

***Please note Part 2 report is now confidential appendix.***

## **London Borough of Enfield**

### **Operational Report**

**Report of**                      **Nnenna Urum-Eke – Head of Development**

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**Subject:**                      **Dendridge Close Development**

**Director of Housing and Regeneration:** **Joanne Drew**

**Ward**                              **Turkey Street**

**Key Decision:**              **KD 5289**

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### **Purpose of Report**

1. This report seeks to approve the expenditure against the revised capital budget of £6.907m for Dendridge Close in the HRA Business Plan.
2. Council approved an overall budget envelope as part of the 10-year Capital programme on 2<sup>nd</sup> March 2021. Dendridge Close was allocated £9.6m to deliver 32 dwellings.
3. The original allocation included budget for land that belongs to a third party. Due to terms not being agreed with the adjacent landowner, the decision was made to forego this acquisition in order to meet GLA's Building Council Homes for Londoners programme funding deadline. This has also meant a reduction in the number of dwellings from 32 to 23 homes.
4. Approval of this decision will enable design development, planning application and the procurement for services and works for the Dendridge Close scheme, which is part of the Council's Building Council Homes for Londoners programme.

### **Proposal**

5. Approve the expenditure of £6.907m from the HRA to fund the development of up to 23 residential units for Dendridge Close scheme as apportioned below. The budget of £9.6m for construction of 32 units was approved as part of the 10-year HRA Capital programme (KD5210)
  - a. Construction cost through to post occupation and the defects liability period, at 80% of total budget equating to £5.52m.

- b. Design and consultancy team for the full professional services including cost consultancy at £690k.
  - c. Contingency of £690k to bring total budget to £6.9m before interest costs.
  - d. Interest capitalised at £7k, bringing the total estimated scheme cost to £6.907m.
6. Approve the strategy to procure the contractor via a JCT Single Stage Design and Build contract through a Public contracts regulations 2015 compliant framework agreement in consultation with the procurement team, for an estimated contract value of £5.52m for an 18-month contract period.
7. Approval to consult residents about the proposed scheme, which is necessary to inform the planning application for the development and any ongoing consultation as the scheme progresses.

### **Reason for Proposal**

8. The proposal is to appoint the Design Team and Employer's Agent (including Cost Consultant and Clerk of Works Services). Additional design and consultancy services will be sub-contracted via these main consultants as required. The design team is proposed to be procured via the LHC framework and the Employer's agent is proposed to be procured via the CCS framework in consultation with the procurement team.
9. The build cost per unit is £300k in line with the HRA Business Plan assumption.
10. The current proposal is to develop two plots within the Dendridge Close area to create 23 dwellings plus improvement to the play area and landscaping.
11. The development, which is being part funded by the GLA's Building Council Homes for Londoners programme, will provide much needed affordable family housing and wheelchair accessible units. It will also provide shared ownership units as a route to homeownership and environmental improvements to the estate.
12. The GLA's Building Council Homes for Londoners programme funding deadline is March 2022. To meet this deadline, we propose to undertake a JCT Single Stage Design and Build contract through a Public contracts regulations 2015 compliant framework agreement in consultation with the procurement team.

## Relevance to the Council's Plan

13. The scheme delivers on the priorities of the 2018-2022 Corporate Plan, "Creating a lifetime of opportunities in Enfield", by providing Good homes in well-connected neighbourhoods. Located in Turkey Ward an area of natural beauty, with nearby waterways and green spaces, it is a scheme that will benefit from the quality of the environment.
14. The 13th February 2019 Cabinet "Better Council Homes Workplan and Budgets 2019/20" (KD4830) decision to approve the bid for the Building Council Homes for Londoners, the HRA 30 year Business Plan 2020 (KD4969), the Housing and Growth Strategy (KD4841) considered by Cabinet on 22th January 2020 and Council on 29th January 2020, and the Better Council Homes (KD 5219) of 03 February 2021 recognise the role the Council can play in increasing housing supply in the borough – both in its role of directly delivering new build homes (or acquiring them for affordable rent) and in enabling the delivery of homes by housing associations, developers and private landowners.
15. The scheme currently proposes the delivery of 11 homes of London Affordable Rent and 12 homes for shared ownership. Representing a total of 23 affordable homes, with a virtually even distribution between smaller units and larger family units as shown in the table below.<sup>1</sup>

	<b>1b2p (flat)</b>	<b>2b4p (house)</b>	<b>3b5p (house)</b>	<b>Total</b>
Shared Ownership	6	6	0	12
London Affordable Rent	0	0	11	11
	<b>6</b>	<b>6</b>	<b>11</b>	<b>23</b>

16. The homes will be delivered to the highest possible standard thereby providing quality housing options for residents.

## Background

17. There are two main sites in Dendridge Close, located to the north and west of Dendridge Close. These are labelled as sites A and B in Appendix 2. Both sites are currently hard-standing areas of parking to the rear of properties on Turkey Street and Dendridge Close. The combined site area is approximately 4167m<sup>2</sup> split between 1567m<sup>2</sup> for site A and 2600m<sup>2</sup> for site B.

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<sup>1</sup> Core Policy 2010 requires 60 – 65% family units. However, Planners work with the latest Housing Needs Assessments which is assessed currently at 50/50% of family units and smaller units.

18. Site B is bordered by land that belongs to the Scouts Federation. Officers have explored the possibility of incorporating the Scouts' land into the scheme. As terms could not be progressed within a timely manner, the decision was therefore made to develop the Council-owned sites only.
19. A June 2022 start on site is proposed for the scheme, in line with the GLA programme. Not progressing the scheme would lead to slippage and risk of funding loss.
20. The present iteration of the massing and capacity studies suggests that the scheme will deliver around 23 units. These units will be 100% affordable – a mix of London Affordable Rent and Shared Ownership and will achieve 48% of family homes.

### **Main Considerations for the Council**

21. Already agreed as part of the HRA 30-year Business Plan, the delivery of Dendridge Close is a scheme that delivers the objectives of The Housing and Growth Strategy 2020-2030 and Council's development delivery strategy,
22. The Maximising the Council's Direct Development Delivery report (KD 4998) and the Better Council homes report (KD 5219) sets an ambitious direct delivery/acquisition programme of 3,500 Council owned homes over the next 13 years funded from within the HRA business plan. This includes the following key milestones:
  - a. A programme of approximately 1000 homes through the GLA Building Council Homes for Londoners programme;
  - b. A 5-year programme which will see the start of new homes being built on Joyce and Snells subject to a successful resident's ballot;
  - c. By the end of 13 years we will have delivered 3,500 homes on a range of different tenures and product types to meet the needs of local residents and help to create balanced local housing markets;
  - d. Explore all green options. Environmental impact of the development will be considered and assessment of the energy provision of the site will be undertaken.
23. The estate residents and residents in the neighbouring homes will be consulted on the scheme design and development and will have the opportunity to feedback as the scheme develops.
24. As shown in the following project plan, there is need to progress the development in order to maintain GLA funding.

<b>Milestones</b>	<b>Start</b>	<b>End</b>
Consultants (EA/QS/CoW/& DQA/PA)	June 21	July 21

Contractor Procurement & Award	July 21	September 21
Preapp	October 21	December 21
RMA Planning Submission	January 22	January 22
Planning Committee	April 22	April 22
JR Period	May 22	June 22
Pre-commencement Conditions	May 22	June 22
Start on Site	June 22	June 22

25. The current proposals for the development comprises the delivery of 23 new homes; 11 will be set at London Affordable Rent (LAR) levels and 12 will be offered as shared ownership. The total number of units and tenure mix delivered are subject to on-going discussions with the Local Planning Authority and viability based on market conditions.

Housing Type	Size	LAR	Shared Ownership	Total
1B2P	50m2	0	6	6
2B4P	70m2/79m2		6	6
3B5P	93m2	11	0	11
<b>TOTAL</b>	<b>1,659m2</b>	<b>11</b>	<b>12</b>	<b>23</b>

26. The estimated total scheme costs are outlined below:

Summary	£
Total Construction Costs	5,520k
Fees and other costs	690k
Contingency @	690k
Interest capitalised	7k
<b>Total Capital Cost</b>	<b>6.907m</b>

27. Based on indicative cost assumptions, the scheme's performance against financial benchmark are as follows:

	Scheme Hurdle Rates	Enfield's Hurdle Criteria*
Build cost per property	£300k	£300k
NPV per unit	£42k	-£50k
IRR	4.9%	3.50%
Loan repaid in year	25	40

\* Approved Cabinet 3rd Feb 2021, Item 12 "HRA Business Plan Update"

28. The table above shows, for the base case, all hurdle criteria (as approved by Cabinet 3<sup>rd</sup> Feb 2021) are met.

## **Safeguarding Implications**

29. No safeguarding matters arise as a result of this proposal.

## **Public Health Implications**

30. Housing is fundamental to human health as evidenced by the fact that the life expectancy of a homeless person is over 30 years shorter than that of the general population of England and Wales.<sup>2</sup> Housing can also influence health through its effect on active travel, social mixing by design, climate (the energy needs of the house) and build quality. The construction of additional housing is therefore encouraged within the above parameters.

## **Equalities Impact of the Proposal**

31. The Public-Sector Equality Duty (introduced by the Equality Act 2010) places a duty on local authorities to have due regard, in its decision making to; eliminate discrimination, harassment and victimisation and any other conduct that is prohibited by or under the Act.

32. Advance equality of opportunity between people who share a relevant protected characteristic and people who do not share it.

33. Foster good relations between people who share a relevant protected characteristic and those who do not share it.

34. This duty applies to all decisions relating to services, policies or functions and the implementation of those decisions, made by the council.

35. Whilst the decisions sought in this report are not directly relevant to the Public-Sector Equality Duty the scheme to which they relate is, including consultation with residents and the procurement of relevant contracts.

36. A full EQIA on the proposed scheme to identify and mitigate any negative impact on people sharing protected characteristics and those who do not will be carried out, and every opportunity will be taken to meet the aims of the Public-Sector Equality Duty.

37. Equality considerations will be included in our procurement strategy to promote the council's equality aims and meet the requirements of the Public-Sector Equality Duty.

## **Environmental and Climate Change Considerations**

38. Tackling the climate emergency is a top priority for Enfield Council and the Council is committed to creating a carbon neutral borough by 2040.

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<sup>2</sup> ONS - Deaths of homeless people in England and Wales: 2018

39. The development will have to comply with the London Plan and so demonstrate that proposed climate change mitigation measures comply with London Plan energy policies, including the energy hierarchy. It will also ensure energy remains an integral part of the development's design and evolution.
40. The development will have to demonstrate how the zero-carbon target for residential developments will be met, with at least a 35% on-site reduction beyond Part L 2013 and proposals for making up the shortfall to achieve zero carbon, where required.
41. An energy/carbon emissions reduction assessment will be completed for the scheme by the appointed engineer as part of the planning submission.
42. Environmental impacts of site maintenance/management regimes will be considered as proposals are finalised. This will include bin storage and waste collection routes, surface water drainage systems and public realm cleansing. Any potential environmental impacts and mitigation measures will be highlighted in the planning submission.
43. The impact of climate change will be considered as part of the energy strategy and will include over heating calculations that will take account of future climate change impacts. Future climate change impacts will also be considered as part of the Sustainable Urban Drainage Strategy.
44. This is an MMC project so will benefit from the potential carbon emissions benefits of constructing using the MMC approach, in particular, less consumption of materials, reduced waste on site and fewer construction vehicle trips.

**Risks that may arise if the proposed decision and related work is not taken**

45. The key risk would be the missed opportunity to develop additional affordable rented homes that are within the Council's financial parameters.
46. A delay to decision making could also result in delay to start on site and risk of loss of GLA funding.
47. It would also mean the loss of all the associated socio-economic benefits of development to an area.

**Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks**

<b>Key Risks</b>	<b>Likelihood &amp; Impact</b>	<b>Mitigation</b>
<b>Finance Risk -</b> ongoing cost control and budget	M	Appraisal undertaken and will continuously be monitored against hurdle rates and budget. Appointment of an Employer's Agent to carry out further feasibility studies. Appointment of a Quantity Surveyor to ensure cost is correctly benchmarked against current market trends and efficiently managed. The use of a form of contract that exposes the Council to less risk of cost increase. A contingency budget of £690k has been allowed.
<b>Finance Risk –</b> if scheme design is overbudget or costs overrun	M	As the design evolves, more of the project requirements are defined and there is greater chance of costs exceeding the budget – mitigated by ensuring an adequate contingency budget is allowed as above.
<b>Market Risk –</b> changes in values and market activity during the development timeframe.	M	Contingency allowance and adoption of a suitably risk-adjusted return to the authority. Tight management of the programme; and the development of close working relationships with the contractors and developer to ensure timeframes are adhered to.
<b>Market Risk –</b> Low demand for the Shared Ownership units	M	Early off-plan marketing to local residents once contractor award is secured. This will include commissioning an estate agent at start of contract; early marketing campaign.
<b>The impact of Covid-19 –</b> Delays to programme	L	Monitor contractors programme tightly; and develop close working relationships with the contractors and developer to keep abreast of issues with the supply chain.
<b>Planning Risk –</b> uncertainty of obtaining planning permission and risk of the conditions being constraining	M/H	Work closely with the LPA; utilise pre-app meetings with planning officers to develop and modify the design. Ensure the proposed designs are sufficiently compliant with planning policies.
<b>Site Risk –</b>	M	Early engagement with the utility services. Commission adequate



Services and ground condition		site investigations to de-risk the site
<b>Site Risk –</b> Objections from residents to the development	M	Robust Consultation & Engagement strategy that is early, accessible, responsive and representative with the TRA and wider community.
<b>Reputational Risk -</b> Design quality and standard fails to meet objectives	L	Ensure the development of a clear brief and scope of work. Ensure that the employers technical requirements cover all aspects of performance important to the authority; and that operational colleagues are given enough time to think carefully about proposed designs and technical requirements and to input into the design process.
<b>Legal Risk –</b> covenants and third-party rights	M	The legal team to be instructed to investigate and to act to mitigate all third-Party Issues including obtaining all access rights and extinguishing all third-party rights.
<b>Timescale Delivery -</b> project exceeds timescale	M	Ensure sufficient time is allowed within the programme to manage ordinary matters associated with the project including adequate time for effective decision making.
<b>Deliverability –</b> will not meet programme targets	M	Use of project management tools. Monitor contractors programme tightly. Ensure the build is according to specification and scope of work agreed.

## Financial Implications

48. Approved budget assumes total scheme cost £9.6m for 32 units; Adjacent land cannot be acquired therefore total scheme cost now estimated £6.907m for 23 units which forms the base case.
49. Base case, referenced in the report is viable on the whole as it meets HRA approved hurdle rates. However, stress testing indicates the scheme is sensitive to cost increases or declines in the market values of shared ownership units.
50. Impact on budgets, debt and taxation are also provided as part of the review of financial implications.

## Viability

51. Base case indicates scheme is viable overall although this is due to cross subsidisation of LAR units from Shared Ownership
52. NPV per unit and IRR for LAR units are £39k and 4.9% respectively which meet Council hurdle criteria of -£50k and 3.5%; loan repayment is criteria is also met at 26 years against hurdle 40 years.
53. Stress testing was carried out for increased total scheme costs of 10% and a decline in property valuations for shared ownership disposal of 10%.
54. Under both scenarios the scheme, *as a whole*, met all hurdle rates. As with the base case, shared ownership met all criteria in the base case and stress tests and cross subsidised LAR which did not meet the majority of the tests.
55. The results of the base and stress tested scenarios are given in the table below with Appendix A giving full details of assumptions used in the base case.

Stress tests (£'000s)	HRA Hurdle rates* Met or NOT met		All		London Affordable Rent		London Shared O/ship	
	Base	NPV / unit	-50	39	Met	-17	Met	91
IRR		3.5%	4.9%	Met	3.1%	<b>NOT met</b>	9.9%	Met
Debt repaid		40	26	Met	43	<b>NOT met</b>	14	Met
Scheme cost +10%	NPV / unit	-50	5	Met	-£59	<b>NOT met</b>	£64.48	Met
	IRR	3.5%	3.7%	Met	2.3%	<b>NOT met</b>	7.8%	Met
	Debt repaid	40	38	<b>Met</b>	51	<b>NOT met</b>	17	Met
S/O sales value - 10%	NPV / unit	-50	26	Met	-£17	Met	£65	Met
	IRR	3.5%	4.4%	Met	3.1%	NOT met	8.2%	Met
	Debt repaid	40	31	<b>Met</b>	43	<b>NOT met</b>	17	Met

*\*Hurdle criteria approved by Cabinet 3rd Feb 2021 (super ceding 12th Feb 2020)*

## Budget – Capital

- Approved budget £9.6m for 32 units
- Revised estimate £6.907m for 23 units
- Resulting capacity £2.693m available for re-deployment scheme(s) to be identified in next Business Plan refresh
- Borrowing requirement reduces by £1.288m assuming assumptions hold

<b>Capital financing £m</b>	<b>Approved budget</b>	<b>Estimate</b>	<b>Variation</b>
Total cost	9.600	6.907	-2.693
GLA Grant	-2.336	-1.436	0.900
S/O receipt	-1.532	-1.027	0.505
Borrowing required	5.732	4.444	-1.288

### Budget – Revenue

- 23 units to be supplied instead of budgeted 32 units, reduction of 9 LAR
- Lower rental income offset by lower construction and financing costs
- Resulting reduction in net rentals to be recouped by re-deployment of resources to alternative schemes

### Debt & Borrowing

- Approved budget £5.732m
- Revised estimate £4.444m
- Resulting capacity £1.288m available for re-deployment

### Taxation – Residential units

- VAT - Construction costs exempt; rental income is zero rated
- Stamp Duty Land Tax (SDLT) - payable at higher rate where more than one property acquired; not applicable to this scheme

### Taxation - Commercial units

- Construction costs subject to standard rated VAT; rental income exempt
- VAT - Authority will be unable to recover VAT incurred in cost of construction unless Option to Tax exercised before development commences.
- Exercising **Option to Tax** has the effect of adding standard rated VAT on commercial rents and enabling Authority to recover VAT incurred in construction of the related commercial units

## **Legal Implications**

56. The Council has a general power of competence under section 1(1) of the Localism Act 2011 to do anything that individuals may do, provided it is not prohibited by legislation and subject to Public Law principles. This power encompasses the power to enter into contracts. Section 111 of the Local Government Act 1972 permits local authorities to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of their functions.

57. In regard to all consultant, services and works contracts to be procured and awarded under the scheme that is the subject of this report, the council must

comply with the council constitution and in particular the Contract Procedure Rules (CPRs) and where relevant the Public Contracts Regulations 2015 or replacement procurement legislation that may be introduced in light of Brexit.

58. All governance procedures must be followed for the approval of procurement processes and award of contracts.
59. In particular, for the award of the JCT D&B (Works) Contract with a value of £5.52M mentioned in this report, as the value is over the current procurement threshold this contract will need to be published in 'Find a tender' and the Public Contracts Regulations 2015 (or any replacement to such) will need to be complied with. Any contracts with a value of £500k or more will need to be executed as a deed under the council's common seal in legal services.
60. Advice should be sought from Legal services on the terms of the grant funding secured from the GLA.
61. Before use of any external framework agreement due diligence will need to be conducted of the framework in order to ensure that it covers the works or and services to be procured and to ensure that Enfield Council are legally entitled to use. the framework. Award of contracts under a framework agreement must be awarded in accordance with the procedures set out under the framework agreement.
62. The proposal to undertake a consultation of the residents on the scheme is within the Council's powers and duties. Whilst there is no express statutory duty to consult on the proposed scheme, an implied duty to consult has arisen. The content of the consultation is not prescribed, and it is for the Council to determine the scope of the consultation subject to considerations of fairness. It is permissible to narrow the range of options within which we consult and eventually decide.
63. The consultation process should be carried out at a formative stage in the decision-making process, inviting representations on one or more possible courses of action. Meaningful consultation needs to be undertaken at a point where the mind of the decision-maker is still open to change. The Council can consult on a preferred option, provided that its mind is genuinely open and there is potential for that preference to change as a result of the consultation. Consultees must be provided with sufficient information to permit intelligent response including information about the basis on which a proposal for consultation has been considered and will be considered afterwards. The outcome of the consultation must be conscientiously taken into account as part of any lawful decision-making process, to ensure that it is fair, reasonable and proportionate.

*(legal implications paragraphs 48 – 53 above provided by SM on 210421 based on the version of the report circulated on Tue 13/04/2021 10:14. Paragraphs 54 and 55 provided by AOM on 220421).*

## **Workforce Implications**

64. This report explicitly references that a Clerk of Works is employed by the Council on the construction site. If this requires the recruitment of an additional Clerk of Works then consideration needs to be given to the cost of this additional resource.

65. There are increased workload implications across other support services such as legal and procurement. These may or may not require additional resource depending on the ongoing volume of work in these support functions.
66. Creation of new posts and recruitment to them should be completed in accordance with standard Council processes.
67. This proposal has no adverse impact on the current workforce and there is no direct redundancy or TUPE implications now.

### **Property Implications**

68. HRA property implications: these are throughout this report.  
Corporate property implications: none.

### **Other Implications**

#### **Procurement implications**

69. All Procurement must be carried out in accordance with the Public Contracts Regulations 2015 and the Council's Contract Procedure Rules (CPRs) using the London Tenders Portal.
70. Due Diligence of any Frameworks Agreements used must be carried out by Procurement Services. This has been completed for the LHC and CCS Framework Agreements.
71. A Business Cases will need to be presented to Procurement Services for approval to agree the route to market.
72. Social value must be considered due to the value of this contract.
73. The awarded contract must be promoted to the Contract Registered and Contracts Finder.

### **Options Considered**

#### **Direct Delivery**

74. The site is developed through a single stage Design and Build contract through a competitive procurement and funded through grant and borrowing.
75. The proposal is to establish a Public contracts regulations 2015 compliant route to the market in consultation with the procurement team.

76. The Council will need to sufficiently resource the development activities. This include resources within its development management, legal, and procurement services.

77. The Council has the greatest level of control of the delivery objectives through the construction contract and Employer's Requirements (ERs).

**Do nothing:**

78. The Council would miss out on the opportunity to utilise significant levels of GLA grant to develop additional affordable housing at a reasonable cost to the Council. The Council will also miss out on maximising the use of the land within their ownership for development.

**Let the private market develop the site:**

79. This would lead to fewer units of affordable housing and the site may not be developed, but simply land banked.

**Conclusions**

80. This investment decision will transform while delivering much needed affordable homes.

81. The development of the site would bring forward schemes that would not be attractive to developers seeking headline profit margins of 20-25%.

82. The base case of the scheme meets all hurdle criteria for the scheme as a whole, with shared ownership cross subsidising LAR.

83. Stress testing indicates a 10% increase in total scheme costs or a 10% decline in valuations for shared ownership disposal will not affect the overall viability of the scheme against hurdle criteria as part of the HRA Business Plan update report to Cabinet approved 3<sup>rd</sup> February 2021.

84. Under all scenarios LAR does not meet the majority of hurdle criteria but this is offset by the better performing shared ownership units which result in all hurdle criteria being met *for the scheme as a whole*.

85. It will increase the portion of affordable housing achieved and maximise the number of family sized homes required to meet our housing need.

86. Create successful places through high quality tenure blind place management.

87. Support the HRA through the income from rents and sales.

88. Ensure the socio-economic benefits of development are fully realised and equitably distributed.

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## **Appendices**

Appendix 1: Sites Map  
Appendix 2: Sites A & B  
Appendix 3: Initial Designs  
Appendix 4: Site Photos  
Appendix A: Financial Implications

## **Background Papers**

The following documents have been relied on in the preparation of this report:

KD4998 – Maximising the Council's Direct Development Deliver 2020  
KD4969 – HRA 30-year Business Plan 2020  
KD4830 – Better Council Homes Workplan and Budgets 2019/20

