London Borough of Enfield

Report Title	Economic Conditions
Report to	Regeneration and Economic Development Scrutiny Panel
Date of Meeting	12 October 2023
Cabinet Member	Leader
Executive Director / Director	Joanne Drew
Report Author	Amena Matin
Ward(s) affected	
Classification	Part 1 Public
Reason for exemption	N/A

Purpose of Report

1. This report is an overview of the current economic conditions and impact on housing (Joyce an Snells).

Main Considerations for the Panel

2. The Joyce Avenue and Snell's Park (J&S) estates, built in the late 1950s and 1960s, are located in the east part of the Borough in Upper Edmonton and provide housing for a diverse community. Many residents have lived on the estate for many years and are proud of their neighbourhood, however, there has been a gradual rise in antisocial behaviour and crime. The layout of the existing estate has many unseen areas and the flatted blocks have little or no security on stairwells.

3. Dated design has contributed to the rise in crime and the outdoor spaces are not welcoming and underused. The outdated design also means that Joyce Avenue and Snell's Park sides of the estate are poorly connected and have limited points of access between each area. This has separated the communities and made it challenging for residents to interact and develop the community spirit that could exist across the whole estate. In addition, the estate is severely lacking the social infrastructure necessary with Boundary Hall being the only community facility available.

4. The placemaking vision for Joyce Avenue and Snell's Park is based on five key principles linked to the Council Plan:

   - ✓ An attractive and green neighbourhood, connecting to the wider Angel Edmonton area.
   - ✓ A healthy and strong community, with good homes and welcoming spaces that create a sense of belonging.
   - ✓ A lifetime of opportunities for children and young through active play, enhanced open space and access to more jobs and community spaces
   - ✓ A home that tenants can be proud of for generations to come
   - ✓ A inclusive and vibrant economy with a high street within easy reach and new spaces which reflect the diversity of our communities.

5. The scheme is split into a number of different phases that address both the requirements of Greater London Authority (GLA) grant conditions of delivering net new affordable housing and commitments to residents about decant and single move wherever possible.

6. The Council has committed to direct-delivery of the first three phases of the development, details of which are set out later in this report. Significant work has been undertaken to ensure the project does not lose momentum. However, in common with all regeneration schemes, there have been external factors which have put the viability of the J&S masterplan under pressure.

7. In September 2021, Cabinet approved the following budgets for the estate regeneration of Joyce and Snell's :

   - £55m for Buybacks related to Phases 0-3 (2022-2032)
   - £10m for project and professional fees related to the delivery of the regeneration scheme, including the design and planning preparation.
   - Estimated £ £449.3m for the first ten years of the capital programme against a total budget of £635.4m.

Financial Year	HRA	GF	Total
2021/2022 to 2030/31	£416.0m	£33.3m	£449.3
2031/2032 to 2037/2038	£219.4m	£19.1m	£238.5m
Total	**£635.4m**	**£52.4m**	**£687.4**

8. Cabinet also approved the recommendation to proceed to Ballot, complete a S105 consultation with council tenants and the preparation and submission of a hybrid planning application.

9. Authority was granted by Cabinet to the Director of Housing and Regeneration and Executive Director of Resources in consultation with the Leader and Cabinet Members for Finance and Social Housing to make changes to the programme, Landlord Offer, tenure mix and phasing in line with the approved financial base case.

10. Since the September 2021 Cabinet approval, the following are key successes:

    - ✓ Ballot completed with an 85% turnout of which 78% voted yes for regeneration
    - ✓ Mobilisation of the professional services team to progress the masterplan for up to 2000 homes over 10 phases.

- ✓ The hybrid Planning application was submitted in Sept 2022 and was on track for a Feb 2023 planning committee/decision.
- ✓ In October 2021, the GLA allocated grant for 338 homes of which 88 will be for existing leaseholders who wish to stay and take up a new shared ownership home and 250 social rented homes for tenants who wish to remain on the estate. The grant funding approved is £54.4m. A revised bid was submitted in March 2023 to offset the changing inflationary pressures and approved. This increased the grant allocation to £64,476m (an uplift of £10,060m)
- ✓ The Council was awarded £50m from the GLA Land Fund for buybacks (subject to contract). This is additional subsidy which will be applied to purchase of leaseholder properties, which overall reduces borrowing call on capital in the early years of the HRA Business Plan
- ✓ Procurement commenced last year to secure a start on site as per the GLA grant conditions and was on programme for a contractor to be appointed by March 2023. However, in Dec 2022, the Mayor of London indicated that he would require second staircase in all new high-rise buildings above 30m and more recently Government has announced an intention to move to a secondary stair exit at 18m which has impacted on the scheme progressing through planning as the Council intends to redesign and future proof the homes. Therefore, the tender processed was abandoned pending a new procurement.
- ✓ The Council has developed a Void strategy for the properties it has acquired back from leaseholders which will provide increased flexibility on the phasing strategy. The acquisition also allows for properties to be let for temporary accommodation (TA) thus helping to reduce costs to the General Fund and generate income back to the HRA.
- ✓ Concurrently with the main application, work is underway to bring Florence Hayes back into use for members of the public to access and improve the provision for play in the local area.
- ✓ In terms of wider placemaking, the Angel Yard affordable workspaces has completed and is open for businesses and customers. Residents on the estate (18-30) were prioritised for the units and over 60 have expressed an interest, with 4 residents allocated spaces to date. The mix of businesses on offer reflect the community of Joyce and Snell's and surrounding areas. This will generate a rental income to the HRA as the Angel's Yard is meanwhile use on Council housing land. In line with the construction phasing, the Angel Yard will be in situ for over 10 years which is a positive to the community and the Council budgets.
- ✓ The council is also looking at bringing back into use the former Boundary Court GP surgery and a vacant shop unit on the estate which will help to generate income for the HRA.

Economic conditions

11. The significant change is that the cost of borrowing has increased from 3.5% to 5.5% which has impacted on affordability and viability for the scheme. The other changes since Cabinet relate to enhanced building regulatory standards which were not known in September 2021. The Council is continuously reviewing the affordability and viability of the scheme and exploring delivery routes to offset the call on debt and respond to market conditions.

12. The requirement for a secondary means of exit and the subsequent reduction in height requirement has had implications on costs with redesigns incurring additional fees for design and planning and increasing build costs. Work is currently

progressing to review the scheme to include these requirements and as a result to review height, tenure, typology and phasing.

Cost pressures

13. 2022 saw rampant inflation drive construction output to record levels. Whilst the value of work increased, once the effects of inflation were stripped away, however, the actual volume of work remained around 2019 levels. The UK hovered on the brink of a recession as part of the global downturn caused by inflationary pressures and the reduced demand following the recovery from the pandemic. UK Inflation has been compounded by high energy costs, increased commodity prices and a weak sterling, which has resulted in the consumer price inflation (CPI) peaking in October 2022 at 11.1%, a 40-year high, resulting in the Bank of England (BOE) increasing bank borrowing rates before slipping back slightly to 6.7% in August 2023.

14. The start of the Ukrainian conflict coincided with increasing inflationary pressures and its effect on energy and food costs across the whole global economy has accelerated the slowdown.

15. This has driven the BOE to increase rates to combat inflation. The objective is that once inflation is reduced investment and consumer spending will return and the economy will grow. Since the emergence of the UK construction industry from the pandemic there has been rapid increases in tender prices. The amount of risk has increased, whether this is material shortages, caused by a combination of rapid demand causing supply chain issues, the Ukrainian conflict affecting energy and food costs, or labour shortages with the sector having seen a significant amount of the workforce either depart the country, leave the industry or retire.

16. This risk has translated into increased tender prices as all links in the supply chain look to insulate themselves by increasing costs or extending contract periods to try and alleviate delays. Since Cabinet 2021, there has been a steady increase in the cost of materials. The rate of material increase peaked at over 25% falling to 16% in 2022 and rising again.

17. The HRA Business Plan includes £358.64m for the first three phases of Joyce and Snell's including contingency. The Capital requirements for the General Fund have also been revised down since the 2021 Cabinet.

Scheme Viability

18. The regeneration programme includes a continuous process of assessment including risk mitigation for the economic conditions. There are key considerations which have a bearing on the financial and viability performance of the regeneration of the estate. It is important to acknowledge these considerations, or 'levers', and how these impact on the viability and affordability of the regeneration proposals.

Design approach - scale / building mass and heights

19. Since 2020, the design of the emerging regeneration scheme has been reduced in scale and mass by circa 18% as a result of the planning process. Building height and scale has also reduced, although the amended proposal for the masterplan is to increase the height to accommodate the loss of units linked to a second staircase. The original approval to proceed with Joyce and Snell's was based on a scheme of 3000 homes (2019) to replace the 795 homes and therefore improve cross subsidy overall.

Affordable housing percentage

20. The overall affordable housing provision percentage and breakdown of unit typology has an impact on the viability of the scheme. Changes in these levels are usually sensitive and result in significant changes in the overall viability performance of the scheme. The target to deliver 50% affordable housing overall has been maintained but there is a need to rephase the sales to improve overall income in the early years.

Decant move strategy

21. The overall estate layout is fixed and delivered over 10 phases with over 30 blocks to be demolished. Phasing and decant strategies have significant impacts on the viability of a scheme. Where possible the Council is committed to keeping residents on the estate unless they choose to move. The provision of new homes at Meridian Water has seen council tenants bidding to move from Joyce and Snell's. The GLA Land fund will accelerate the buyback of leaseholders which in turn will assist with identifying an alternative phasing programme to improve delivery.

The Landlord offer

22. The current baseline model keeps rents for existing residents the same and proposes a minimum equity stake of 25%. This approach is aligned with the Landlord Offer but generates limited revenue to service debt. Sensitivity test shows uplifting rents would improve the performance for the scheme, but it should be noted this is equivalent to a 50% increase for some households, which the Council does not intend to do.

23. *Values*
The market values have been reviewed and in line with the GLA viability team advice, assumptions on regeneration uplift have been applied to show annual HPI growth of 2.5% (from completion of newbuild homes).

Background and Options

24. To offset the market conditions, there is a continuous review of the Joyce and Snell's financial model and underpinning objectives to ensure the Council does not exceed the capital committed to the scheme. This includes reviewing the way the scheme is delivered to reduce the Council's financial exposure and by transferring the risk to a developer.

25. Direct delivery
This means the Council takes all responsibility for the delivery of the scheme, including taking development risk. However, in doing this it would benefit from all rewards including grant subsidy for affordable homes. Risks would be mitigated through a series of contractual arrangements including appointing and potentially novating an architect, appointing a third-party contractor to deliver the construction works, procuring development management support and also where relevant sales and marketing expertise.

26. Currently the Council is seeking to deliver Phases 0-3 in accordance with the GLA grant conditions. Additionally, the Landlord Offer states that the Council will remain the landlord which means Phases 4 and 5 are material in terms of costs. The Council is exploring alternative delivery routes for these phases including purchasing the newbuild homes either via a Development Agreement or Joint Venture (where homes are in lieu of a land receipt).

27. **Partnership model**
The Council would act as master developer securing planning consent and land value and parcelling phases for sale and build via a private sector partner. This will

ensure the Council is able to progress the scheme during the next 5 years while establishing a mechanism for forward funding and land receipts from disposals. The strength of the rental market, and the emergence of the build-to-rent model, offers an alternative route to getting properties built and minimising sales risk. Institutional investors remain keen on this sector; it is likely to remain attractive for capital compared to most other sectors. Given the current market conditions the analysis demonstrates that there are significant benefits the Council to steward the regeneration of Joyce and Snell's, and kickstart the regeneration as counter cyclical to the current market conditions.

Affordability

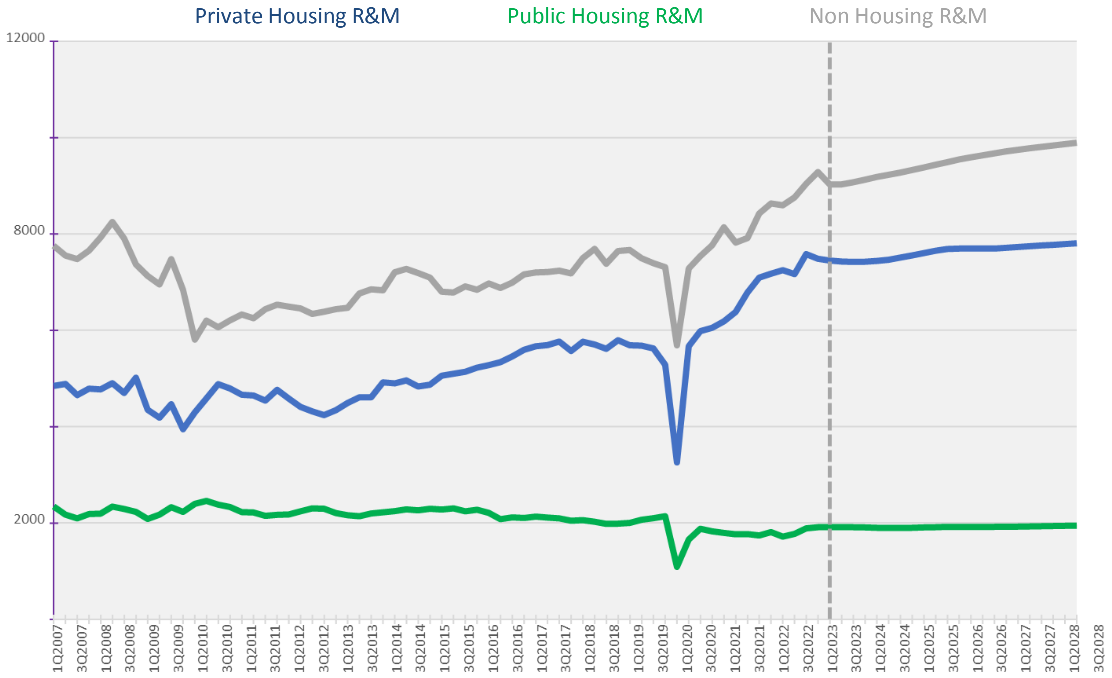
28. Based on the current procurement and construction programme, expenditure is within the approved ten-year capital programme. Additionally, if we proceed to procurement and start works next year, the project and buyback costs will be offset by GLA grant up to **2028/2029.**

Relevance to Council Plans and Strategies

29. Despite the economic conditions, there is an opportunity for the Council to deliver transformation in Upper Edmonton and capitalise on future growth, while mitigating call on capital by using external funding. The key relevance to the Council plan can be summarised as:

    a. The Council has been awarded over £100m in grant from the GLA which is a reflection of their confidence in Council's track record to deliver more and better homes.
    b. The drawdown of grant will help to fund the costs of infrastructure such as the heat network and a new pedestrian crossing at Sterling Way.
    c. The Land Fund (£50m) will fund all acquisitions on the estate, including fees and compensation. This is a significant benefit in the early years of project delivery, reducing pressures on borrowing. Currently we are anticipating expenditure of c.£39m (including compensation payable) over the next 10 years for the acquisition of leaseholder interests to de-risk the project delivery. There are several leaseholders who are looking to move off the site and therefore we anticipate a high response rate when we formally commence offers this year. Additionally, there are freeholders and leaseholders in later Phases who would like to sell early. This would help to accelerate the construction phasing and enable the Council to enter into partnerships sooner.

30. If the Council did not proceed, it would be required to fund the works to all existing (over 30) blocks across the two estates. However, the economic conditions are also impacting existing repairs and maintenance and major works contracts. Currently there are a number of blocks which fall below decent homes and require investment of £10m. The costs of blocks are well in excess of £125m, indexed in future years. Additionally, there is no grant for decent homes works which would mean the Council carries the full cost and cost of borrowing. No borrowing is assumed in the HRA business plan which would impact revenue (repairs and maintenance) and Major works. This will worsen over time as costs will increase but revenue will remain the same or stagnate.



31. There is an opportunity to create a resilient, strong and safe community by maintaining delivery of Joyce and Snell's. The economic conditions remain challenging. Total output is stagnating, and future demand is forecast to soften and likely remain subdued over the next five years by the private sector. The Council is working to lobby for the right funding and support to ensure the viability and continuation of this scheme which is key to delivering the new homes residents need.

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