

Item

REPORT ON OPTIONS APPRAISAL AND NEW DEVELOPMENT PROPOSAL AT HANOVER COURT AND PRINCESS COURT

To:

Councillor Gerri Bird, Executive Councillor for Housing

Housing Scrutiny Committee 14/03/2023

Report by:

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Wards affected:

Market

Key Decision

1. Executive Summary

- 1.1 This report presents the outcome of the options appraisal that has been carried out in accordance with the decision taken at HSC in January 2022 on the future of Hanover Court and Princess Court.
- 1.2 In accordance with the decision to carry out an options appraisal in January 2022 there was a process of data collection and analysis. Repair and refurbishment costs were analysed by Potter Raper Partnership.
- 1.3 The proposed development scheme was the subject of pre-application discussions with the LPA and costs were assessed through the Cambridge Investment Partnership
- 1.4 Following the further consultation event in August / September 2022, Jones Lang LaSalle were commissioned (appointment effective from November 2022). Their report is attached assessing the options in strategic, financial and economic terms and considering within that the carbon impact of the options.
- 1.5 The following four options have been considered for the site as part of this Options Analysis:
 - Option 1 – Do nothing

- Option 2 – Retain the building in existing form and undertake essential repairs
- Option 3 – Retain the building and retrofit to achieve enhanced energy standards
- Option 4 - Redevelop the blocks through the Cambridge Investment Partnership to provide 138 new homes, including 40%-60% affordable homes for rent.

- 1.6 The outcome of the options appraisal is that it is recommended to proceed with the redevelopment of Hanover Court and Princess Court. This is based on a scheme of 138 homes. This is a small increase in the number of total homes on the site. The scheme has been assessed on options of 40% affordable housing and 60% affordable housing. In the case of a 138-unit scheme 40% would meet planning policy and provide 55 flats; 60% would fully replace the 82 council rented homes existing at time of commencing the appraisal.
- 1.7 Provision was made in the Medium-Term Financial Strategy for a scheme of 82 homes. This will be reviewed when further discussions with the LPA have taken place and there is greater planning certainty.

2 Recommendations

The Executive Councillor is recommended to:

- 2.1 Approve the redevelopment of Hanover Court and Princess Court (Option 4 in the Options Analysis).
- 2.2 Approve that delegated authority be given to the Executive Councillor for Housing in conjunction with the Strategic Director to enable the site to be developed through Cambridge Investment Partnership (CIP), subject to a value for money assessment to be carried out on behalf of the Council. Development will be through the transfer of the site to CIP and the purchase of completed affordable homes from CIP.
- 2.3 Delegate Authority to the Strategic Director acting on behalf of the Council as the landowner to enter into and complete any planning obligation under section 106 of the Town and Country Planning Act 1990 which is required by the Council in its capacity as the local planning authority, pursuant to the planning application for the development of the site.
- 2.4 Authorise the Strategic Director in consultation with the Executive Councillor for housing to approve variations to the affordable housing units to be

purchased including the number of units and mix of property types, sizes and tenure.

- 2.5 Delegate authority to the Strategic Director to commence Compulsory Purchase Order (CPO) proceedings on leasehold properties to be demolished to enable the development, should these be required.
- 2.6 Delegate authority to the Strategic Director to serve initial Demolition Notices under the Housing Act 1985.

3 Background

- 3.1 At the HSC in September 2021 a new homes development programme was agreed. The estates identified as under consideration included Hanover Court and Princess Court. The report noted that the capacity to increase the number of homes was limited and that the Council would need to do further work on options.
- 3.2 In January 2022 it was decided to approve a voluntary decant process including the option for tenants to move permanently and for leaseholders to sell their leasehold interest to the Council. It was also decided to carry out an options appraisal to consider the possible future of the estate including further consultation.
- 3.3 In September 2020 there were 82 Council rented homes. 55 tenants either have moved from the site or have moves agreed leaving 27 remaining. In September 2020 there were 45 leasehold flats. Of these flats 11 have been repurchased and a further 11 sales are in process. If all the sales in process complete 23 leaseholders will remain. Of these 23, 9 are resident and 14 non-resident.

4 Consultation and Engagement

- 4.1 Resident engagement was organised through:
 - Letters to residents
 - Drop-in sessions
 - Direct engagement with individuals has created contact with residents of 114 of the flats.
 - On-line feedback opportunities
 - Two steering group meetings
 - Further consultation events held in August / September 2022

- 4.2 In November 2021 a resident engagement event was held to gain feedback on future options for the estate. A webinar was arranged and was attended by 13 residents. Surveys were sent to all council tenants and leaseholders. 39 responses received. The surveys indicated a slight majority in favour of redevelopment with others either opposed to redevelopment or wanting further investigation of the options.
- 4.3 Letters were sent to tenants and leaseholders both to inform that the Council would be seeking approval from the HSC on 20th January and on 25th January to advise that the outcome of the HSC included the further consideration of options, further consultation and the option for tenants to move or for leaseholders to sell to the Council. An 'FAQ' document included with the letter provided further information and contact details were provided to residents. Details were provided of the consultation website including a website contact www.hanoverandprincess.co.uk On 3rd February 2022 a letter was sent to residents to provide detailed information on the process for those interested in moving from the estate
- 4.4 Two drop-in events were held on the estate. The first was attended by the estate Housing Officer and Officers from the HDA, alongside attendance by Ward Councillors. This provided all residents the opportunity to meet on a one-to-one basis to provide feedback and raise any concerns. The second event was attended by Officers from the HDA and was scheduled for more vulnerable residents to communicate in a less busy environment.
- 4.5 Two Liaison Group meetings have been held. Invitations to the group were based on expressions of interest received in November 2021. Membership of the group comprised of the Tenant Rep for the estate, 4 tenants and one leaseholder. Attendance at the second Liaison Group meeting was extended to include the three local Ward Councillors, following the approval of group members. A regular Consultation Working Group was established with the Tenant and Leaseholder Representatives on the HSC.
- 4.6 Letter and FAQ document issued to residents on 1st August 2022 to outline the options currently being investigated and the plan to hold two resident consultation events and a webinar in August / September. A flyer was sent to advertise the events and included residents in the immediate area around the estate, alongside those that had moved from the estate recently.
- 4.7 The events were held in the centre of the estate and were readily visible and accessible to residents and those in the local area. The event was attended by Council Officers and 75 people. Verbal and written feedback was collected on the day. A webinar was arranged and was attended by 12 people.

4.8 A total of 14 surveys were received following the events. These comprised of 6 tenants, 5 local residents, 2 resident leaseholders and one non-resident leaseholder. 11 respondents indicated that they would support the proposal to either renovate or redevelop the estate and one indicated that they were unsure. Respondents were asked which option they would prefer. 8 respondents indicated redevelopment and 4 indicated renovation.

5 Options Appraisal

5.1 In accordance with the decision to carry out an options appraisal in January 2022 there was a process of data collection and analysis. Repair and refurbishment costs were analysed by Potter Raper.

5.2 The proposed development scheme was the subject of pre-application discussions with the LPA and costs were assessed through the Cambridge Investment Partnership. The total of 138 is the lesser number from the schemes that were considered at the last of the pre-application meetings and were the subject of consultation in August/September 2022. There may be scope to improve on this total but there is also planning risk. For the purpose of the appraisal it was considered prudent to assess the scheme that delivered the lower number.

5.3 Following the further consultation event in August / September 2022, Jones Lang LaSalle were commissioned (appointment effective from November 2022). Their report is attached assessing the options in strategic, financial and economic terms and considering within that the carbon impact of the options.

5.4 The options appraisal has been carried out by Jones Lang Lasalle (JLL). The following four options have been considered for the site as part of this Options Analysis:

- Option 1 – Do nothing
- Option 2 – Retain the building in existing form and undertake essential repairs
- Option 3 – Retain the building and retrofit to achieve enhanced energy standards
- Option 4 - Redevelop the blocks through the Cambridge Investment Partnership to provide 138 new homes, including 40%-60% affordable homes for rent.

5.5 Options to dispose of the site were considered prior to the engagement of JLL. Options considered were Build to Rent, Student Housing and a Care Home. The estimated residual land value fell short of the land assembly cost in all three cases.

5.6 Additionally Council disposal would lead to the permanent loss of the freehold asset, delivery routes and partners are not in place and would have to be established and, if compulsory purchase powers were to be used to complete the land assembly the lack of a track record would be a negative factor. Conditions attached to a disposal to ensure that the buildings are not allowed to remain in its current state would also tend to depress the price achieved from a disposal.

6 Strategic Assessment

6.1 The strategic assessment set out the case for change and the strategic objectives for the Council. It identified 10 Critical Success Factors aligned to these strategic objectives and each of the four options were assessed on a qualitative basis against these Critical Success Factors.

#	Critical Success Factor	Option 1: Do Nothing	Option 2: Essential Repairs	Option 3: Full refurbish	Option 4: Redevelop
1	The buildings should positively contribute to increasing the delivery of homes, and in particular affordable housing	Yellow	Yellow	Yellow	Yellow
2	The buildings should contribute to diversifying the housing market and accelerating housing delivery	Yellow	Yellow	Yellow	Yellow
3	The buildings should achieve a high standard of design and quality of new homes and communities	Red	Red	Green	Green
4	The buildings should improve housing conditions and making best use of existing facility	Red	Yellow	Green	Green
5	Working with key partners to innovate and maximise available resources	Red	Red	Yellow	Green
6	The buildings should meet the required energy efficiency criteria that aligns with Cambridge's ambition to have net zero carbon housing stock by 2030 and reduce energy usage for residents	Red	Red	Yellow	Green
7	The buildings should result in a reduction of planned and preventative maintenance costs compared to the current level	Red	Yellow	Green	Green
8	The buildings should provide a safe and secure environment for all residents and visitors	Red	Red	Red	Green

#	Critical Success Factor	Option 1: Do Nothing	Option 2: Essential Repairs	Option 3: Full refurbish	Option 4: Redevelop
9	The building should be bought up to standard in terms of fire safety compliance				
10	The buildings should provide improved resident amenities and wider community benefits				

6.2 The below table showed that at a strategic level, option 4 is most aligned to meeting the CSFs, with option 3 seen as a possible fall-back position. Option 1 with 8 red flags should not be considered further and Option 2 will be used as the baseline for assessing the two remaining viable options.

Option	Red Flags	Amber Flags	Green Flags	Status
Option 1: Do nothing	8	2	0	Not viable
Option 2: Essential Repairs	5	4	1	Base Case
Option 3: Refurbish	1	5	4	Viable
Option 4: Redevelop	0	2	8	Viable (preferred)

6.3 The appraisal includes a specific analysis of carbon impacts. This was modelled on the assumption that Embodied Carbon would be insignificant for the essential repairs option, relatively low for refurbishment and in-line with RIBA standards for each of the development options. RIBA standards are evolving to become increasingly restrictive to carbon release, and different iterations have been modelled against 2020 and 2025 targets.

6.4 Operational energy (based on utility cost rather than carbon cost in Building Energy Carbon) over the 30-year period is also included in the below analysis and shows similar trends in the level of decrease across the different scenarios, with the following outcome.

	Essential Repairs	Sustainable Refurbishment	New Development	New Development 2020	New Development 2025
Building Energy Carbon	18,644	12,398	7,006	5,038	3,359
Development Carbon	-	766	2,377	1,545	1,070
Total Carbon (tCO2e)	18,644	13,164	9,383	6,583	4,429

7 Financial assessment

- 7.1 The Essential Repairs option was seen as the new base case as the “do nothing” option was not a viable option. The below summary shows that the full redevelopment with 40% affordable housing produces a marginally lower NPV, but a significantly improved IRR.

Option	NPV	IRR	Difference to base case
Option 2 - Essential repairs (Base Case)	-£13,225,447	-16.2581%	
Option 3 – Refurbishment	-£20,401,752	-19.0195%	-£7,176,305
Option 4a - Develop 138 units with 60% affordable	-£18,577,999	-2.9268%	-£5,352,552
Option 4b - Develop 138 units with 40% affordable	-£13,386,421	-2.7752%	-£160,975

8 Economic assessment

- 8.1 The purpose of the Economic Case is to assess the wider economic and social benefits arising from each option. Under this case we identify the critical success factors against which each of the options will be evaluated. This case also explores the quantitative social and economic benefits on the basis of additionality as well as the broader sustainability impact.
- 8.2 The economic appraisal includes determining the Net Social Value and undertaking a Benefits Cost Ratio calculation. This is usually based on the principle of additionality – what are the additional benefits over and above what are currently being achieved.
- 8.3 An indicative Benefits Cost Ratio calculation showed a positive outcome of 1.96 over the 30-year time frame for Option 4. This effectively means that for every £1 spent on the development, an expected £1.96 in broader benefits will be derived. Public purse benefits are also positive at 1.33 on the base case.

9 Recommendation from Options appraisal

- 9.1 The Options Analysis recommends that the redevelopment option (Option 4) should be the preferred option.
- 9.2 This is consistent with the outcomes from the extended resident engagement process.

- 9.3 Within Option 4 two possibilities have been considered based on a scheme of 138 dwellings: 40% affordable housing (55 affordable homes) and 60% (82 affordable homes). 82 homes would match the level of affordable housing at the commencement of the project. The level of affordable housing within the scheme will be determined following further discussions with planning and the development of a firm scheme. It will also be open to the Council to consider increased investment to secure more homes within a new scheme. This will include considering opportunities for external financial support. At present none has been assumed. If possible, in the context of the overall programme and consistent with the broader objectives of the programme the target will be to achieve a reprovision of affordable housing as close to the pre-existing provision as feasible.
- 9.4 The challenge for the Council is to address the problems of two failing blocks of flats. A priority for the Council is to consider the best interests of residents and to ensure that the Council can provide high quality, safe accommodation. Providing sustainable housing that responds to the climate change emergency is a high priority. The analysis indicates that providing additional housing is only possible on a limited basis due to planning constraints and that financial constraints will limit the delivery of affordable housing unless other sources of funding are identified.
- 9.5 While considering these options a high proportion of tenants and a significant number of leaseholders have taken the opportunity to move or sell their interest to the Council. Overall, approaching two-thirds of the residents have left. There is a need to progress as, although where possible the Council is using properties for Temporary Accommodation, there is a mounting rent loss. Conditions on the estate are also likely to deteriorate if it remains partially vacant and with a significant transient population for any length of time.
- 9.6 The timescales assumed for the analysis is four years in all cases. The analysis assumes that the remaining decants will be carried out over the next year in the event of redevelopment and one-two years if refurbishment is phased block by block.
- 9.7 Delivery of essential repairs and redevelopment options would be through a tender process. Delivery of redevelopment would be through the Cambridge Investment Partnership. The track record of CIP demonstrates the ability to deliver at pace and this is reflected in the programme.
- 9.8 The delivery route and the programme are important considerations but the fundamental analysis rests on the strategic, economic, and financial assessments set out in the Jones Lang LaSalle report.

10 Tenant decant

- 10.1 Approval was given at the HSC in January 2022 for tenants to be offered the option of moving. This was specifically so that they could take advantage of the opportunity to move to one of the new developments at Mill Road and Cromwell Road. Tenants could move on a direct let basis or bid on existing Council properties. Leaseholders were offered the option of surrendering their lease back to the Council. Compensation and disturbance payments were applicable to both tenants and leaseholders.
- 10.2 There has been further progress since the position recorded in the JLL options appraisal. To date, 63 tenants have registered on Home-link and 60 of these have decanted from the estate. A further 2 tenants have provided notice and have moves agreed in principle.
- 10.3 Tenants required to decant are given highest priority on the Council's Home-link housing system, where they can bid for like-for-like Council properties. The Council has dedicated staff to help tenants in the moving process.
- 10.4 Tenants will receive £7,800 Home loss payment when they move, in addition to up to £1,250 to cover moving costs or the amount as guided by updates in legislation.
- 10.5 Tenants have the right to return to a property in the new estate if a suitable property is available.
- 10.6 Rents will be higher whatever basis they are set on. If social rents are retained for returning tenants, the rents will be higher because the quality of the property is a factor in the setting of social rents. These typically fall at about 40-50% median market rents. The Council's current rent policy for new builds is for rents to be set at 60% median market rent. All these rents are within the Local Housing Allowance. Tenants should however benefit from significantly lower energy bills due to the high sustainability standards of a new development and also benefit from higher levels of thermal comfort with the associated health and well-being benefits.

11 Leaseholder buy-backs

- 11.1 There has been further progress since the position recorded in the JLL options appraisal. We have received instruction from 22 leaseholders to organise a valuation of their property with a view to surrendering their lease. We have completed 11 surrenders and 11 are currently in process.
- 11.2 Of the remaining leaseholders, 9 are resident and 14 are non-resident

- 11.3 Leaseholders will be offered market rate for their homes plus 10% if they live in the property, or 7.5% if they live elsewhere. The Council has dedicated staff to help leaseholders in the moving process.
- 11.4 Resident leaseholders could have first refusal on properties. However, it is recognised that the sale prices of new properties will be beyond the means of many leaseholders. If it is not possible to offer a leasehold interest in the newly developed scheme, the Council will provide advice and assistance on option for purchasing a property in the private housing market in line with the Council's Regeneration Policy.
- 11.5 The Council will need to buy back all the leasehold properties to redevelop the site. This will be done through negotiations however if these are unsuccessful the only route available to the Council would be to instigate a CPO.

12 Demolition notices

- 12.1 Service of Initial Demolition Notices under the Housing Act 1985 suspends the Right to Buy. Should a tenant make an application to buy their home (a leasehold interest in a flat) they would normally be sold at a discount. To allow the regeneration scheme to progress the council would then have to buy back these properties at market value plus 10% of the owner's interest and a disturbance allowance and none of the discount granted would be repayable. Should many additional homes be sold under the Right to Buy this would add significantly to the costs of the scheme and compromise its financial viability.
- 12.2 By serving the Initial Demolition Notice the council sets out its intention to proceed with the regeneration and this removes the obligation to complete Right to Buy sales for a maximum period of 7 years while the notice is in place. At the end of the notice period if the council has not completed the demolition of the property a tenant could ask for compensation arising from not being able to exercise their right to buy.

13 Financial Implications

- 13.1 The financial assessment section of the JLL report sets out the financial outcomes of the options and the summary is reported above
- 13.2 Provision was made in the MTFs for redevelopment to be funded to deliver 82 affordable homes. This provision will be reviewed following further scheme development.

14 Implications

(a) Staffing Implications

The scheme will be developed by the Cambridge Investment Partnership (CIP) which is a 50-50 partnership. The Council will deliver its role in the development through the Housing Development Agency which will provide the Council's staffing contribution to the development of the scheme.

The management of the scheme including engagement with tenants and leaseholders is very time-consuming across this and other schemes and needs to be properly resourced. To ensure this, the tenant engagement team has been expanded with an additional officer appointment, and an additional project management resource is being accounted for to ensure team capacity.

(b) Equality and Poverty Implications

A scheme specific EQIA has been completed.

(c) Environmental Implications

The options appraisal considers carbon issues for each of the options. A redevelopment scheme will be considered against the Cambridge Sustainable Housing Design Guide.

A council Climate Change Rating Assessment has also been completed.

(d) Procurement Implications

The scheme will be delivered by the Cambridge Investment Partnership (CIP). This will be a mixed tenure scheme. The land will be transferred to CIP with the affordable housing being purchased from CIP by the HRA. The process will be as set out in 19/42/HSC Approval for CIP scheme delivery routes.

(e) Community Safety Implications

The scheme will be built in accordance to Secure by Design guidelines as set out within the City Councils Design Brief.

(f) Consultation and communication considerations

There has been communication with residents prior to this report being presented. There has been consultation through events and on an individual basis since the autumn of 2021 as set out in this report. This engagement will continue.

There has been consultation with Ward Councillors about the proposals, this consultation will continue through the scheme and Ward Councillors will be updated on changes to the proposals.

Consultation and communication with existing tenants and leaseholders will continue in accordance with the City Council's Home Loss Policy This policy along with National Policy sets out the Council's commitment to those affected by regeneration and the compensation and support available.

The HDA continues to liaise closely with colleagues in City Homes, to ensure timely and accurate information is made available to all parties affected by the proposal. Neighbouring streets were included in publicity for the consultation events in July / August 2022. Further information about the HSC meeting will be circulated to neighbouring streets as well as to the estate.

There will be formal consultation through the planning process

15 Risks

15.1 Below is a table setting out key risks associated with the project

index	Risk area	Risk in detail	Risk Mitigation	Probability	Impact	Risk Rating
1	Planning Risk	The planning authority may reject plans because of other impacts.	Mitigation: pre-application discussions. Account taken of per-application discussions to date. Further pre-application discussions.	3	4	12

2	Decant	Remaining leaseholders and tenants could prevent or delay delivery of the project.	Engagement with tenants and leaseholders. Assistance with relocation and payment of compensation. Use of CPO powers	3	4	12
3	Vacant units during decant	Vacation of flats creates vulnerability to anti-social behaviour	Use flats for temporary accommodation where possible. CCTV installed. Keep management under review.	4	3	12
4	Development risks	Risks inc. sales values and build costs carried by CIP. Council has 50% exposure	Negotiation of transfer agreement with CIP. CIP management processes	4	3	12
5	Rent Levels	Application of Council rent policy in absence of Homes England or Right to Buy funding requires regulatory approval	Assess options based on social rent. Seek regulatory approval at an early stage.	3	3	9

16 Background papers

19/42/HSC Approval for CIP scheme delivery routes

21/48/HSC: Report on progress toward HRA estate regeneration programme.

17 Appendices

Appendix 1 – Site Location plan and red line of proposed transfer

Appendix 2 – Jones Lang Lasalle Options Appraisal

18 Inspection of papers

To inspect the background papers or if you have a query on the report please contact Jim Pollard, Housing Development Agency, tel: 01223 457924, email:

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Appendix 1 – Site Location plan and red line of proposed transfer

