2d – Pete Redman, Associate, Centre for London

HDV Scrutiny Stage 2

3rd April 2017

Pete Redman's main points

Opening remarks

Our public-sector bodies are almost completely focussed on delivering services, with increasingly scarce resources.

The maintenance, and maximisation, of public sector asset values, takes second place. In practice, most public-sector asset holders perform poorly in this respect. Reasons for this include:

- Difficulty in recruiting and retaining skilled people
- Funding restrictions on investment
- Multiple, and sometimes contradictory, priorities
- Slow decision making.

The result leads to diminishing public-sector asset values relative to the market and even value destruction. Lowering relative asset values weakens the ability of the public sector to deliver services in the long run.

In the absence of government subsidies to invest we need mechanisms to capture market value uplift and to maximise the value of existing public-sector assets.

Options

All options are a variant on risk transfer in exchange for a return. Some have not worked so well:

- The attempt to transfer all risk through **Private Finance Initiatives** to the private sector has failed as agreed returns at the start have ended up being too low now that finance costs, and operating costs, have proven to be much lower than expected.

- A full transfer of risk through outright **sale of public sector assets** and land has often led to receipts that were too low.

- Market development by public-sector bodies, ie **full risk retention**, has also led to poor returns, relative to the private sector, for the reasons given above.

Some combination of retained control, shared risk and shared returns with skilled private sector partners seems more likely to offer the best balance.

There are various models: many have been considered in the preparation of the HDV. If well structured, there is not much to choose between these as the total of control, risk transfer, and return is generally a zero sum. More of one is balanced by less of another. Structures in themselves do not create money. The choice depends on risk appetite and the requirements of the parties.

The HDV, as currently described, appears to have a good fit with LB Haringey's requirements.

It is worrying, though, that the 50/50 JV option has been overly promoted as a panacea, as though through rose-tinted glasses. It could be the best but it is not much better in total than the other risk sharing options.

Risks

The two main types of risk are project failure and partner failure.

The Client (Borough) should be able to maintain a 25% cost overrun (or cost/time/quality failure) on its largest **project** without causing severe disruption to its financial status. A large retail and commercial redevelopment at Wood Green might be at this limit. It is important to remember that each agreed project within the HDV should be treated separately for this risk measure.

No one supplier should deliver more than 33% of total activity; eggs should be spread across more than one basket. We are finding that single large framework agreements carry debilitating costs when the **partner** fails. But in this case the HDV deliberately allows for each project to be delivered through its own subsidiary. If this leads to different procurement routes and a spread of contractors across the HDV activities, then risks are spread.

If the HDV **partner** "goes under" then the exact methods, and costs, of recovery should be spelt out in advance. In theory, the HDV will still have value and it would be possible for LB Haringey to acquire all the shares, or find another partner to acquire these, at the then market value.

The risk of "unequal partners" is of a lower order in my view. Each will be bound by its contractual commitments to the other, and the best partnerships are where each brings different skills and resources to the table. [But see below on governance risk.]

It would be wise for the Scrutiny Committee to list out all possible types of failure, and for the proponents to show how these would be managed, along with a multivariate risk analysis, prior to commitment to the HDV and to each business proposal within the HDV.

Housing Estates

The Centre for London research (*Another Story*, 2016) showed that only a minority of remaining undeveloped estates are economic for redevelopment without government subsidy. Costs of rehousing, the disruption, and the time this takes (5 to 15 years is not uncommon) are often underestimated. Each estate has its own characteristics. Many would show a more economic return through incremental improvement rather than demolition. We found that tenants are not adequately compensated through the Home Loss Payment for the upheaval involved, whereas we found no financial justification for greater compensation for leaseholders.

A 50/50 JV for LB Haringey's town centre project, and for its commercial properties, is not necessarily the right option for each housing estate.

We have much to learn still in making estate regeneration fair and optimal for all the parties involved: existing residents, future residents, landlord, developer, the wider community, and the public purse. Even our very best current examples have significant downsides. There has been a conflation in the debates on mixed tenure, generally considered a good thing but rarely proven as such, and the mix of tenures required to generate funding from market activity. Most tenure mix to date has been driven by the latter. Until we get this right there is no single option for good redevelopment. The HDV should not be judged on whether it offers the "right" model for housing estate redevelopment. If it proves to be so in some cases then it could be used for that, but other options should be kept open for other estates.

It is not at all clear that there is yet a chosen best proposal for Northumberland Park, nor that, when decided, the HDV is the best vehicle for that proposal.

Comments on the prepared questions:

- To establish and provide recommendations on the feasibility of the proposed joint venture model of council tenants being re-housed on rent matching that of an equivalent council property and on the same terms, either on the estate or elsewhere in the borough, according to their choice;

This is possible but it is a policy decision for the Borough and not for the JV partner.

- To establish and provide evidence and recommendations on whether the HDV can deliver a tenancy and evictions policy which protects vulnerable tenants in the same way as council tenancies do;

It would be unwise for the HDV to be the long-term landlord of sub-market housing. It would be preferable, and financially more efficient, for a not-for profit, regulated, body to be the landlord. This could include the council itself, an organisation linked to the council, a housing association, and possibly a role for Homes for Haringey. Completed schemes should be transferred out of the HDV to the chosen landlord.

- To establish and provide recommendations on whether overcrowded tenants can be offered a replacement property of a size that meets their needs;

Offers of accommodation should meet current needs. This is a policy decision for the Borough and not for the JV partner.

- To further establish and provide recommendations on whether the financial arrangements of the proposed HDV adequately protect the Council's interest;

See discussion on options and risk above.

Much remains to be resolved in the negotiations with the preferred partner. The details of risk mitigation, and projected returns, in the final document should be "tested to destruction", possibly with a further stage by this Scrutiny Committee as part of that process.

- To consider the impact of the HDV on the Council's Commercial Portfolio, including the impact on current businesses and those who work in them;

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Commercial property leases offer a fair balance between the interests of the tenant and landlord, and there is a well-tested framework for compensation. Transfer to the HDV does not change these.

- To consider the impact of the HDV on Metropolitan Open Land;

It is rare to develop Metropolitan Open Land. In the few cases where this has happened other land has been offered as substitution, or improvements have been made to the remaining MOL, for example better public access. In general, we should protect the green sites and corridors within our cities.

- To consider the equalities impact of the HDV;

Growth in housing supply, of all tenures, and extra resources for targeted services, will be a positive step to address inequality.

- To further establish the risks of the venture and make recommendations on whether these risks can be adequately mitigated.

See comment and discussion above. Four risks need emphasis:

Possession risk. Never give a contractual commitment that at some future date a property asset will be transferred to the JV. Only contractually commit when you are able to transfer, i.e. when vacant possession is obtained.

Governance risk. Find good people to be JV Board members. These should be skilled people with experience and business acumen. These are not representative roles and need not be officers or members. They will have duties to the JV, and will be accountable to Borough through appointment or removal by the Borough. Keep your very best most senior people in a Borough only role, overseeing the work of JV Board members, and to act in extremis if necessary.

Objectives risk. The papers (to Cabinet) to date indicate a multitude of objectives for the JV. This is a weakness, especially when partnering with a single-minded developer. The priorities should be narrowed down.

Exclusivity risk. At one point in the publicly available papers the benefits of guaranteed future work for the JV is mentioned; elsewhere there is emphasis that future work “may” be transferred to the JV. There should be no open promise of future work. The Borough should assess the proposal for each project in advance and then decide whether it is suitable for the HDV. The partner’s role (as distinct from the JV) will vary with each project, or type of project. There is no single % of exclusivity for the partner that is right for all projects and the % for each should be decided as part of that project’s business plan before transfer to the JV.

Pete Redman