br>• Loss of revenue income<br>• No delivery control<br>• Fewer homes delivered at LAR level |
| As set out in recommendation | • Delivery of additional affordable homes<br>• Income generation<br>• Surpport the regeneration of South Dagenham<br>• More control over delivery timeframes | • More risk than doing nothing – however risk can be managed given fixed price deal<br>• Cost of finance to council and additional long term borrowing required |

## 4. Consultation

4.1 The development has outline planning consent and has therefore been subject to community consultation through the planning process. The scheme will be subject to further community consultation as the detailed planning application is prepared by Countryside.

4.2 Investment Panel was consulted in July 2020 and cleared the report on 22nd September 2020.

## 5. Commissioning Implications

Implications completed by: Darren Mackin, Head of Commissioning and Programmes, Inclusive Growth

5.1 The proposal set out here has the potential to deliver on a number of aims of the council's Inclusive Growth strategy. This is through securing the delivey of a significant number of new homes in the borough, which will not only help people on the housing waiting list, bit also provide residents with a genuine alternative within the private sector. The council's involvement would mean that an additional 100 of the homes delivered will be at London Affordable Rent, as our involvement attracts additional grant funding. It would also secure and accelerate the delivery of these new homes in a time of wider market uncertainty. The opportunity to enter the Private Rented Sector on this scale is also a good opportunity for the Council to diverse its property portfolio in a way which is consistent with its aims.

5.2 In addition to this the proposed investment will support our wider ambitions to regenerate this part of the borough. It will give the council a significant stake as a landlord in the area, which will increase our ability to influence the way the wider development is delivered. In addition to this it is reasonable to expect that the council investment will act as a catalyst to attract other developers to the area, and to secure the delivery of new infrastructure required to make this a place people will want to live for the long term, and create a community in this former industrial area.

## 6. Commercial Implications

Implications completed by: Hilary Morris, Commercial Lead

6.1 The potential acquisition and commencement of development at Beam Park was listed as an aspirational development site within the Be First Business Plan however the potential additional revenue generated for delivering this scheme was not captured within the key financial assumptions. If approved, this scheme offers potential for Be First to achieve additional income than forecast in the Business Plan.

6.2 Be First have agreed Heads of Terms which commit to purchase 936 at a maximum cost of £311k per unit (including indexation and costs but minus finance costs). This represents a cost of £286k per unit at today's price if you exclude indexation. Committing to all three phases in the way outlined in this report ensures price certainty and delivery certainty for the latter of the three phases and therefore offers the best opportunity to secure the long term regeneration without risk of uplifts in per unit costs that could otherwise be applied as the site increases in value as the infrastructure is built.

6.3 Be First have outlined that detailed due diligence, including negotiation of clauses that would protect he Council's investment during the development phases will need to be undertaken if the proposal is approved.

## 7. Financial Implications

Implications completed by: David Dickinson, Investment Fund Manager

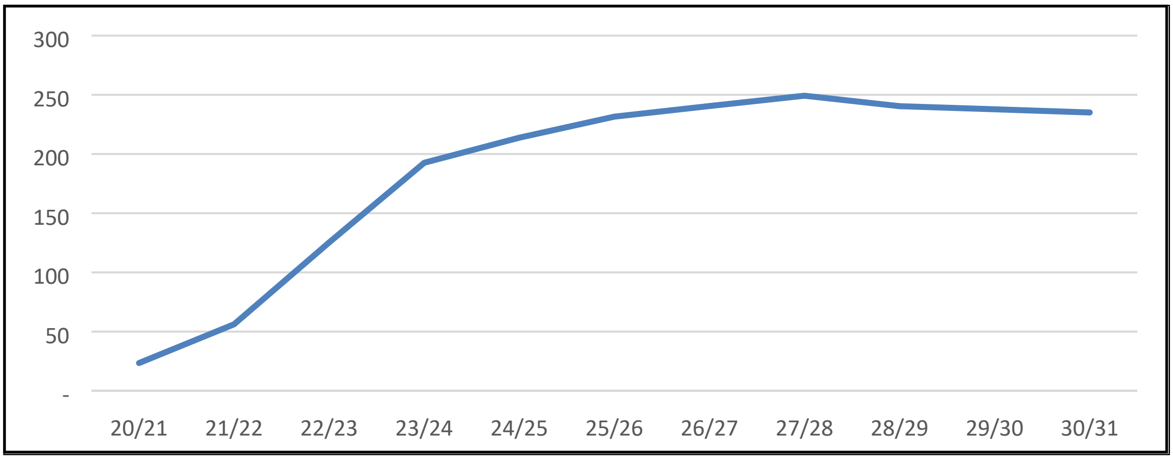
7.1 The report outlines a turnkey scheme for the Council to invest in - a smaller turnkey scheme, Chequers Lane, was agreed by Cabinet in May 2020. A turnkey scheme is where a developer, in this case Countryside Properties, provides a scheme ready for use at an agreed price and by a fixed date, which reduces the construction risks for the Council. The Council will provide the development funding and will agree the specifications with the developer. A contingency has been included in the costs to cover any additional specification requirements that the Council may request.

7.2 The advantages investing in turnkey schemes are outlined in the report, but a key consideration is the obligation on the Council to fund the scheme, regardless of market conditions and the Council's finances. This funding requirement will mean that the turnkey will take priority over other schemes should there be issues around cashflow, borrowing restrictions or a significant property market correction. The agreement to fund Beam Park is therefore a significant obligation on the Council.

7.3 The gross development cost of Beam Park is £309.3m, which includes interest costs and contingency, with a combined development period of 8 years. This investment, will provide the council with 468 PRS properties, 203 LAR properties and will have funded the provision of 265 Shared Ownership (SO) homes – a total of 936 units.

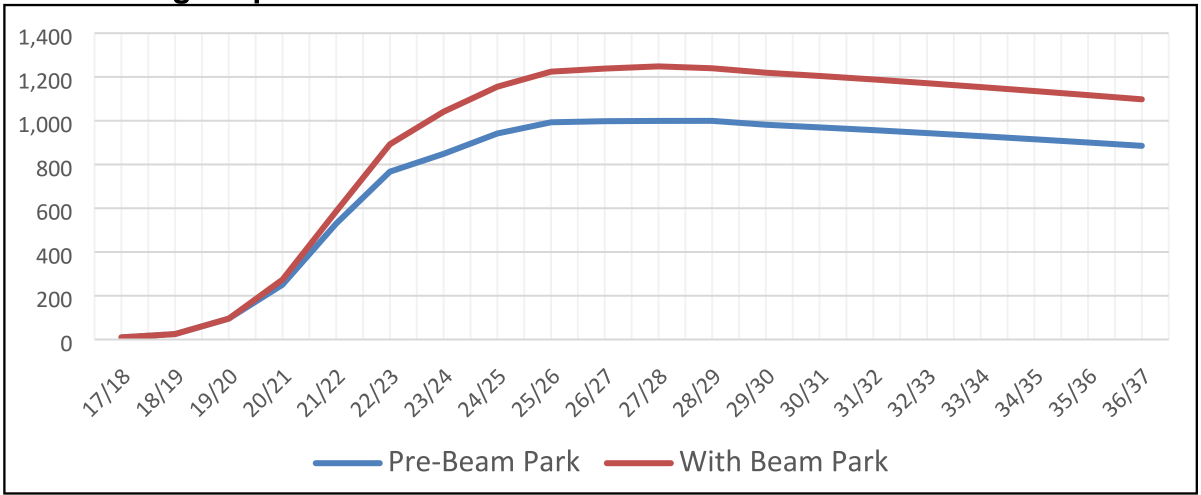
7.4 GLA grant is available for the SO and LAR units and with the first tranche sale of the SO units, the total long-term borrowing requirement is approximately £255m. The drawdown profile for the development is provided in the chart below (in millions).

**Beam Park Drawdown Profile 2020/21 to 2030/31**



7.5 Beam Park is not part of the current Investment and Acquisition Strategy (IAS) and the funding will need to be added to the total borrowing requirement for the IAS. The current total funding requirement for the IAS is £980m by 2027/28, with Beam Park added, this will increase to £1,235m by 2027/28. A chart showing the IAS funding requirement is provided below (in millions)

**IAS Funding Requirement Pre-Beam Park and Post Beam Park**




7.6 Although the borrowing requirements for Beam Park are significant, currently there are several developments that are being built or are already operational as part of the IAS. It is likely that mid-way through the Beam Park development, the majority of current IAS schemes will be operational, with their borrowing costs being funded by the rental income streams from these schemes.

7.7 The base business case proposition is to fund the borrowing requirements through PWLB borrowing. On this basis the business case generates a positive net present value and could proceed with PWLB as the sole funding source. Further detail is included in the Funding & Funding Mix section of the report from paragraph 7.26.

**Tenure Mix**

7.8 The tenure mix for Beam Park varies between each phase, with phase 3 being the least viable of the three phases, as this contains all of the LAR units. The tenure breakdown is provided below for each phase:

| Type | Phase 3 | Phase 4 | Phase 5 | Total |
|---|---|---|---|---|
| LSO | 81 | 134 | 50 | **265** |
| LAR | 203 | 0 | 0 | **203** |
| PRS | 124 | 138 | 206 | **468** |
| **Total Units** | **408** | **272** | **256** | **936** |

7.9 The completed schemes would be held and operated by BD Reside as part of their residential portfolio with any financial surplus being paid back to the Council. The GLA hold the site freehold and they will grant a Head Lease to CPUK, with ownership transferring to the Council following granting of the 999 underlease.

7.10 This proposal contains LAR properties that are part financed by GLA Homes for Londoners grant. A condition of this grant is that the homes are held by a Regulated Body which can be the Council, in their HRA or another Registered Provider (RP).

The Council wish this to be their fully owned subsidiary B&D Homes Ltd which is part of overall BD Reside structure and in the process of becoming a RP.

7.11 As a RP of Social Housing, B&D Homes Ltd must comply with Regulatory Standards, including the Finance and Governance Standard. This means they must have a viable business plan which the Regulator requires to be regularly updated and subject to multivariable stress testing. In practice, given there are no historic surpluses accumulated in B&D Homes Ltd, currently this means that each package of LAR homes transferred to B&D Homes Ltd must to be viable on a stand alone basis.

7.12 While this site meets the Council’s appraisal criteria the much needed LAR homes on this site are cross subsidised by surpluses from other tenures and on their own result in deficits as set out in Appendix 2. Subject to complying with any State Aid rules at the time of transfer, options available to ensure the site does not result in an unviable business plan for B&D Homes Ltd, include:

a) A reduced cost of borrowing for B&D Homes Ltd.
b) Subject to complying with Best Consideration, the premium paid by B&D Homes Ltd to the Council for the long lease being based on existing use social housing rather than at cost less grant.

**Phased Funding**

7.13 The development is split into 3 phases of between £80m and £113m of long-term borrowing. The timeline for the start and completion of each phase is outlined below, which shows that phase 3 will be nearing completion when funding is required for phase 5 and that phase 4 will start midway through the phase 3 construction.

**Development Period split into Phases**

| Year | Quarter | Phase 3 | Phase 4 | Phase 5 |
|---|---|---|---|---|
| 2021 | Q1 | | | |
| | Q2 | | | |
| | Q3 | | | |
| | Q4 | | | |
| 2022 | Q1 | | | |
| | Q2 | | | |
| | Q3 | | | |
| | Q4 | | | |
| 2023 | Q1 | | | |
| | Q2 | | | |
| | Q3 | | | |
| | Q4 | | | |
| 2024 | Q1 | | | |
| | Q2 | | | |
| | Q3 | | | |
| | Q4 | | | |
| 2025 | Q1 | | | |
| | Q2 | | | |
| | Q3 | | | |

| Year | Quarter | Phase 3 | Phase 4 | Phase 5 |
|---|---|---|---|---|
| | Q4 | | | |
| 2026 | Q1 | | | |
| | Q2 | | | |
| | Q3 | | | |
| | Q4 | | | |
| 2027 | Q1 | | | |
| | Q2 | | | |
| | Q3 | | | |
| | Q4 | | | |
| 2028 | Q1 | | | |

**Risks**

7.14 Two key financial risks are that the rental income is significantly less than the amount being forecast in the financial model and risks around funding. Funding risks can be split into interest rate risk and borrowing risk. Currently the metrics outlined in appendix 2 show that the Beam Park is fundable and that there is sufficient margin to mititgate some, but not all of the risks outlined below:

**Rental Income and Rental Income Risk**

7.15 Savills have provided rental values for the various types of units that Beam Park will offer and rent inflation has been added to these to reach the forecast rents that will be available when the schemes are operational. A similar approach has been taken for the values of the shared ownership sales and rents. These are outlined in appendix 2 of this report.

7.16 If, at the operational stage, these rental costs are lower than forecast, the income stream will be lower than the model has forecast and this will impact any profit margin. If the rental values are higher than the model then the income streams will be better.

7.17 There is the potential for the rental income to be higher than the amounts modelled, as a result of the positive impacts of regeneration in the area but there are also risks that they could be lower due to macro and also local economic pressures. While this risk can be monitored and good management at the handover period can mititgate some of these risks, this is a risk that will need to be closely monitored.

7.18 The business case assumes year-on-year increases on rental income linked to inflation. It should be noted that there will be limited scope to amend these increases without jeopardising the business case and putting the IAS under pressure.

7.19 Any losses incurred by Beam Park would need to initially be funded by a reduced net return to the Council from the overall IAS, but if the whole IAS is under pressure then any losses will need to be met by the Council.

**Interest Costs and Interest Rate Risk**

7.20 Interests costs for all 3 phases will total £17.3m, with interest charged on accumulative spend. The interest rate is the weighted average of the borrowing costs that is outstanding during the period, which roughly equates to 2%.

7.21 The Council will adopt an accounting policy to capitalise borrowing costs as Beam Park will be a qualifying asset. A qualifying asset has a substantial period of time to get ready for its intended use or sale and has a total development cost of over £10m.

7.22 Capitalising the interest costs will mean that the total borrowing costs incurred during the development of each phase will be added to the development costs of the scheme and will be included in any subsequent lease agreement with Reside, with the cashflows generated from the rental returns used to pay back the cost of borrowing, which will include the capitalised interest. As a result, the interest costs will not be charged to the Council's revenue account.

7.23 Overall Beam Park, given the size of funding required, its various phases of development and its resulting elongated development period of 7 to 8 years, is difficult to fund by borrowing upfront, and there will be higher than usual interest rate risk for this scheme. The risk is that borrowing costs increase significantly to a point where the scheme is no longer viable, but the Council has agreed to fund the scheme and will need to meet this borrowing requirement.

7.24 These risks will be mitigated by locking in competitive rates as and when they become available, varying the duration of certain types of borrowing to provide a smoother repayment profile, using an element of short-term borrowing to part fund the shared ownership build costs and also to bridge the period between phase 3 becoming operational and phases 4 and 5's build costs. The Council also has a significant cash balance which provides it with flexibility to only borrow then rates are competitive. Careful treasury management will be required to ensure that money is available when it is required, but also that the Council does not have to cover a significant cost of carrying.

7.25 If interest costs were to significantly increase for an extended period of time then it is likely that the borrowing costs to Reside would need to increase by a similar amount. This would put pressure on the schemes net returns to the Council, however it would likely mean that the borrowing costs, including debt repayment, would be covered.

**Funding and Funding Risk**

7.26 There are a number of funding options available to the Council, including:

- Public Works Loan Board (PWLB),
- bonds,
- private placements,
- Pension Fund (sale and leaseback), or
- income strips.

7.27 The Council's treasury strategy has a preference to use fixed rate funding based on the Council's total long term cashflow requirements but also to use a variety of duration periods. Locking in a fixed rate provides certainty over borrowing costs and provides protection for periods where rental increases may not increase by as much as the index used by variable borrowing.

7.28 As a result, the funding of Beam Park will form part of the Council's overall IAS funding strategy, taking into account cashflow requirements, sales and purchases and current cash position, which is currently approximately £250m. The borrowing will be locked in when competitive funding options are available.

7.29 Currently the most competitive fixed rate borrowing option would be for the Council to issue a bond. The bond option is competitive against the PWLB, mainly due to the high margin being charged on PWLB borrowing of 1.8% above Gilts, which is higher than the margin local authority bonds have been issued at. Bonds are, however, more complex and incur additional upfront costs and require an increased amount of governance. It is likely that any bond issuance would take into account the total funding requirement for the Council, rather than be specifically to fund Beam Park.

7.30 PWLB borrowing is currently being reviewed following a consultation that ended on 31 July 2020. PWLB is an extremely useful funding source for the Council as it enables the Council to fund the provision of affordable housing. There is the potential for a more competitive PWLB rate to be made available to fund in-borough, residential and regeneration schemes but this has not yet been confirmed.

7.31 Other funding options that could be considered include private placements and income strips. These are generally more expensive over the duration of the borrowing period and often have an index link, which can result in interest costs increasing by more than the rental income being received from the asset. As a result, using this type of funding for social housing has a number of additional risks when compared to using it to fund more commercial investments.

7.32 The Council already has exposure to income strip type funding through its investment in a hotel and aparthotel and through the way Reside 1 was funded. Any additional exposure to this type of borrowing would need to be at a competitive price and for a more suitable tenure mix, most likely where the units are predominantly private rental.

7.33 Appendix 2 of this report contains a number of key viability metrics and the financial assumptions that have been used in the financial models. These have been agreed by finance and Be First.

## 8. Legal Implications

Implications completed by: Dr Paul Feild, Senior Governance Solicitor

8.1 This report seeks the Cabinet authority for the Council to make an investment in a development known as Beam Park. It is a large integrated site previously owned by the Ford Motor Company. The site has been cleared of the previous factory. Beam Park straddles the London Boroughs of Barking and Dagenham and Havering the Beam River providing the natural demarcation boundary between the boroughs.

The freehold of the site is now owned by the GLA. The Councils development Company were approached by the current developer ‘Countryside Properties’ with an offer to purchase three phases of a turn-key development at the site. Turn-key means that the properties will be finished to what ever specification is agreed.

8.2 The proposal is that the Council enters a development agreement which will lead to the outcome of it purchasing 936 newly constructed homes located in the Barking and Dagenham part of the site over three phases for a fixed price plus indexation on a turn-key basis, subject to satisfactory due diligence.

8.3 The planning history is that both Barking and Dagenham and Havering are both Local Planning Authorities for the site. In 2018 planning permission was granted by the Council for the site within the Borough, however Havering refused and so the matter was referred to the Mayor for London who on a revised section 106 Agreement agreed outline planning permission. In July 2019 a revised planning application regarding conditions was made. The application was duly granted subject to a deed of variation of the said S.106 at the Planning Committee on 16 October 2019.

8.4 The Council has power to enter the development agreement and accquire the phased interest by virtue of the general power of competence under section 1 of the Localism Act 2011, which provides the Council with the power to do anything that individuals generally may do. Section 1(5) of the Localism Act provides that the general power of competence under section 1 is not limited by the existence of any other power of the authority which (to any extent) overlaps with the general power of competence. The use of the power in section 1 of the Localism Act 2011 is, akin to the use of any other powers, subject to Wednesbury reasonableness constraints and must be used for a proper purpose.

8.5 Whilst the general power of competence in section 1 of the Localism Act 2011 provides sufficient power for the Council to participate in the transaction and enter into the relevant project documents further support is available under Section 111 of the Local Government Act 1972 which enables the Council to do anything which is calculated to facilitate, or is conducive to or incidental to, the discharge of any of its functions, whether or not involving expenditure, borrowing or lending money, or the acquisition or disposal of any rights or property.

8.6 In exercising the power of general competence and in making any investment decisions, the Council must also have regard to the following:

a. Compliance with the Statutory Guidance on Local Government Investments.
b. Fulfilling its fiduciary duty to taxpayers.
c. Obtaining best consideration for any disposal.
d. Compliance with Section 24 of the Local Government Act 1988 in relation to giving financial assistance to any person (which either benefits from a general consent or requires express consent by the Secretary of State);
e. Compliance with any other relevant considerations such as state aid and procurement;

**Funding and Borrowing**

8.7 It is anticipated that the development will be held within the Reside structure.

8.8 At this stage the actual costs have yet to be finalised and necessary due diligence steps to be carried out.

8.9 Section 15 of the Local Government Act 2003 requires that the Council have regard to statutory guidance in relation to exercising its borrowing and investment powers. The relevant Statutory Guidance on Local Government Investments (3rd Edition, issued on 1 April 2018).

8.10 The Guidance is relevant to the extent that a loan may be necessary in order to facilitate delivery of the development. In accordance with the Guidance (paragraphs 33 and 34), A local authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity provided that the overall Investment Strategy demonstrates that:

(i) The total financial exposure to such loans is proportionate;
(ii) An expected 'credit loss model' has been adopted to measure the credit risk of the overall loan portfolio;
(iii) Appropriate credit controls are in place to recover overdue re-payments; and the Council has formally agreed the total level of loans by type and the total loan book is within self-assessed limits.

8.11 Development/Land Risks and Considerations - Apart from the requirement to purchase the land at no more than the market value there will be the imperative to ensure that all land, development and environmental risks are identified and managed through feasibility studies to ensure the preferred development option is deliverable before significant pre-development expenditure, and mitigation strategies put in place. Potential risk arising include, but are not limited to, any third-party rights or restrictions or incumbrances which may frustrate or prevent the Council's regeneration objectives and development of the land. In terms of environmental risks, caution must be exercised in that a post-industrial site may raise risks of land contamination and if so, any remedial action and the costs of such remediation would need to be factored into the feasibility and viability considerations. Specifically, there should be early due diligence before contractually committing to the transaction to ensuring that the site is suitable for the construction of dwellings and is without risk of historical contamination, or in the alternative that any contamination is capable of being remedied and costs are both factored into the acquisition price and do not compromise the viability of any residential development.

8.12 State Aid - As local government is an emanation of the state, the Council must comply with European Law regarding State Aid. This means that local authorities cannot subsidise commercial undertakings or confer upon them an unfair economic advantage. This report does not identify any specific aspect of the proposed acquisition, which is other than a commercial transaction, thus this arrangement satisfies the requirement it is on market terms. Furthermore, certain grants to remediate contaminated land are excluded from the State Aid Regime.

8.13 Human Rights – As the acquisition as described does not seek the use of compulsory purchase powers or displacement of any residents there does not appear to be critical risks associated with a Human Rights Act challenge. However, matters should be kept under review in case such considerations should arise.

## 9. Other Implications

### 9.1 Risk Management -

| Risk/Issue | Description/Mitigation | RAG |
|---|---|---|
| Risk (1) | Risk: Securing planning permission for each phase and renegotiating the S106 which links delivery of social infrastructure with the phasing of the homes.<br><br>Mitigation:<br>• Planning permission is the responsibility of Countryside and is at their cost/risk.<br>• Countryside are engaging with the GLA and LPA as part of achieving detailed permission for each phase.<br>• S106 is currently being re-negotiated with the GLA and LPA. Awaiting outcome. Any revised agreement would need the Council's approval as Local Planning Authority. | |
| Risk (2) | Risk: Substandard quality of development<br><br>Mitigation:<br>• Track record - Countryside have already delivered a scheme for the Council at 'Becontree Heath' where standard was acceptable<br>• Agreed specification prior to contract award with Reside and My Place and any derogations agreed.<br>• Robust works monitoring by Be First and the appointed EA with regular, weekly on-site quality inspections. Monitoring procedures would match those on our New Build programme. | |
| Risk (3) | Risk: Developer Failure<br><br>Mitigation:<br>• Likelihood is considered low given track record of the developer, but security and step in rights and performance bond will be in place to ensure Be First are able to complete the development.<br>• Developers profit not paid until the scheme completes to ensure sufficient capital in case step-in is required. | |
| Risk (4) | Risk: Market rent and shared ownership products do not perform as well as expected / in line with financnial appraisal<br><br>Mitigation:<br>• Commercial advice on rent levels, specification and letting periods has been provided by property agents 'Savills' who will continue to advise on the project going forward<br>• We have adopted the lower end of property absorption rates so on the conservative end.<br>• Reside developing strategy for the market rent product to ensure value is maximised and that rent levels can be achieved. | |
| Risk (5) | Risk: Base Price on phases linked to All in TPI forecasts which only go to 2024.<br><br>Mitigation:<br>• £20m included in the financial appraisal for TPI<br>• All in TPI will need to be monitored by Be First and our QS.<br>• £7m Contingency included in the financial appraisal | |
| Issue (1) | Ongoing impact of Covid 19<br><br>Response<br>• Countryside development teams are working as normal with leading the pre-planning and pre-contract work stages which take the project through to end of the current year. | |

| | | |
|---|---|---|
| | • Anticipated that Construction teams will begin to operate at capacity before the anticipated start on site date of Q1 2021. To be monitored closely by Be First.<br>• Impact on housing market is and will continue to be monitored by Savills with any changes in current values to be flagged immediately | |

9.2 **Contractual Issues –**The Heads of Terms will form the basis of the Development Agreement with Countryside. Each phase will be subject to an underlease and build contract. Please refer to legal section for more information.

9.3 **Staffing Issues –** The proposal will be delivered by Be First on behalf of the Council.

9.4 **Safeguarding Adults and Children –** The proposal will provide new homes and childrens play space as part of the development.

9.5 **Health Issues –** The proposal is for affordable housing to be made available to borough residents in need of affordable housing. The development has acceptable levels of private and communal amenity space and childrens play area.

9.6 **Crime and Disorder Issues –** The development makes use of a currently vacant, brownfield site. The development proposals will therefore have a positive impact on the local community. The scheme has been subject through the planning process to Secure by Design review to reduce any crime or disorder arising from the new development.

9.7 **Property / Asset Issues –**The transaction will see the Council taking ownership of a 999 year lease (virtual freehold) of land within the borough. The freeholder will remain the Greater London Authority. The assets constructured will be held within the BD Reside structure and managed by My Place.

**Public Background Papers Used in the Preparation of the Report:** None

**List of appendices:**
Appendix 1 – Site Plan
Appendix 2 – Financial Information (exempt)