Contract Award Notice – Supplement

Directive 2014/23/EC

SUPPLEMENT DOCUMENT

This supplement document relates to the Contract Award Notice published by the London Borough of Havering in respect of Havering Estate Regeneration Partner – Property/Asset JV Company and provides further information on the details of the contract changes which are set out in 'II.2.4 Description of the procurement' in the contract award notice.

It relates to the London Borough of Havering's contract opportunity advertised under OJEU Notice 2017/S 094-185114. Further details of the original Contract are set out in that OJEU Notice.

VEAT notice 2020/S 204-497669 has also been published in respect of this contract.

1 Additional £58.3m of equity funding provided by the Council (replacing external debt funding). Additional Council forward funding of £45.4 million for an additional 53 affordable housing units and reduction of open market units from 1,085 to 934 units.

Equity funding

a) The Council is making available an additional £58.3m of equity funding (in place of external debt funding) for the development of the Napier and New Plymouth; Solar, Serena and Sunrise Courts and Waterloo Estates in response to planning requirements increasing the number of affordable housing units. Whilst the gross requirement increased by £58.3m, it did not result in an increase in the Council's peak net investment in the JV. The additional funding is funded from capital receipts arising from the completion of the sites as development progresses. The additional equity commitment is match funded by the private sector partner. The equity contribution profile set out in the procurement documents remains consistent in light of the Council's additional equity contribution and PSP match funding in that 30% equity will be provided to the JV by way of (i) a loan note in respect of Council land or cash contribution (15%) and (ii) equity provided by the PSP (15%).

b) This is no direct impact on the value of the development, as it does not generate any additional revenues to the scheme. Equity has increased by £58 million (Removal of Delta Estate reduction of 17 million, addition of Blue Line sites £13 million, Changes to Farnham & Hilldene £17 million, Phase 1 update £41 million, Phase 2 update £4 million).

Forward funding

c) There is a JV corporate level members' agreement which requires parties to agree to an annual business plan. The forward funding is part of an expected annual refresh of the business plan. The Council is acquiring the affordable units under the development agreement and there is no variation agreement required if the number increases, as this is agreed through the annual business planning process.

d) The requirement for £45.4 million forward funding was mainly driven by changes to design, in particular on the Solar, Serena Sunrise scheme, including design enhancements such as larger provision of communal spaces. Given the nature of this market, the rate of sale for the open market product on the Solar, Serena, Sunrise scheme has been scaled back significantly. It is intended that the Council put in place a longstop arrangement, whereby any remaining units remaining unsold after the longstop date would be acquired by the Council at a discount to open market value.

e) The Waterloo Estate scheme is benefitting from an increased provision of affordable and 3 bed affordable homes, reduction in cross subsidy due to the reduction of homes for open market sale and enhanced provision of public realm and building designs, which has led to an increase in the cost of delivering the scheme.

f) The forward funding relates to Phase 1 only and includes 53 additional affordable units from the opening position on Phase 1. The net reduction of units will be 98, a decrease of 151 open market units and an increase of 53 affordable housing units.

g) At bid stage an average offer price of £172,000 per plot was priced for the affordable rented units. Forward funding has effectively increased this to £222,317 per plot as a result of: build cost inflation, design and development enhancements, increase in contingency (£37.8 million), reduction in private sale cross subsidy and the impact of providing more affordable housing and more family sized accommodation, (£7.6 million).

h) During the procurement process the payment terms for affordable housing were based on payment on completion and will now move to monthly valuations.

i) The direct impact of this change is to add £45 million to the procurement value from the Council to cover the increased costs of developing the affordable housing and mitigate against the loss of cross subsidy linked to the reduction in open market tenure on Phase 1.

2 Removal of the Delta estate from the scheme

a) The removal of the Delta estate is part of an expected annual refresh of the business plan. The members' agreement governs the approval of phase viability plans which help the JV decide which sites to take forward. In addition, the conditions precedent need to be satisfied to allow a site to progress.

b) Following further consultation and after revisiting the original capacity studies, carrying out more technical surveys and planning feasibilities of the area, it was determined that the proposed scheme for the Delta site would not meet the regeneration objectives agreed by the Council, nor the aspirations of local residents. There was no guarantee during the procurement process that the named sites would all be brought forward and Delta was not tested as an initial sample site in the procurement process therefore the exclusion of this site at bidder stage would not have altered bidding behaviour. It is not expected that this site will be developed out as part of the scheme in the future.

c) There is a site in close proximity to the existing Napier and New Plymouth site known as the "Napier and New Plymouth blue line site", which is replacing the Delta estate in the programme of development.

d) The removal of the scheme has reduced the projected procurement value by £143 million (Contracting Authority £13 million, Third Parties £130 million).

3 Addition of sites.

a) The addition of sites (as envisaged by the procurement documents) is part of an expected annual refresh of the business plan.

b) The development agreement allows for additional sites to be included if the parties have agreed the site is appropriate for development under the terms of the development agreement and if it has been the subject of a phase viability plan under the members agreement.

c) 606 more homes than were anticipated at bid stage will be delivered across the 12 site programme. This is mainly attributable to the introduction of the Chippenham Road and Napier and New Plymouth blue line sites, which has added an additional 519 units to the programme.

The breakdown of unit changes is as follows:

Sites	Unit Increase	Unit Decrease

Farnham & Hildene	addition of a net 477 units (540 units will now be built in total, 63 of which were envisaged at bid stage)	
Delta		The opening position had earmarked 430 units (bid stage). This has now been removed from the programme.
Chippenham Road & NNP Blue Line	This has added an additional 519 units to the programme	
Phase 1 sites		Net reduction of units 98, (open market down 151, affordable up 53)
Phase 2 sites	Increase in number of units by a net 138	
Overall uplift - = (477 (Farnham and Hildene addition)) – (430(Delta removal)) + (519 (Chippenham Road and NNP Blue Line addition)) – (98 (Phase 1 sites unit number removal)) + (138 (Phase 2 sites unit number addition)) = 606 units		

d) The changes have increased the procurement value by £399 million (net). Farnham an additional £178 million (Contracting Authority £43 million, Third Parties £135 million), Phase 1 red line sites refresh a reduction of £1m (Contracting Authority £31 million, Third Parties £32 million reduction), Phase 2 red line sites refresh an additional £70 million (Contracting Authority £39 million, Third Parties £31 million), and additional £152 million blue line sites (Contracting Authority £50 million, Third Parties £102 million)

4 £7.8m financing provided by the Council for demolition of the Waterloo Estate, in place of debt funding.

a) It has been agreed to bring forward the demolition on the Phase 1 sites, primarily to expedite the delivery of the sites and avoid additional costs which would have been incurred through the phased demolition of the Waterloo Estate.

b) It was documented in the development agreement that demolition works would be carried out. The development agreement has been varied to remove the requirement to carry out the demolition works and for convenience this has been captured in a supplementary early development agreement.

c) Rather than the JV financing the demolition works as was previously envisaged, the Council is fully funding that element. However, the delivery mechanism will remain consistent in the form of the sub-contract from the JV to Wates in its supply chain.

d) The procurement of an alternative contractor would have legal and financial ramifications for the Council and stall the 12 Site Regeneration Programme and would not be an acceptable alternative for the Council.

e) This is no direct impact on the value of the development, as it does not generate any additional revenues to the scheme. Council equity has reduced by £4 million.

5 The Council is purchasing 197 units in the Napier House and New Plymouth House development (“NNP”) and is altering the payment from a fixed price per unit to a build contract sum approach.

a) Previously in the NNP development, there were 126 Low Cost Rental units ("Affordable Units") and 71 open market units. The Council is now building the same number of units, but all 197 units are now being purchased by the Council.

b) This change is due to the current uncertainty in the housing market linked to COVID-19; committing to purchasing all 197 units is in order to resolve the viability issues and permit the development to proceed.

c) The Council is altering the payment for the units from a fixed price per unit to a build contract sum approach (with the Council paying on the basis of the cost of construction incurred by the developer). These changes relate to the Napier House and New Plymouth House site only.

d) In terms of the payment mechanism, a staged payment structure will now be used; the development agreement already allowed for the payments to be in the manner and times provided for in the business plan or as otherwise agreed between the parties.

e) This is being documented through a variation to the development agreement.

f) The changes have reduced the procurement value by £4 million. (Contracting Authority £21 million, Third Parties £25 million reduction). In addition, equity has reduced by £6 million.

6 Amendment to development agreement to allow independent draw down of the three Phase 1 sites

a) The Council is amending the DA so that development can commence in relation to the three Phase 1 sites (Napier and New Plymouth; Solar, Serena and Sunrise Courts and Waterloo Estates) to allow each site to be drawn down independently for development.

b) The Development Agreement currently links the 3 sites in Stage 1 and requires that the pre-conditions be satisfied in relation to all 3 sites and that the sites be drawn down together. The conditions for all sites are: satisfactory title; removal of highway status; satisfactory planning permission; agreed financial appraisal with positive land value; adequate funding; satisfactory site investigations; build contracts and appointments agreed; agreed Business Case and Phase Viability Plan which delivers the LLP Margin; Statutory Consents; Vacant Possession; no Town and Village Green applications.

c) The Development Agreement has been varied to allow each of the Stage 1 sites to be drawn down separately (in an order to be agreed between the parties) rather than all of Stage 1 having to be drawn down together. The flexibility is beneficial to the scheme as vacant possession conditions have been satisfied faster than anticipated and the parties wish to proceed at pace.

d) Whilst this may result in a some staggering of the drawn down of the sites the Council considers that variation is not substantial and does not affect the outcome of the procurement (Reg 43(1)(e)) as the JV partner will be initiating development of all 3 sites and also in close proximity in the development programme. Demolition has started at Napier and New Plymouth Solar, Serena and Sunrise Courts. Demolition at Waterloo Estates is forecasted to commence in March 2021.

e) This is no direct impact on the procurement value, as it does not generate any additional revenues to the scheme.

7 Summary of movements

a) The original value of the procurement was estimated to be £800 million, excluding the potential addition of the blue line sites. This has increased to £1,177 million including the addition of two blue line boundary sites and considering the changes as documented above. In addition, the equity requirement from the Council has increased by a £52 million (£58 million Section 1 less £6 million changes to NNP). See table below: -

TABLE 1 – CHANGES TO PROCUREMENT VALUE & EQUITY

	Contracting Authority Value £M	3rd Parties Value £M	Total Procurement Value £M	Equity
Original estimate			**800**	
Update to estimate			80	
Update to estimate (bid stage)	**138**	**742**	**880**	**63**
Section 1 – (Forward Funding)	45	NIL	45	NIL
Section 2 - Delta (removal)	-13	-130	-143	-17
Section 3 - Addition of sites (Phase 1, refresh)	31	-32	-1	45
Section 3 - Addition of sites (Farnham & Hildene)	43	135	178	17
Section 3 - Addition of sites (Phase 2 sites, refresh)	39	31	70	4
Section 3 - Addition of sites (Chippenham Road & NNP Blue Line)	50	102	152	13
Section – Demolition of Waterloo Estate	NIL	NIL	NIL	-4
Section 5 – Changes to NNP	21	-25	-4	-6
Section 6 (independent drawdown)	NIL	NIL	NIL	NIL
Current Position	**354**	**823**	**1,177**	**115**