Appendix A

Housing Sub Committee
8 March 2017

Cambridge Road Estate Regeneration Procurement and Masterplanning Approach

Estate Regeneration Programme Director

Purpose

For the Housing Sub Committee to make comments to the Growth Committee regarding the proposed approach to procurement and masterplanning, and the need to further test development options alongside continued resident engagement in the delivery of the Cambridge Road Estate scheme.

Recommendations of the Deputy Leader (CRE Estate Regeneration)

To resolve that the Growth Committee is recommended to:

1. agree that authority is delegated to the Director of Place, in consultation with the Deputy Leader and the Portfolio Holder for Regeneration, to procure a Development Partner through a Joint Venture approach in order to undertake the master-planning and delivery of the Cambridge Road Estate (CRE) regeneration;

2. agree that the Director of Place continues to engage residents fully in the next stages of the development programme, and to further test the emerging options, having noted the feedback from the various resident engagement activities that were undertaken over a 12-month period between September 2015 and October 2016, as well as those received from the ongoing consultation process.

Key Points

A. The Estate Regeneration Programme gives the Council the opportunity to improve the quality of homes on Cambridge Road Estate (CRE), invest in the wider neighbourhood and increase the numbers of homes on the estate.

B. The Council wants to make sure that every resident in Kingston has the opportunity to live in a good quality affordable home. The challenge we have in Kingston is the pressures for affordable housing. Kingston’s housing waiting list has 9502 families waiting for a Council home, there are 693 families living in temporary accommodation, and the projection of population of 186,200 by 2035. A rise of approx 10% from the current 169,000 (Source: Destination Kingston 2016-2020).

C. Kingston Council has invested in its neighbourhoods through the Better Homes Programme will continue to build new homes. This will improve the quality of housing for our existing residents and offer the chance of an affordable home to families who desperately need a place to call home.

D. The Council is committed to engaging with residents and local people in an open way in order to be realistic about the options available to us. We have been clear that the quality of much of the Cambridge Road Estate is not acceptable and that redevelopment is the way we can afford the improvements that are needed. We will work with the Cambridge Road Estate to agree our approach, the timescales and the costs of the options available.

E. CRE is the first of the estates under consideration for redevelopment in the Council’s estate regeneration programme. The principal reason for inclusion of the estate is that it represents an opportunity to build a significant number of additional homes, due to the relative low density of the estate, and its location and public transport accessibility levels. CRE is highly accessible to public transport and access routes.
F. The Cambridge Road Estate scheme is of strategic importance to the Council. The eventual scheme is likely to be in the order of 2000 residential units with a Gross Development Value, on completion, in excess of £1bn. Land assembly, construction, and sales will be phased over a relatively long period spanning more than one economic cycle. The scale of the opportunity (and corresponding risk profile) is therefore huge and securing the right development partner and the most effective masterplan, that will set the direction for the project, is crucial.

G. Housing Zone. The wider Kingston area has been designated in the London Plan as an Opportunity Area and has been designated as a Housing Zone. The Housing Zone status provides for accelerating the delivery of housing schemes, to provide affordable homes and develop confidence. The grant and loan funding will be essential in supporting the Council's ambition for regeneration of CRE and the provision of more affordable homes. We are working with the GLA to finalise the Housing Zone bid which will contribute significantly to the viability of the scheme.

H. This report presents two strategic recommendations to achieve the regeneration of the Cambridge Road Estate. These recommendations enable the Council to deliver its ambition to make a transformational change to the estate and surrounding area; invest in our existing communities by replacing existing secure council homes and provide homes for leaseholder/freeholder existing homeowners who wish to stay living on the estate and to increase the overall number of homes on the estate.

I. The two strategic recommendations provide for an holistic approach to progress the masterplanning; set in a delivery context working in partnership with a developer and engaging residents throughout the process.

J. The Council has confirmed six key commitments which will underpin the way we want to take the CRE programme forward:

1) We will keep or re-provide the same number of homes for Council tenants with secure tenancy
2) We will provide opportunities for leaseholders and freeholders living on the estate to move into one of the new homes
3) We will offer market value for homes owned by leaseholders and freeholders if their properties are scheduled for redevelopment
4) We will support vulnerable tenants if they need to move home
5) We will offer financial assistance to residents who need to move in accordance with the Council's decant policies
6) We will engage with all residents at all stages of the programme, discussing with them the next steps, the options if they need to move home and involving them in the design of new homes and the estates improvements.

Context - Developer Partner and Master-planning

1. Over the last 18 months the Council has been undertaking research into the approach for delivering the regeneration of CRE. This has included commissioning a feasibility report from architects, BDP, and resident engagement work undertaken by Renaisi. The Council has worked with residents through a range of consultation and engagement activities.

2. The Council wishes to deliver the scheme in a timeframe that is realistic and has regard to the wellbeing of residents on the estate; a key imperative is that residents
are fully involved in shaping the masterplan and the future of the estate to meet the key commitments to residents.

3. The advantages for securing a development partner to work with the Council to develop the masterplan (rather than the Council doing this itself) is that a partner will add value and expertise, in terms of ideas to maximise the opportunity, through the design and planning process. A partnership approach with residents, the Council and a development partner working up the masterplan in collaboration is more likely to achieve a successful scheme which delivers wider community benefits and results in a scheme which is commercially viable. A partnership approach with a developer will allow the Council to benefit from full development cycle expertise. The masterplan will take into account the most appropriate phasing of the scheme based on a detailed design and technical analysis, construction and re-provision of affordable homes and also the timing of any sales receipts.

4. Working in a partnership approach enables greater collaboration which can add value that can be shared. The options for a scheme of this size are varied and not easy to define at the outset. The Council itself securing planning consent would undoubtedly add value and can de-risk a project. However, schemes of this nature (large, strategic, phased and high value) are more likely to benefit from a collaborative approach between landowner and developer partner in early stage activities enabling both parties to share in the value uplift that masterplanning and planning consent will deliver. This is because giving the developer partner some involvement in masterplanning and the planning process is likely to reduce the risk of future mismatch with the developer partner's/joint venture’s proposals for the scheme.

5. There are also advantages in terms of avoiding duplication of work and avoiding time delays, ensuring that the masterplan is based on shared outcomes from the start of the process.

6. From September 2015 through to November 2016, a range of consultation and engagement was undertaken on the shortlisted options. We will continue to actively engage residents and stakeholders in the next steps of the masterplan; we will work with the community groups and residents to develop a more formal mechanism for working with the Council and development partner through the formation of a Resident Regeneration Team.

7. It will be an imperative for a development partner to demonstrate a solid track record of resident involvement in major housing redevelopment, and present a clear forward strategy for engagement in the masterplan. Residents and representatives on the Resident Regeneration Team will be involved in the procurement of the development partner.

8. The community needs to be part of the process of change. This means that residents need to have a sense of ownership and be empowered to be actively involved in regeneration and any significant housing development (Housing Strategy 2015-2020 Priority One, Delivering Housing to Support Growth).

Proposals and Options

9. The recommendation in this report is to procure a ‘joint venture’ development partner for the master-planning and delivery of the CRE scheme following an analysis of other alternative options.

10. Alongside the recommended proposal, two other delivery options have been considered: direct delivery by the Council; and a traditional Development Agreement approach.
11. As noted above this project is of strategic importance to the Council offering the opportunity to increase housing delivery and deliver transformative regeneration for the residents of Cambridge Road. In considering these options the Council has therefore had reference to the following key objectives;

- the profile of this project and the need for the Council to ensure it can maximise the benefits/rewards from the scheme
- manage risk appropriately
- exercise the right level of control over what is a major Council scheme.

**Direct Delivery Option 1**

The Council would fund all development costs, typically through HRA headroom and/or General Fund borrowing. Like any other developer/house-builder, the Council would assemble the land, secure planning, and construct the new homes. New housing would be sold to generate capital receipts with affordable/rented housing retained by the Council. All development cycle risks, including sales risk, would rest with the Council. A variation to this is where the Council establishes a wholly owned trading vehicle to undertake the development, with the Council acting as funder.

12. Direct delivery of the entire scheme by the Council would entail a series of phased construction contracts where the Council would act as master developer. The Council would assemble parcels of land in phases, design and construct the new development, and undertake all of the sales activity.

13. This delivery route offers the following key benefits:

- the potential to realise a greater return on the development through the retention of a developer profit margin
- full control and transparency over all aspects of the development.

14. In return for the potential to maximise reward and exercise full control the Council would need to manage all of the key project risks including:

- funding
- design
- planning
- construction
- sales

15. A key constraint is the need to fund the entire development. Securing this funding and then managing the key development risks for such a large project would be a major undertaking for the Council. Property development is not a core activity of the Council and it does not have experience of managing the full range of development activities involved in a project of this complexity and scale.

16. The key impacts, in the event of project failure, on the Council could be significant financial loss, inability to deliver on housing and regeneration objectives for Cambridge Road, and reputational loss.

17. A number of local authorities are directly developing their own land assets. However this route would tend to be used by inexperienced developers on projects where:

- the financial entry costs are manageable
- the development period is shorter and comprised of fewer phases
- the complexity and risks are lower
Development Agreement Option 2

Development Agreements cover a variety of agreements amongst developers, landowners, purchasers, tenants and funders. Typically a landowner will enter into a Development Agreement with a developer to carry out a development in line with agreed plans and specifications, within an agreed timescale, and at an agreed level of return. Development risks would be transferred to the developer along with obligations to deliver affordable/rented housing for the Council.

18. The Council would enter into a traditional Development Agreement arrangement with a developer partner under which the site (or phases) would be drawn down as development pre-conditions are satisfied. The developer partner would provide or contribute to the financial and resource requirements for delivery.

19. The land is essentially exchanged for council owned homes based on a viability assessment. It requires both parties to work flexibly and in collaboration but the significant development risk is transferred to the developer, with some agreed support from the Council.

20. There might typically be overage agreements to capture planning/sales upside, and these could be paid out in cash, rolled over into future sites, or converted into outputs such as affordable housing.

21. This delivery route offers the following benefits:
   - a contractual structure that is well known and understood
   - offers high level of risk transfer to a development partner

22. In return for risk transfer to a development partner, the Council would be trading control and reward:
   - a developer partner will require high levels of control in order to take on the risks of the project
   - a developer partner will expect a minimum developer return which the Council would not share under this arrangement; overage arrangements can be put in place but in practice these are not entirely transparent and can be difficult to manage.
   - whilst control mechanisms can be put in place (such as Council approvals rights), the Council would not be afforded the level of transparency or long-term flexibility it might achieve through direct development or some form of joint venture

23. A Development Agreement approach is appropriate where a landowner wishes to substantially transfer risk and accepts that a developer will take the lion’s share of the reward for taking that risk.

The Recommended Delivery Route - Joint Venture

A Joint Venture is where two parties come together to undertake a property development. Decision making, risk, and reward are shared. Public-Private joint ventures might entail the Council investing land with a partner bringing matched investment. Both parties are responsible for delivering the development, which would be managed through a Board structure, and profits are distributed in proportion to investment stake. Joint Ventures are a common way for a public landowner to bring finance and expertise to a development, and are popular with developers as it provides access to land
and a way of sharing risk. Joint Venture can be structured either as a contract between the parties, or through a separate legal entity.

24. Following a detailed analysis of the options against the key objectives of the Council a joint venture approach is considered the most beneficial.

25. Joint ventures, typically established as either contractual or corporate, are established to share risk and reward. They are used for a range of property development ventures, and are particularly suited to longer term projects including projects of scale or portfolios of projects to be delivered over a long timeframe.

26. A Council / developer partner Joint Venture can be an attractive option on longer term development schemes. For the Council it provides the following key benefits:
   - the opportunity to work closely with its developer partner throughout the pre-development and delivery phase in a forum that, because of the Joint Venture nature, promotes co-operation and acceptable compromise;
   - control and oversight of scheme design and delivery;
   - a share in risk and reward on a scheme; and
   - the potential to deliver a number of sites with the same developer partner (with added opportunity for cross-subsidy and reinvestment of returns).

27. A Joint Venture is established to share risk and reward and is not to be confused with deals that transfer risk to a development partner. Where risks and benefits are equally split, each party is equally committed and benefits equally from the success or suffers equally from materialised risks.

28. The Council, as with the Direct Development route, will need to manage development risk. The key difference is that a developer partner's expertise, capacity and funding will provide a significant resource to more effectively manage these risks.

29. In addition to a greater ability to manage risk, the presence of an experienced development partner has the potential to increase the overall size of the opportunity. Development partners can add value at all stages of the process from masterplanning through to sales. This offers the potential to realise more benefit from the overall scheme than if the Council delivered it without that expertise.

30. The appointment of a developer partner in either a contractual or corporate joint venture tasked with delivering the Scheme will give rise to a Public Works Contract and will therefore need to be procured in accordance with the Public Contracts Regulations 2015. The optimum process is likely to be either the Competitive Dialogue or Competitive Procedure with Negotiation. Either process would enable the Council to engage in face to face dialogue with bidders to explore and test its approach to key aspects of the partnership structure (including governance and profit distribution) as well as scheme delivery itself.

31. The procurement of a development partner to enter into a joint venture will enable the Council to maximise the benefits of the scheme (i.e. more affordable housing) and provides the opportunity to exercise the right level of control over delivery of the scheme on what is a key strategic site for regeneration and housing delivery.
32. The Council will work with our lead consultants (Savills) and legal advisors (Shoosmiths) on the tender process and documentation for the procurement of the Joint Venture Development Partner. This will include:

- Heads of Terms for the joint venture agreement including partner contributions and investment
- Heads of Terms for the land interest transfer arrangements/development agreement
- a complete set of legal documentation (based on the Heads of Terms)
- a Development Brief setting out key expectations and parameters for the development including planning, design, land assembly, and resident engagement
- a suite of procurement documentation (including OJEU notice, Selection Questionnaire, Invitations to Participate in Dialogue and Invitations to Submit Outline and Final Tenders)

33. The Council and the residents will have an important part to play in the formation of the Development brief, as identified above. This is a key part of the documentation with which the Council will engage with the market and will set out the parameters within which the appointed partner will be expected to deliver. This will include areas such as the design vision, placemaking principles, affordable homes numbers, structure of the joint venture etc. This enables the Council and its residents to implement the necessary levels of control to ensure the scheme delivers the outcomes it wants.

Consultation and Engagement

34. Over the past year we have been considering how we can meet our aspirations for Cambridge Road Estate. We have tested 14 options against a range of criteria to establish which ones offer the best way of providing high quality sustainable homes.

35. In carrying out the viability analysis, the following assumptions have been made for all scenarios:

- all secure tenanted properties are replaced and re-provided at council rent levels;
- homes are provided for those leaseholders and freeholders who live on the estate and wish to remain on the estate with an equity share offer where required. Existing leasehold and/freehold interests are acquired.

36. The consultation of options ranged from keeping some of the current homes and building some new ones through a fully redeveloping all homes. We used a traffic light system that showed how each option performed against the above criteria and measures. Three options were shortlisted and residents were consulted through a range of drop ins and a full survey of all CRE residents. The BDP feasibility report outlines the range of options and the Renaisi report outlines the findings of the consultation and survey.

37. The findings of the consultation and survey were reported to residents through feedback sessions and in our 3rd newsletter sent to all residents in November 2016. The findings of the survey are available in the Renaisi CRE Regeneration feedback report and can also be found on the Council’s website [https://www.kingston.gov.uk/creregeng](https://www.kingston.gov.uk/creregeng)
38. From the consultation undertaken to date on the three shortlisted options; the emerging option is option C, replacement of all homes, this option meets the viability criteria used by the Council and partners and was considered as the favourable option by the majority of those who took part in the survey.

39. The Council recognises the outcomes of the viability work and the feedback from residents in identifying a preferred option; however, the Council realises that this option approach will need to be tested further with the Joint Venture Development Partner when selected. The Council therefore proposes taking forward the options for further detailed analysis and testing, working with the appointed development partner and our residents.

40. We will continue to engage with all residents and will develop a Resident Regeneration Team to work on a Resident Design Brief for inclusion in the masterplan.

**Timescale**

41. The Indicative Procurement Timetable is as follows:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Start</th>
<th>Complete</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Committee approval to procure Joint Venture Development Partner</td>
<td></td>
<td>March 2017</td>
<td>March 2017</td>
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<tr>
<td>OJEU Tender</td>
<td>June 2017</td>
<td>April 2018</td>
<td></td>
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<tr>
<td>Joint Venture Development Partner selected</td>
<td></td>
<td></td>
<td>May 2018</td>
</tr>
<tr>
<td>Master-planning and statutory planning process</td>
<td>July 2018</td>
<td>October 2019</td>
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**Resource Implications**

42. We are utilising our own land for housing development and have an approved budget through the HRA of £3,768,000 (£2,120,000 Capital and £1,648,000 Revenue) to cover costs up to 2020 which have been agreed with the Director of Finance.

43. The Council has established a dedicated estate regeneration team which includes: a Programme Director, a Project Manager, a Project Officer and an Engagement Manager.

44. The Estate Regeneration Team have been successful in securing an additional £660K of funding from the DCLG from an ‘enabling fund’ for kick-starting the regeneration process. This funding will be payable in 2017/18. The bid identifies some key areas where funding will be required:

- engagement support
- housing needs surveys and decant support
- guidance and advice lead client services
- independent resident advisory role
- supporting property acquisitions and CPO legal advice
Whilst the Council has identified both financial and non financial resources to support the estate regeneration programme and has the Housing Zone grants, and recoverable grants, it will require additional funding beyond 2020 to help deliver the proposals. Following the review of the HRA this year, the Council will take a view on funding options for the programme as it moves forward.

In addition there will be support from officers from other service areas, including planning and regeneration, housing, legal, finance, and strategic business to provide the necessary resource to deliver the project.

It should also be noted that the Council’s involvement in a corporate joint venture will require appropriately experienced resource commitment (including appointments to the board of directors (or equivalent) and participation in decision making at board and member/shareholder level) as well as contract management of any development or land transfer agreement.

Legal Implications

The Council has not previously delivered a major housing regeneration scheme particularly those requiring acquisition of multiple interests and use of its CPO (Compulsory Purchase Order) powers.

There will be significant legal implications in delivering the programme of this complexity and over a number of critical areas. However, it is not uncommon for such a scheme to be delivered through a joint venture structure. The Council has therefore appointed Shoosmiths solicitors to act as the legal advisors for the CRE programme. Shoosmiths will provide the level of expertise and guidance on a range of key areas for the project of this scale and over the life cycle. Such areas include planning, decant strategy, land interest transfer and development obligations as well as regulatory matters including State Aid, procurement and vires.

The South London Legal Partnership (the SLLP), which provides the shared legal service to the Council, does not have resources to support a large scale housing regeneration programme of this magnitude and hence the appointment of Shoosmiths. This will ensure the Council has the benefit of comprehensive legal advice through a single provider for all the elements of the Programme. The SLLP was however involved in the procurement and appointment of Shoosmiths. Moreover, it is providing a client side supporting role for the Council in the delivery of the programme.

Risk Assessment

As well as taking the Council's landlord and statutory duties into account, the potential benefits of the regeneration, the disruption that housing development will cause and the impact on existing tenants and homeowners, the Council must understand the delivery risks and consider the following factors;

Physical constraints

Subject to surveys being undertaken through the next stage of the masterplanning phase, we will take a view of the structural analysis of the site to confirm there are no significant constraints, which will impact on the financial viability once a preferred option/s has been confirmed.

Subject to the structural analysis, additional costs will be factored into the viability analysis.
Planning risk

54. There are no major planning risks envisaged to either the partial or comprehensive redevelopment of the estate. However, future masterplanning and the identification of a preferred option would need to significantly improve the relationship with the surrounding area, ensuring that the new development knits in with the streets and spaces and provides a better relationship with the surrounding neighborhood and improved connections with the centre of the area and the route to Norbiton station. The London Plan contains key policies there will/may be opposition to place building of height in some parts of the estate. There is also likely to be pressure to keep buildings as low as possible along the edge of the Cemetery conservation area.

Land acquisition risk

55. There are 832 homes on CRE. 178 homes are in homeownership, 107 leaseholder and 71 freeholder. Many of the freehold properties are houses situated on parts of the estate where there is planning pressure to keep the height of new buildings to a minimum. These properties (which are of high value given the location on the estate, on the fringe adjacent to the cemetery conservation area) will have to be acquired through Compulsory Purchase if they cannot be acquired by negotiation.

56. To mitigate this risk the Council will undertake parallel negotiations to acquire by private treaty and will only seek authority to use a CPO as a method of last resort, to ensure that all interests are acquired within an appropriate timescale. In order to facilitate a high quality scheme and to ensure a robust case for any CPO extensive preparation work will need to be undertaken to understand the Council's requirements and to plan for residents' needs through any loss of existing homes.

Equalities Impact Assessment

57. The EQIA is informed by the current data held by the Council. In order to provide a range of support for residents who will be affected by the regeneration proposals the Council will be working with residents to update our information data and understanding of households, we will do this by undertaking a Housing Needs Survey of all households.

Household Needs Survey

58. A Household Needs Survey will be procured to ensure the Council and partners have refreshed data and detailed information on the current composition of all households on the estate. This information is essential as we work with residents on planning decants and making provision for new homes for existing residents and to agree the phasing of moves with residents.

59. The Council will provide a range of support for residents to ensure residents are supported throughout the process; including a range of workshops and information sessions.

Decant Policy and Team

60. A Decant policy is being developed for CRE and will be consulted on with residents in Spring 2017. The Decant policy will confirm the offer the Council will make to secure council tenants, leaseholders and freeholders. The policy will be taken to Committee in June 2017 for approval.

61. A dedicated decant team will work with all residents to ensure the Council has a comprehensive understanding of the needs of our residents. Each council tenant will
be visited to ensure the Council understands the needs of the household and can provide additional support where needed.

Independent Resident Advisor

62. The Council will procure with the involvement of the Resident Regeneration Team Engagement Panel and residents, an independent engagement specialist to help and advise residents of all tenures to understand the implications of the regeneration proposals. The Independent Resident Advisor (IRA) will ensure that residents receive advice and guidance on the Council's key commitment and supporting information that has been made available by the Council.

Road Network Implications

63. The BDP feasibility report considers that the CRE is a disjointed environment and is dominated by car parking and underused public spaces. The road network provides little integration to the surrounding area and pedestrian movement is not clearly defined. The estate sits on a busy road, which is a source of noise and pollution.

64. The Road Network Implications and Transport at a strategic level will be examined through the next stages of the master-planning for CRE. There will be a need undertaken transport modelling to identify opportunities to consider and promote sustainable transport networks to accommodate growth and measures to mitigate against the impact of growth.

65. Road network implications will be examined through the masterplan and as part of a holistic movement strategy for CRE, the surrounding area and Kingston as a whole.

Environmental Implications

66. The CRE regeneration programme will have environmental implications and will be examined through the masterplanning process, the NPPF and Kingston's Local Plan.

67. The masterplanning process will examine the impact of key environmental considerations including flood risk and measures introduced to mitigate against risk.

Background papers held by the author of the report, Marcus Carling, Estate Regeneration Programme Director email: marcus.carling@kingston.gov.uk. Tel: 0208 5475654.