



**Haringey Council**

<b>Report for:</b>	<b>Cabinet, 10 February 2015</b>	<b>Item Number:</b>	
<b>Title:</b>	<b>Development vehicle feasibility study and business case</b>		
<b>Report Authorised by:</b>	<b>Lyn Garner, Director of Regeneration, Planning and Development</b>		
<b>Lead Officer:</b>	<b>Dan Hawthorn, Assistant Director for Regeneration</b>		
<b>Ward(s) affected:</b> All	<b>Report for Key/Non Key Decisions:</b> Key		

## **1. Describe the issue under consideration**

- 1.1 This report seeks Cabinet approval for the proposal to tender for a feasibility study and business case including engagement with Members, staff and stakeholders for a Haringey development vehicle, and – if such an approach is recommended – support for the procurement of partners for that vehicle.
- 1.2 Subject to the more detailed work proposed here, it is considered that a development vehicle, established as a joint venture between the council and one or more private sector partners, is a leading option for removing what would be otherwise insuperable barriers to realising the council's ambitions for building new homes and securing its wider regeneration objectives, including in relation to the Tottenham regeneration programme; the emerging Wood Green Investment Framework; housing estate renewal and the council's own commercial portfolio. This is principally because, while the council has access to the land required, it cannot access sufficient capital funding and does not on its own have the commercial and development expertise required to achieve the best possible outcomes. The creation of a vehicle would marry the council's land assets with investment and expertise from one or more private partners while retaining a stake and a degree of influence over the pace and nature of development that would not be possible with more traditional land deals or development agreements. This proposal builds upon the initial scoping work already done for the council by Turnberry Real Estate, which is summarised later in this report.



1.3 This report therefore seeks Cabinet approval to carry out the next stage of work as a result of the recommendations made by officers which have been based on the conclusions of the Turnberry study. Our intention is to commission an external consultant to (a) refine the feasibility work commenced by Turnberry and develop a business case for the preferred option; and (b) support the council through the procurement of one or more joint venture partners. This would comprise both commercial and financial advice, to ensure the appropriate level of probity for a potential decision of this nature, and would be complemented by legal advice on the same matter which has already been procured. Stage (b) would only be pursued if stage (a) resulted in a recommendation to procure one or more partners for a vehicle, and if Cabinet subsequently agreed to accept that recommendation and commence procurement. That decision – to proceed to stage (b) – would likely come to Cabinet in approximately summer 2015.

## **2. Cabinet Member introduction**

2.1 Haringey's ambitions for regeneration, new homes and mixed communities are at the heart of our new Corporate Plan. It's clear that the council's own land has an exciting and important role to play in realising those ambitions, through a combination of housing estate renewal, releasing surplus land and improving the use of our commercial portfolio. But it's equally clear that the potential in that land cannot be unlocked without both major investment, which the council cannot generate on its own, and development expertise which no public sector body any longer has in house.

2.2 A council with Haringey's ambitions must therefore find the right partners to achieve the necessary transformation at the necessary pace. At the same time, the council must stay in control of the nature and timing of development, and – in these times of increased financial self-reliance – maintain its long-term stake in the value of its assets. That's why we are investigating the options for a strategic, long-term partnership which will enable us to plan and deliver high-quality regeneration that really meets the needs of Haringey's residents and businesses, now and in the future.

2.3 This decision simply takes us to the next stage in that investigation. It is my intention to engage significantly with Members, staff and stakeholders to ensure that the recommendations I make in the summer are supported with sound information and evidence to success. In a few months time, I will come back to cabinet colleagues with the outcome of this work and – depending on that outcome – possibly with a much bigger decision on whether and how to start the formal process for forging this partnership.

## **3. Recommendations**

3.1 That Cabinet approves the proposal to tender for an external consultant to (a) refine the feasibility work commenced by Turnberry and develop a business case for the preferred option; and (b) support the council through the procurement of one or more



## Haringey Council

joint venture partners, if that approach is recommended and subsequently approved by Cabinet.

3.2 That Cabinet approves additional budget provision of £400,000 from the earmarked Urban Renewal Reserve to fund the project.

### 4. Alternative options considered

4.1 The work proposed here – to develop a business case for the establishment of a development vehicle – is intended precisely to weigh up the case for establishing a single vehicle against the alternative options, including alternative joint venture approaches and more traditional approaches, as well as assessing the various options for pursuing a single vehicle-based approach. The alternatives to the work proposed here would be either to terminate the council's work on assessing those options, or to adopt and pursue one of them without further analysis and proceed direct to procurement of the vehicle itself, with risks both to optimising the delivery of our objectives and value for money.

4.2 As set out in paragraph 1.2, termination of council's work to assess options for a development vehicle would significantly hamper delivery of its ambitions (as set out in the draft corporate plan for 2015-18) for building new homes and securing its wider regeneration objectives, including in relation to the Tottenham regeneration programme; the emerging Wood Green Investment Framework; housing estate renewal and the council's own commercial portfolio. While the council has access to the land required to achieve its desired outcomes, it can neither access sufficient capital funding through its general fund or housing revenue account (partly because of constraints imposed on borrowing), nor draw on sufficient in-house commercial and development expertise. Only through a partnership arrangement such as the proposed vehicle could the council marry its land assets with the necessary investment and expertise, while retaining a stake and a degree of influence over the pace and nature of development that would not be possible with more traditional land deals or development agreements.

### 5. Background information

#### Strategic context

5.1 Haringey council's draft corporate plan for 2015/18 includes:

- As priority 4, a commitment to *Drive growth and employment from which everyone can benefit*. Included in this priority is a specific objective which says that '*We will focus growth by prioritising new homes and jobs in Wood Green and particularly in Tottenham, where need and opportunity are greatest, and by bringing some of the borough's key community assets into more active use*'.
- As priority 5, a commitment to *Create homes and communities where people choose to live and are able to thrive*. Included in this priority is a specific objective



## Haringey Council

which says that '*We will provide access to good quality and affordable housing, increasing the supply of new homes*'.

These proposed priorities for 2015/18 build upon the priorities in the existing 2013/15 corporate plan to *Deliver regeneration at priority locations across the Borough* (priority 8) and *Ensure that everyone has a decent place to live* (priority 9).

5.2 In support of these objectives, Haringey council has also:

- Consulted (in late 2014) on the priorities and principles proposed as the basis of its new Housing Strategy, including a proposed priority to 'build more homes across the borough'. It is expected that the new Housing Strategy will be adopted by Cabinet in March 2015.
- Adopted the ambitious housing delivery targets in the London Plan for its suite of new Local Plan documents, subject to consultation from February 2015, which identify development opportunities and sites for some 17,000 additional homes (across the borough, not just on council land) to 2026.
- Adopted (in March 2014) its Strategic Regeneration Framework for Tottenham, which commits, among other things, to '*an ambitious programme of estate renewal where necessary*' and to '*secure investors to provide a whole range of housing at a range of prices and tenures to ensure more people get access to the quality homes they need*'.
- Commenced a review of its own commercial property portfolio, due to conclude later in 2015.

### The work done so far and next steps

5.3 In December 2014, Turnberry Real Estate submitted to the council its scoping report for a development vehicle, based on a commission from the council. The report described, assessed and compared the range of options for securing the investment and expertise necessary to secure regeneration across its portfolio of sites.

5.4 The basic principles underpinning any vehicle proposition would be that:

- The council would hold a 50% stake in the vehicle, with the remaining 50% stake held by its strategic investment partner or partners.
- The vehicle would be established for the long term, most likely for a period of up to 20 years with an option to further extend.
- The council's contribution – and equity stake – would comprise some or all of its investment portfolio and development sites. The strategic investment partner(s) would provide funding, as well as services including (but not limited to) asset management, development management and fund management.
- Receipts would be distributed pro rata between the councils and partner(s) based on their stake, or recycled to support the delivery of further projects.

5.5 Based on Turnberry's assessment (of the national and local housing and property market, the council's portfolio of land and investment property, the additional funding



## Haringey Council

sources available to support regeneration, and the feedback from its soft market testing exercise), its report concludes:

- a) That, in its land assets, and given current market conditions, Haringey council has significant potential to achieve major housing growth and wider regeneration on its own land in support of the aims set out in the draft corporate plan;
- b) That the council cannot deliver these outcomes on its own, given the constraints of funding and expertise, and a joint venture vehicle of some kind would offer a good opportunity for the council to ease those constraints while maintaining value for money and control over the scale, pace and quality of development.
- c) That, on balance, the benefits for the council of a joint venture approach to development – in terms of unlocking development, potential return for the council, and influence over the nature and pace of development – would outweigh the challenges associated with a share of development risk and the resource associated with establishing and managing the vehicle;
- d) That the council has the fundamental option to either seek a number of specific joint ventures on a site-by-site basis, or to seek a single overarching joint venture to take forward all sites;
- e) That the council, if it decided to seek a single vehicle, could do so either by securing a development partner (seeking development finance from third parties on a site-by-site basis), an investment partner (seeking development management services from third parties on a site-by-site basis) or an overarching strategic partnership that brought in both investment finance and development management capacity across the whole programme;
- f) That, of all these vehicle options, the last – for an overarching strategic partnership that brought in both investment finance and development management capacity across the whole programme – appears on the basis of the limited analysis conducted so far to offer the strongest balance of risks and opportunities to the council;
- g) That there is considerable market interest among potential partners in the vehicle, based on the strength of Haringey's land assets, the current state of the London housing market and the reputation of Haringey's political and officer leadership;
- h) That, before engaging formally with the market to procure one or more partners for a vehicle, further work was needed to compare these options both to each other, and to more traditional options for bringing forward development on council land including land sales and development agreements, including by assessing each option's financial and risk implications, based on a detailed analysis of the council's assets and their development potential. This further work would also present an opportunity to clarify the council's objectives; develop a detailed business case for the preferred option, to support what would be a significant long-term decision to commit the council's assets to such an approach; and (if a vehicle is recommended) define in detail a procurement strategy.

## The proposed tender



## Haringey Council

- 5.6 Officers recommend that the council move the project to the next stage by procuring more detailed advice in the form of a feasibility study and business case for a preferred development vehicle option..
- 5.7 Bidders will be invited to submit tenders setting out how they will support the council in delivering the next stage of this work, as set out in paragraph 5.5(h) of this report, including by supporting the council in refining its precise objectives. The successful bidder will also be expected to ensure its analysis and recommendations are aligned with the council's emerging Capital Asset Strategy.
- 5.8 While some local authority joint venture development vehicles have started to emerge in recent years, they are still a relatively new phenomenon and the consultancy market for advice in this area is still not fully mature. Therefore, while bids for this work will be sought from firms with direct experience of advising on delivery structures and structuring joint ventures between public and private sector bodies and procuring development/investment partners alongside public sector organisations, any consultant bidding for this work is expected to be widely experienced in working with and attracting major investors, including pension funds; experienced in the property development market, development finance, financial modelling and land assembly; and experience in advising on commercial terms on property.
- 5.9 If this work results in a recommendation to proceed with a vehicle, a separate procurement exercise – involving a full OJEU process – will be required for the procurement of partners in that vehicle. This report seeks approval to include in the contract for business case support an option for extension to cover procurement support, to facilitate the quick commencement of the OJEU process without having to re-procure support services. However, a decision to accept the business case and proceed with procurement will subject to a separate report and decision by Cabinet, as set out in paragraph 5.11
- 5.10 The commission will be separated into distinct phases, separating the business case element from the procurement support element, with approval from Cabinet required before proceeding to (and incurring expenditure against) that second phase. Provided the recommendations of the business case are accepted by Cabinet, it is intended that the second phase can then proceed. The commission will be based on a fixed fee for each separate element of the work.
- 5.11 If the business case results in a recommendation to proceed with a full procurement exercise, it is anticipated that two further Cabinet decisions will be required:
- a decision to accept the recommendation to proceed, and the specific recommendations about the preferred model and procurement approach, before an OJEU process commences (expected in approximately summer 2015); and
  - a final contract decision resulting from that OJEU process (expected in approximately summer 2016).



## **Haringey Council**

5.12 The estimated total cost to support this work is £500,000, comprising £100,000 for legal advice (which has already been separately procured) and £400,000 for the commercial and financial advice that is the subject of this report. Of this total, the £100,000 for legal costs has already been allocated from the Tottenham programme budget and £400k should be allocated from the reserve earmarked for this type of project; the Urban Renewal Reserve.

### **6. Comments of the Chief Finance Officer and financial implications**

6.1 Due to changes in Local Government funding arrangements, the Council is becoming increasingly dependent on Council Tax income and Business Rates income to fund its activities and this is reflected in the priorities that underpin the new Corporate Plan, especially Priorities 4 and 5, as referenced in Paragraph 5.1 of this report. The proposal in this report seeks to facilitate the delivery of those priorities and in doing so should help to improve the Council's wider financial position.

6.2 The costs of the Turnberry's work mentioned in this report have been met from existing revenue budgets in 2014-15.

6.3 As outlined in 5.12 the estimated total cost of the next three stages of this project is £500,000. Existing budget provision of £100,000 within the Tottenham Regeneration Team should be used to part fund this project, with the balance of £400,000 being drawn down from the Urban Renewal Reserve, which is an earmarked reserve appropriate for this purpose.

6.4 If at any point the costs of progressing to the next stage exceed the available budget, then further Cabinet approval will be required before the projects progresses to the next stage.

### **7. Assistant Director of Corporate Governance Comments and legal implications**

7.1 The Assistant Director of Corporate Governance has been consulted on the contents of this report and comments as follows.

7.2 The recommendation at paragraph 3.1 is to approve procurement of a consultant. Any procurement exercise would need to ensure compliance with the Council's Contract Standing Orders and, as appropriate, EU Competition requirements on procurement.

7.3 The overall project is a key decision and the Directorate has confirmed that this has been included in the Forward Plan.

7.4 The Assistant Director of Corporate Governance confirms that there are no legal reasons preventing Cabinet from approving the recommendations in this report.

### **8. Equalities and Community Cohesion Comments**



## **Haringey Council**

8.1 While there are no direct equalities or community cohesion implications of procuring the feasibility, business case and procurement support services as proposed in this report, these services are in support of wider objectives which are aimed at improving the supply of housing – and particularly affordable housing – with the aim of improving access to all sorts of housing for everyone, and in particular vulnerable and protected groups.

### **9. Head of Procurement Comments**

9.1 The extracts from the Turnberry Real Estate of December 2014 set out a range of options and recommendations. These need to be assessed, all with a view to reach a recommendation on how the Council should proceed. This assessment work will require the appointment of an organisation or organisations knowledgeable and respected in the market.

9.2 The Procurement Service will provide support so that a tender for a feasibility study and business case for a Haringey development vehicle is made in compliance with the Council's Standing Orders and the Public Contracts Regulations.

### **10. Policy Implication**

10.1 While this proposal is intended to support delivery of already-adopted policies and priorities set out in the council's draft corporate plan and elsewhere, there are no direct additional policy implications of approving the proposal set out here.

### **11. Reasons for Decision**

11.1 The option of establishing a joint venture development vehicle as a way of pursuing housing development and regeneration on the council's land has potentially significant implications in governance and financial terms for the council itself, and could have a major material impact on places and people across a number of wards, hence this is considered a key decision for approval by Cabinet.

### **12. Use of Appendices**

12.1 N/A

### **13. Local Government (Access to Information) Act 1985**