

7 January 2015		ITEM: 10
Housing Overview and Scrutiny Committee		
Progress on Gloriana – Proposed Development of St Chad’s site, Tilbury and Belmont Road site, Grays		
Wards and communities affected: All	Key Decision: Non-Key	
Report of: Councillor Lynn Worrall, Portfolio Holder for Housing		
Accountable Head of Service: Barbara Brownlee, Director of Housing		
Accountable Director: Barbara Brownlee, Director of Housing		
<i>This report is public, however some exempt information in the Appendix has been redacted by reference to the descriptions in Schedule 12A of the Local Government Act 1972, due to information relating to the financial or business affairs of any particular person (including the authority holding that information).</i>		

Executive Summary

This report provides an update on the proposals for Gloriana to develop St Chad’s Road site in Tilbury and Belmont Road in Grays.

The governance arrangements for Gloriana provide for a series of Gateway approvals which broadly follow scheme progress. The St Chad’s site is now at Gateway 2 where the scheme progresses through to planning and receipt of construction tenders. Belmont Road is at Gateway 1, initial feasibility, and will progress through to development of the design for planning submission and preparation of more detailed scheme costs.

Both the Gloriana Board of Directors and the joint Partnering Board have considered Gateway reports from Gloriana for both schemes. The Partnering Board’s view, having reviewed the financial models, assumptions and sensitivity testing, is that both schemes are viable and ready to pass through to the next Gateway stage and the Board has made these recommendations to Cabinet. When each scheme reaches Gateway 3 formal Cabinet approval will be required before the land is transferred to Gloriana and scheme funding is made available by the Council to Gloriana.

1. Recommendation

That Overview and Scrutiny Committee:

1.1 Note the Partnering Board's recommendations that Cabinet has supported Gloriana in taking forward:

- 1) St Chad's site in Tilbury through Gateway 2 to receipt of planning approval and construction tenders; and**
- 2) Belmont Rd site in Grays through Gateway 1 to development of scheme design in readiness for planning submission,**

including incurring design fees, at risk, on Gloriana's behalf until approval to commit the schemes is given at Gateway 3.

2. Introduction and Background

2.1 The Final Business Case (FBC) to set up Gloriana was approved by Cabinet in March and the agreed governance arrangements for Gloriana provide for a series of Gateway approvals as follows:

Gateway Structure:		
A rigorous gateway process will ensure each scheme is assessed, approved and its progress tracked. A change gateway will ensure that variances outside permitted tolerances are flagged up along with changing circumstances that may impact the viability of the scheme.		
Gateway	Council	Company
Gateway 1	Strategic Property Board and/or Housing Development Board approve potential transfer and development by Company	Directors consider site opportunity and permit initial expenditure
Gateway 2		Directors consider design, approve submission of planning application and permit scheme tenders to be obtained
Gateway 3	Partnering Board recommends, Cabinet approves Land Transfer and Funding Agreements drawdown to the Company	Company enters into Agreements with Council and Construction Contract
Gateway 4		Directors undertake pre-completion review, lettings/sales release
Gateway 5		Directors undertake post-completion review
At any time in the above process there may be a need for a Change Gateway		
Change Gateway	Partnering Board then Cabinet consider significant change request	Directors make a significant change request

2.2 The Governance Structure was approved as follows:

Governance Structure:

Company will be a legally constituted entity wholly owned by Thurrock Council

Cabinet	Strategic direction and viability via sign-off of Business Plan and individual schemes
Partnering Board	Six monthly review of Business Plan :with any remedial actions recommended to Cabinet Chief Executive 3 Members (Cross Party: 1 Labour, 1 Conservative , 1 Independent) S151 Officer
Strategic Property Board (SPB)	Recommend General Fund sites for Cabinet approval
Housing Development Board (HDB)	Recommend HRA sites for Cabinet approval

- 2.3 The Company structure also provides for Gloriana to have a Board of Directors comprising:
- Assistant Chief Executive;
 - Director of Housing; and
 - Senior Financial Officer
- who will review and approve scheme development proposals, Gateway reports and the Business Plan prior to consideration, as necessary, by the Partnering Board and Cabinet.
- 2.4 The Final Business Case (FBC) to set up Gloriana approved that Gloriana should commence activity by the development of St Chad's site. This comprised Gateway 1 approval under the Gateway process and since then the scheme has been developed to Gateway 2 – readiness for planning.
- 2.5 The former allotment site at Belmont Road has come forward in response to a Cabinet decision in January, in relation to the Asset Management Delivery Plan that, rather than putting the site to the market for disposal, it should be a possible development site for Gloriana. Previous proposed educational development on this land faced problems because the access is via existing cul de sac roads which are heavily congested with traffic and parking. Gloriana has undertaken feasibility work and a Gateway 1 report prepared.
- 2.6 The next section of this report summarises the information for St Chad's and Belmont Road provided to the Partnering Board together with the Board's comments.
- 3. Issues, Options and Analysis of Options**

St Chad's Site, Tilbury

- 3.1 Following Cabinet approval in March to the Gateway 1 stage for St Chad's, architects were appointed by the Council, on behalf of Gloriana, to develop the design to planning application stage. This expenditure is incurred by the Council on Gloriana's behalf and will be recharged to Gloriana once approval to commit the scheme has been made.
- 3.2 As noted at FBC, the St Chad's site is difficult to develop because of the extent of piling necessary and the requirements for flood mitigation and sustainable urban drainage systems (SUDS). Gloriana's proposed contractor and the design team have worked closely with the Planning department to resolve these issues, with the aim of this being an exemplar scheme. However, there is a tension between developing a high quality scheme and meeting the viability benchmarks set for Gloriana and keeping this in balance will need further effort as the scheme progresses through to Gateway 3. Financial details are discussed further below.
- 3.3 Throughout the design development, Gloriana's design team and Council staff have consulted with a range of stakeholders. There have been two general meetings held in the Lansbury Gardens Aged Persons Complex, in February and May 2014, and local residents from the surrounding neighbourhood together with local businesses, residents in the adjacent trailer park, Tilbury FC, Lansbury Gardens Aged Persons Complex and Northview Nursery were invited to attend. Initial design proposals presented in February were developed taking into consideration views received and a further design update shared at the May meeting.
- 3.4 The scheme mix and numbers now proposed is very similar to that presented in the FBC (128 houses now, 132 at FBC) with the predominant house types being 2B and 3B houses. The initial proposed tenure mix is 100% affordable housing as the sales market in Tilbury is not strong and demand for rental properties is high with most households able to meet affordable rent levels. However, sales of properties either outright or on a shared equity basis are not excluded.
- 3.5 Assuming planning consent is forthcoming, start on site could commence in early spring 2015 with completion in spring 2017.
- 3.6 The risk register approved by Cabinet in March has been updated to reflect the risks which are closed once planning submission is reached. Other mitigation measures are currently on target. Risks will continue to be reviewed on an ongoing basis and reported at the next Gateway stage.

St Chad's Site – Financial Projections

- 3.8 As explained at FBC, the Council's financial advisers have developed a financial model to assess whether Gloriana can be established on a viable basis. This model considers the cashflow, tax and accounting implications of Gloriana's proposed developments and also considers the cashflow and

accounting entries impacting the General Fund. It can be used for each scheme on a stand-alone basis to test that the viability tests are met.

- 3.9 The model has been updated to reflect the latest input estimates and assumptions for St Chad's and a full set of all the assumptions in the St Chad's financial model is set out at Table 1 in Appendix 1. These have been reviewed by the Partnering Board as part of their check and challenge and will be subject to continuing review as the scheme is developed. A narrative summary of the assumptions, including the comments made by Partnering Board, is set out below.

Input	Commentary
Tenure Mix	100% of properties are assumed to be let at affordable rents (80% of market rent). Sales either outright or on a shared ownership basis are not precluded but will be dependent on demand and, as at FBC, no sales are assumed initially.
Construction Programme	April 2015 to February 2017.
Land Cost	Land cost is based on offers from private developers and will be subject to an independent valuation at the next Gateway stage.
Construction Costs	These are based on the proposed contractor's latest cost estimates and include planning and design costs, sales and marketing costs.
Sales Profile	Over time it is assumed that all affordable rent properties are sold either to the tenants or individual purchasers or to other providers.
Sales Values & Programme	Sales values are based on current market information uplifted by house price inflation (see below) to the sale date. A prudent sales programme has been assumed. Partnering Board noted that these assumptions are critical and, whilst it is proposed that there are no sales initially, stressed the need for sales projections to be realistic and robust to ensure accurate and sustainable assessment of Gloriana's viability.
Rental Income	Rents are based on current market rents and will be uplifted by inflation (CPI – see below) plus 1%, in line with government policy for affordable rents, to the letting date. Partnering Board considered that assumed rental values in the model were cautious, based on current values and information. They noted that proposed rents are affordable by the majority of households in Thurrock, apart from those in lower income quartile for whom Council social housing will continue to be the main housing option.
Operating Costs	Management and operating costs reflect the cost of the services provided by the Council to Gloriana on a full commercial basis. At this stage it is not considered that any additional management or operational staff will be

	required to deal with Gloriana's requirements. Therefore this arrangement should lead to efficiency savings within the HRA and a small net income within the General Fund resulting from the margin charged on top of direct costs to Gloriana. Maintenance and lifecycle costs reflect industry norms.
Bad Debts & Void Losses	Partnering Board considered that this reflected a prudent allowance and noted that it was informed by the Council's experience of managing its own stock and experience of other providers.
Central running costs	An annual sum is included to cover accounting, insurance, IT and other central support costs which will be payable to third parties.
Inflation Factors	General inflation (CPI), and other inflation factors including house price inflation assumptions are based on relevant independent data.
Interest Rates	The interest rate which the Council is assumed to pay on its borrowing reflects PWLB rates. Funds on-lent to Gloriana will attract a margin which is based on current prescribed margins for state aid compliancy.

3.10 In looking at the results of the financial modelling, Partnering Board has considered whether the underlying principles and parameters remain valid and commercially sound and viable for both the General Fund and Gloriana. Attention is drawn to the following:

- 1) **Impact on General Fund.** Interest charges in the General Fund, as a result of the PWLB loans taken out to provide loans and equity finance to Gloriana, are offset by interest received over time from the loans to Gloriana. The model shows that, depending on the Council's reserve position, there will need to be a rolling up of interest in the construction period when Gloriana has to roll up interest payable to the Council as it has no income. However, overall there is a positive contribution from Gloriana and, in addition, there will be a small surplus from the services provided by the Housing department to Gloriana on a full commercial basis. Repayment of Council loans is predominantly met by the sale of the affordable rent properties over time.
- 2) **Council equity return.** From a commercial perspective the Council needs to be satisfied that best value is generated by investing cash and land within Gloriana and that the return reflects a market position in order to ensure the structure is state aid compliant. As noted at FBC, the returns which the St Chad's site can be expected to generate are at the lower end of the acceptable range, reflecting the high cost of developing in Tilbury given the ground conditions and the relatively weak sales market. At the current Gateway 2 stage this position has improved but only marginally.
- 3) **Gloriana financial viability.** Gloriana will be consolidated into the Council's group accounts and therefore the Partnering Board has reviewed Gloriana's profitability and net asset position in order that the

Council can be satisfied that Gloriana can be regarded properly as a going concern.

- 3.11 Tables 2 to 4 in Appendix 1 give further details of the analysis considered by Partnering Board regarding the funding position, the impact on the General Fund and Gloriana's cash flows. Table 6 compares the key outputs for St Chad's at Gateway 1 stage when the FBC was approved with the same outputs now at Gateway 2 stage. This shows that overall the scheme remains in line with the FBC parameters.
- 3.12 The Partnering Board observed that the model is very sensitive to certain key assumptions including construction costs, sales values and inflation factors and that a number of downside sensitivities have been prepared to test the impact of variations in these key assumptions. Sensitivities are shown in Table 5 at Appendix 1. The Board noted that even in the worst case combination of sensitivities tested the impact on the Council of Gloriana's activities remained positive. At the next Gateway review the construction cost will be the subject of a fixed price tender and therefore, at that stage, this assumption becomes a known input value and the risk of variations for this element will be closed out.

Belmont Road Site, Grays

- 3.13 In relation to the Belmont Road site feasibility work has been undertaken in preparation for a Gateway 1 review. This feasibility has informed design development and early consultation with residents, as well as providing a basis for testing viability to determine whether the opportunity fits with Gloriana's Business Plan and is worth considering further. As with St Chad's, the Partnering Board noted that the Council is incurring expenditure on Gloriana's behalf. This will be recharged to Gloriana once approval to commit the scheme has been made.
- 3.14 Two preliminary layout options have been suggested by Gloriana's design team: one extending the existing street pattern and the other placing the new development at right angles to the existing streets. A mixed tenure development of around 85 dwellings in a mix of 2B, 3B and 4B houses is proposed at this stage.
- 3.15 These broad proposals formed the basis of an initial consultation with residents on 22 September 2014. Residents' main concerns related to parking and traffic management, as was expected given the problems associated with the previous education proposals for the site – currently Stifford Primary school to the north creates particular traffic problems at the start and end of the school day. Further discussions are now underway with Highways to consider how these might be alleviated, rather than added to (as were residents' concerns), by any new development. Suggestions include eliminating the cul de sacs and creating a loop which could enable the introduction of a one way system.

- 3.16 Subject to resolving the traffic issues without detriment to viability Gloriana hopes that a start on site can be made in October 2015 with completion in the summer of 2017.
- 3.17 A risk register has been developed for the site in the same format as that for St Chad's site. At this stage the key risk relates to satisfactory resolution of the traffic problems described above.
- 3.18 Viability testing through Gloriana's financial model has been undertaken. At this Gateway 1 stage the assumptions have not been significantly refined from the general assumptions contained in the FBC, although they do reflect current site information such as proposed numbers and tenures of dwellings. The assumed construction costs are based on average construction costs which the Council is experiencing for its own HRA new build schemes. The Partnering Board noted that any abnormal costs arising from dealing with the traffic issues have not yet been factored in as Gloriana is not currently in a position to quantify them.
- 3.19 The modelling shows that, at this review, the viability tests established in the FBC can be delivered for a development of Belmont Road by Gloriana. The key financial outputs are set out in Table 7 at Appendix 1. The Gloriana funding requirement for this scheme is much lower than that for St Chad's. This is because the current construction costs do not include for any abnormal costs as noted above, but primarily because there are immediate receipts from property sales.

4. Reasons for Recommendation

- 4.1 Cabinet has emphasised the importance of ensuring the viability of Gloriana and governance arrangements and gateway processes are in place to safeguard the Council's exposure to risk as a result of development by Gloriana. Both the Gloriana Board and the Partnering Board have reviewed the Gateway position for the two sites set out in this report and believe these support that scheme development should progress through to the next Gateway. In addition, the principal aim of Gloriana, to help deliver the Council's growth agenda by constructing new housing where the market has failed, remains as valid now as in March. Development of the sites in this report will provide quality exemplar housing to meet housing needs and improve the lives of Thurrock residents as well as to counter current problems of stalled sites and low market confidence.

5. Consultation (including Overview and Scrutiny, if applicable)

- 5.1 Member consultation has taken place through the Partnering Board set up under the governance arrangements for Gloriana. In addition Housing Development Board which comprises Members and residents as well as officers, has been advised of the current position. Resident and community consultation has and will take place on individual site proposals at St Chad's and Belmont Road.

6. Impact on corporate policies, priorities, performance and community impact

- 6.1 Gloriana has been established to support the Council's growth agenda and will help deliver the Council's target of 1,000 new affordable homes in the Borough over the next five years. By enabling Gloriana to develop high quality housing on land that it owns the Council will provide an alternative route to private sector led regeneration which has been heavily constrained by the prevailing economic conditions. Such housing will contribute to improving wealth and increasing land values and to creating great places where community pride, good health and wellbeing and economic prosperity will thrive.

7. Implications

7.1 Financial

Implications verified by: **Sean Clark**
Head of Corporate Finance/S 151 Officer

The financial model within the FBC needed to demonstrate that any development was both viable for the Company and the Council. Having been developed, any development proposal put forward by Gloriana is tested against this model at key Gateway stages. This report confirms that St Chad's site in Tilbury and Belmont Road in Grays pass these tests at their current respective Gateway review.

No scheme has yet reached Gateway 3 where material financial commitments will arise. At that stage Cabinet approval will be required for transfer of the land and the provision of funding to Gloriana to commence construction. At its budget meeting in February 2013 the Council agreed to prudentially borrow for the purpose of providing funding for Gloriana.

7.2 Legal

Implications verified by: **Assaf Chaudry**
Major Projects Solicitor

Gloriana's activities are within the Council's powers and no specific Cabinet approval is required under this report. Governance arrangements for Gloriana are working well and there are no legal issues to be highlighted at this stage.

7.3 Diversity and Equality

Implications verified by: **Rebecca Price**
Community Development Officer

The St Chad's and Belmont Road sites will have a positive impact on the availability of housing in Tilbury and Grays, especially the availability of affordable housing. Gloriana's developments will be required to follow Council policies in relation to diversity and equality and, in particular, will ensure that contractors bidding for work from the Company will follow the Council's Equality Codes of Practice on Procurement and will deliver social value through local labour initiatives, including training and apprenticeships.

7.4 **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

None

8. **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Final Business Case for Commencement of Operations by Gloriana Thurrock Ltd, Cabinet Report, March 2014

9. **Appendices to this Report**

- Appendix 1 – Gloriana Financial Information

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