

London Borough of Enfield

General Purpose Committee

26th July 2022

Subject:	Housing Development & Approach to identifying Risk & Management
Cabinet Member:	Cllr Nesil Caliskan
Executive Director:	Sarah Cary
Key Decision:	n/a

Purpose of Report

1. To provide an update to the approach to housing development, including risks, governance and progress of the schemes.

Proposal

2. Note the governance structure and the risk controls embedded at all stages of the project cycle.

Reason for Proposal(s)

3. On 5 March 2020 and 22 April 2021, the General Purpose Committee received reports on the programme. The latter report provided an update on the Development Programme, focussing on the governance procedures and process for managing risk to the Council.
4. The Committee sought and was provided with clarity regarding the governance structure, the scope of the schemes within the programme and the skills and capacity building training being undertaken.
5. This paper provides an update to the approach set out in the latter report.

Relevance to the Council Plan

6. In February 2020, Cabinet approved the initiation of a Council-led housing building programme with the ambition to deliver 3,500 new homes on its own sites.
7. The development of affordable homes and improvement of existing housing stock align with the Council Plan commitment to create a lifetime of opportunities in Enfield through providing good homes in well-connected neighbourhoods and sustaining strong and healthy communities.

Background

8. Since the last report, the impact of Brexit and now Covid-19 is still being realised with marked increases in projected costs and tender pricing. Cost of construction materials, such as steel, timber and concrete for all types of work, rose by 23% last year and nearly a quarter of contractors reported severe labour shortages. Also, fewer contractors are bidding for new work as resources are constrained on existing projects, which are extended by 6 months or longer to complete. A continued unusual increase in costs is forecast into 2022 due to rising energy costs.
9. This trend has impacted on three sites in the current programme which have resulted in longer construction programmes and slower build out rate because of shortages of supply.
10. In the last report, officers reported that, due to rising construction costs caused by supply chain uncertainty, the build cost per unit within the HRA had been increased from £250k to £300k. Since then, as construction costs continue to rise, the build cost per unit has been increased to £400k.
11. The Council manages its maintenance and development costs using various third-party advisors and contractors who forecast costs, monitor and measure development designs, and monitor quality. Since early 2021 officers have sought additional advice and secondary reviews on schemes and projects as well as contract appointments and negotiations. We also encourage knowledge sharing among colleagues in different departments.
12. The steps the Council can take to manage this abnormal cost increases are broadly as below. We have used a number of these, often together, on our development and maintenance programmes over the past year.
 - Review our approach to procurement to try to assure market interest and engagement including using direct award when appropriate
 - Review our approach to contracts including allocating works to those that hold prices for at least 120 days and balancing risk and reward, to mitigate cost increases and contractor quality concerns and avoid litigation
 - Redesign projects and value engineer to be cheaper to deliver – whilst managing negative impacts on final design quality and long-term maintenance
 - Not take forward, or significantly delay/reprioritise, approved schemes which are now unviable or represent poor value for money – weighing option against considerations such as loss of funding and rental income
 - Accept additional costs, higher risk and lower viability to deliver the project
13. To further mitigate cost uncertainty, the Council is also collaborating with four other local authorities (Barking and Dagenham, Newham, Waltham Forest, Haringey, Hackney and Islington) to form a Buyer's Club for modern methods of construction (MMC). The club intends to aggregate the demand of the 7 boroughs to achieve economies of scale. The GLA has been highly supportive of the collaboration and have provided revenue funding to resource the development of the governance structure and the framework. Once these are established, each borough will seek approval to formally join the club and use the framework.

14. London Councils has lobbied government to raise grant costs to cover this unusual cost pressure but thus far, requests for affordable housing grant increases have, in most cases been rejected. This has resulted in substitution of Affordable Housing Programme funding with use of RTB receipts.
15. In August 2021, the GLA allocated £167m to the Council through its Affordable Housing Programme 2021-26 to deliver 1,119 new affordable homes from March 2023 to March 2029. This is the fifth largest allocation in London and the second largest amongst local authorities. The grant agreement, which is still subject to agreement, when entered into will support the delivery of ambitious schemes such as the Joyce and Snell's regeneration project, which achieved a very successful ballot in December 2022 with 78% of respondents voting yes to the Council's proposals for the estate.

Main Considerations for the Council

16. Of the four sites reported to be under construction (84 units) last year, all the homes are due to complete this financial year, delivering much needed new affordable homes for Enfield residents. Bury Street West is currently targeted to complete in December 2022.
17. Alma Phase 2a is due to complete in August 2023 and Phase 4 Sept 2024. Progress continues at Ladderswood and New Avenue despite initial impact of Covid-19 delays.
18. There are currently 4 sites (Reardon Court, Exeter Road, Upton & Raynham and Bullsmoor Lane) with over 300 homes due to start on site by March 2023. However, build cost inflation due to current market conditions is impacting on their viability.
19. The scheme development process is underway for the AHP 21-26 pipeline sites. To aid this work a new Development Management SLA has been agreed with Local Planning Authority, work is underway to identify additional sites to supplement the pipeline and market engagement activities such as bidders' days and a new re-branded webpage are being developed.
20. The gateway process continues to provide a comprehensive approach to risk management embedded at all gateways of the project life cycle and the RIBA Stages for design. This includes development appraisals assessed against approved hurdle rates and fully co-ordinated programmes at each stage from site feasibility to construction. This allows the overall programme budget to be monitored against the HRA business plan and early identification of slippage or cost overruns.
21. Additionally, as scheme performance is dependent on a successful route through design and planning and procurement, early pre-application process is undertaken to de-risk the site opportunities. The procurement strategy for professional services and main works is agreed on a project basis at the outset to minimise delays at tendering stage.
22. The risk registers are supplemented with highlight reports which are completed monthly by development managers and considered by the Housing Development

and Regeneration Board and a finance report which escalates issues independent of the housing and regeneration service. Finance also review the programmes as part the HRA quarterly monitoring cycle. With legal, property and finance representatives on the board, this allows for scrutiny and challenge as projects develop.

23. The main six risks for the programme are summarised below are unchanged:

Risk	Mitigation	Owner
HRA cost per unit is exceeded which makes the schemes unaffordable	Design scheme within approved funding envelope and amend specification as scheme progresses or adjust wider programme to offset cost overruns	Head of Development
Constrained construction market and supply chain due to Covid-19.	Early engagement with contractors, to allow them the secure their supply chain, to improve tender pricing and reduce risk of lengthy procurement	Heads of Service
Planning delays impact on GLA funding programme milestones	Agree streamlined pre-app process, engagement with existing neighbouring properties and ward councillors.	Head of Development
Projects become unviable due expectation to provide higher levels of planning gain via conditions / contributions because they cannot fully comply with all planning policy requirements onsite (due to more stringent requirements, space constraints and higher costs for other elements).	Early engagement with planners regarding site constraints and project viability	Head of Development
Housing market impacts on sale of shared ownership and outright sale.	Scale back sale tenure, forecast prudent values for products, capitalise on shared ownership funding available through the GLA.	Heads of Service
Staff capabilities and capacity to manage portfolio of multi-faceted projects	Targeted competency framework for performance management and training in development management	Heads of Service
Reputational and delivery risk if the Council does not meet the requirements of the GLA	Maintain track record for delivery, continuous dialogue with the GLA as issues or delays arise to mitigate loss of grant.	Heads of Development

Safeguarding Implications

24. There are no safeguarding implications.

Public Health Implications

25. Evidence suggests poor housing has a significant impact on mental health and wellbeing. The Building Research Establishment Trust recently estimated that poor housing costs the NHS at least £1.4 billion per year. Housing is therefore fundamental to health, with delivery of high quality housing is necessary to improve the borough's health outcomes.

Equalities Impact of the Proposal

26. The report does not engage the Public Sector Equality Duty and there are therefore no equality implications.

Environmental and Climate Change Considerations

27. *It has been recognised in the risks identified that the cost of non-compliance onsite with sustainability policy requirements could have an impact on project viability. The mitigation is to make sure there is a clear understanding of requirements and engagement with relevant teams.*

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

28. Given the value and impact of the housing development programme, lack of oversight of risk identification approach and governance arrangements could expose the Council to significant financial and reputational damage.

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

29. There are no significant risks associated with the General Purpose Committee noting the governance structure and the risk controls embedded at all stages of the project cycle.

Financial Implications

30. This report provides an update on the Housing Development risks and management approach of the programme. There are no specific financial implications in this report. The projects included within the programme will be assessed on an individual project basis and will be assessed based on affordability in line with the HRA Business Plan and viability against the approved hurdle rates.

31. It should be noted that the financial risks of the programme are as follows:

- a. Long term future rent uncertainty – any rent reductions will have a significant impact on the Business Plan and viability of the future projects.
- b. The build costs are based on market intelligence (currently £400k per unit) and may in some circumstances be higher as the market is extremely volatile. Significant cost increases experienced due to combined impact of

Brexit, Covid-19 and constrained supply chains have been reflected in the revised build cost per unit. Market conditions will be monitored closely as any impact on build costs would impact the number of units we are able to deliver. A 10% contingency is built into all project budgets to mitigate this risk.

- c. There are a number of private sales and shared ownership units built into the programme, depending on market conditions the sale of these units could add financial pressure to the business plan and impact on cashflow if the sales were delayed.
- d. Changes in grant conditions could impact the development programme i.e. reduction in rent levels and grant receivable. The new AHP has been agreed but this is predicated on grant conditions being met in full. Beyond 2026 there is no confirmed grant allocations
- e. Borrowing rates are assumed at 3.5% for the 30-year business plan - if this rate was to increase this would affect borrowing capacity and will impact on the viability of the business plan

Legal Implications (MD 22nd June 2022)

32. This is a report for update purposes only. Detailed legal implications will be considered and provided at project decision report level.

33. Members should note that neither the Buyers' club referred to at paragraph 13 above nor the grant agreement with the GLA referred to in paragraph 15 above have been established or entered into and are both subject to agreement of terms and governance approval.

Workforce Implications

34. There are no workforce implications

Property Implications

35. Given the nature of this report, there are no new or direct property implications arising from it. All indirect implications are to be found throughout the report.

Conclusions

36. The governance process remains robust in its ability to identify, mitigate and manage issues and risk from inception to construction to handover stage.

37. The programme is on track to meet the Council's ambitious target of 3,500 despite ongoing market uncertainty.

38. Appendix 1 illustrates the update provided in this report.

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