Minutes of the 4EF Meeting

Wednesday 24th July 2019

Present

Residents:	Arthur, Maggie, Jackie, Heidi, Jill, Kim, Jenny, Pam, Deidre, Candida, Eliza, Glen
OHG:	Paul Handley
Advisor:	Mike
Apologies:	Danny, Lesley, Fabian, Juliet, Roy, Maureen, Ahmed

1. Minutes of the May Meeting – agreed

2. Matters Arising - none

Residents Charter (Paul)

3. Some crucial questions aren't possible to answer with any certainty at this stage. As soon as it is clear what is being proposed, these will be clarified.

4. We definitely need a commitment to rents and tenancy agreements and that has been forthcoming.

5. Each steering Gp is going at its own pace and I'll be making decisions in their own time.

6. Kedge Starboard and Winch (KSW) are already appointing architects and want to get on with their options and hope to get to the Appraisal stage in 6 months. This Charter gives them the confidence to push ahead.

7. Are the fast paced steering groups going too fast to be thorough and being as inclusive as they need to be? This does seem to be ok, and they are asking the right questions. At the option Appraisal stage, there will be an opportunity for the differences of opinion to emerge.

8. In other regeneration projects like this it usually takes 9 -12 months to get to an Options Appraisal stage.

9. OH would likely propose their own scoring mechanism that they previously used in Camden as it was successful there.

10. Glen's more detailed questions about land costs and returning owners offers are attached with mor detail at the end of the minutes (see appendix 1)

11. Is there any flexibility about the way the rents are set and would awareness of the income of tenants be able to taken into account? There are statutory guidelines to determine this.

12. We have requested a financial benefit costs and this should show whether this is value for money.

Other Issues Raised with Paul

13. Camden Goods-yard Option Appraisal - This 300 page document is available on the website and is a very useful resource and indicates the way our regeneration schemes Appraisal might approached.

14. Rhys has a budget for spending on each estate's regeneration issues and other problems raised by the SCS are being dealt with by the planned maintenance team.

15. It is unclear what should be included in the regeneration budget and what should be planned maintenance.

16. Can we have a capital works and maintenance plan to show what is proposed for the next (5?) years – issues were raised by the SCS and should be in the 2nd year of the program by now. — Paul

17. Communications is a big problem for OH and we need to know that this issue is being addressed. We could ask Richard to come and explain how this is being addressed. — Arthur

18. The resident experience is still quite negative re repairs and communications. Paul, as a manager will pass this on, and we will ask RH to come and discuss progress. — Paul, Arthur

19. Jenny to send questions that do not need an instant answer:

    - Can we have individual community design possibilities for individual residents
    - Will the community fund still be used on new estates?
    - Can we have assurances that Independent TRAs will be guaranteed on new estates?

20. Stock condition Survey – Mike has had 2 more answers to the SCS Q&A and he will circulate these (attached in appendix 3)

Advisors report (previously emailed by Mike)

21. The Regeneration team is having to try to get other OH departments to address issues and problems to do with the maintenance and services on their estates. Without this cooperation resident Steering Groups are finding it hard to trust OH's intentions.

22. The architect interviews have now taken place on KSW. They will be appointed soon.

23. There is a recent structural report on Kedge that we have requested – what is holding the block up? is it a raft foundation or piles? Mike has amassed a lot of understanding about of Large Panel Structures (LPS) across London.

24. It was agreed that Mike can support the TRA on Kingsbridge to help the residents keep a steering group and TRA going on a small estate.

Camden Option Appraisal process

25. A copy of the appraisal scoring system used in the Camden Goods Yard regeneration scheme is attached in Appendix 2. This is likely to be the structure that OH will propose to use with our schemes.

26. Notably it does not include any negative aspects of regeneration – disruption, schooling,

27. Our Steering groups should be able to add things they feel are important eg financial impact (increase in service charges, rents etc) and these items may include issues that effect them more than some of the more general issues on the Camden model

28. If Steering Groups are asked to consider a Joint Venture by OH, they must be aware that this minimizes affordable rents and has to take into account the substantial profits of the private developer. Does this address OH's commitment to addressing housing need? There needs to be very convincing and detailed argument to go ahead with a JV.

29. We need to ask RH to explain why OH has kept the option of a JV alternative and to give a commitment to reinvest the profits from the residual land costs. Arthur

30. Does OH have the capacity to develop a small project like Kingsbridge without a JV?

31. Leaseholders are still very vulnerable as OH has not committed to a "fair" share of their property value.

32. Promises are made to entice residents to vote for regeneration but there are financial implications that they need to made aware of these.

33. The next meeting will be in September, and we ask the chairs group can be invited to be joint participants and we will invite RH to attend and explain….

Appendix 1 Additional Questions from Glen

Question 1: Including a notional land cost in viability assessments

The first response explained OHG 'will include residual land value as part of its financial appraisal process...because we would be expected by our regulator to demonstrate value for money in how we use our assets, of which land (and its associated value) would be one.'

A) Please send details of the regulation that requires housing associations to include notional land costs/RLV when they won't have to buy land and never paid for it. What regulation is this?

(The purpose of Residual Land Valuation is to calculate a planning policy-compliant land cost to assess whether a development proposal would pay the land owner enough to incentivise them to sell or develop their site. Would they make sufficient profit or premium over its Existing Use Value? If they would the scheme is considered viable. Acceptable land value is included as a cost, so reduces the money judged available to provide affordable housing or other benefits. How can this be applied when OHG would not be selling land? As Toynbee never paid for the land at stock transfer, a land cost can't even be seen as compensation a past cost. General regulations may require associations to maximise proceeds if they SELL land, so they can maximise receipts to reinvest, but this should not apply when they won't be selling land)

B) How is the land cost/RLV calculated – does it use Existing Use Vale Social Housing or another method?

Explanations would help on both. On the face of it the practice of including non-existent costs reduces affordable housing, the opposite of an association's purpose.

Question 2. Returning (shared equity) owners: will rent-free status end on ownership transfer?

* Owners' current situation: they own 100% and can leave flat to their children. Children only have to pay service charges.

* Owners' new situation if they take up shared equity (because they can't afford 100% equity of a new more valuable flat). OHG's equity is a charge on the property. No rent is paid on OHG's share, unlike with 'normal' shared ownership.

But in SOME estate regenerations landlords have required when ownership is assigned/transferred to someone else, (often when the owner dies, to their children) the inheritor becomes liable to pay full rent on the landlord's retained share. Under the standard formula annual rents are 2.75% of the landlord's retained share. This would lead to the following rents, excluding service charges:

a) If landlords equity was £100k: Annual rent £2,750 (£229/month)

b) If landlords share was £200k: Annual rent £5,500 (£458/month)

c) If landlords share was £300k: Annual rent £8,250 (£687/month)

Although the original owners wouldn't be worse off their children would be. If inheritors can't afford these costs, plus service charges, they'd have to sell, unlikely to be able to afford anywhere else to on Island.

Does anyone want to add anything? Judging by OHG's initial response, no returning tenant would be financially ruined, as rents will stays the same. Reasonable rises in service charges won't bankrupt anyone. But resident owners are very vulnerable – no commitment not to impose minimum equity shares, or enable (required) mortgage transfers.

Glenn

P.S. I don't understand question 33 or OHG's answer. Mike, can you explain that at the next meeting?

33. Will the valuation reflect any development value in the property that would have existed in the absence of the scheme? – Yes, in that any valuation of a property reflects its potential development value.

As far as I know, valuation is market value, based on sales of comparable properties, assuming the flat is not about to demolished and, possibly, in reasonable condition, to avoid incentivising landlords to leave flats in bad state of repair.

Appendix 2 Options Appraisals - Camden and Project Stone Comparison

See Social Appraisal Board (Feb 2018) for 2 page summary of scoring criteria and what different options scored – from do nothing to refurbishment to full redevelopment. Five categories have objectives/criteria which are given scores from 0-5. Totals are compared.

1. Housing (max 25 marks)	**0-5**
1. No loss affordable housing (all tenures)	
2. Deliver more homes, including affordable	
3. Meet housing need re overcrowding	
4. Same tenancy terms, unless tenants agree other	
5. Wider tenure choice, including intermediate	

2. Environment (max 30 marks)	**0-5**
1. Better amenity space; balcony or garden	
2. Better community space, facilities	
3. Less ASB, better security	
4. Keep quiet environment (near busy Regents Canal)	

5. Sustainability/energy efficiency	
6. Servicing facilities & noise insulation	

3. Accessibility (max 20 marks)	**0-5**
1. Better connections to local area	
2. Access to canal	
3. Car parking	
4. Cycle parking	

4. Well Being (max 20 marks)	**0-5**
1. Improve health & well being	
2. Housing & care options for elderly, special needs	
3. Minimise disruption: communities stay together, temporary moves to homes nearby	
4. Cycle parking	

5. Economy (max 10 marks)	**0-5**
1. Access to employment & training (construction)	
2. New commercial facilities (new permanent jobs)	

Other criteria

1. Financial measure: NPV of stock & Development Appraisal: is it viable?

2. Implementation: deliverable? Meet planning policy? Technical

Preferred Option: full redevelopment (92 marks. Refurb = 37)

Existing estate: 194 homes. New estate: 683 homes. Net additions: 489. Density x 3.5

New estate by tenure (without grant: target 50% affordable)	**Number**	**%**
Re-provided low rent: (social & target rents)	194	28%
London Affordable Rent: (Excluding service charges)	38	6%

(1 bed: £144/week. 2 bed: £153/week)		
Intermediate rent	95	14%
All affordable	327	48%
Private (sale or rent?)	356	52%
Total	683	

Why Joint Ventures with developers minimise affordable housing

Standard profit margins for different methods of funding development

1. Housing associations borrowing themselves: 10% of total costs (a minimal surplus to make sure a project covers it costs, to maximise revenues devoted to affordable housing). Social landlords are non-profit making with no shareholders to pay dividends to. In this model building companies carry out construction works at relatively low margins. There is not an additional, large profit requirement for a private developer funding the scheme.

2. Joint Ventures with private developers: 20% of sales revenue from market sales units, plus 6% of values for 'affordable' housing (based on future rents/equity revenues). This is accepted by planners, based on developers needing to make 'competitive' profits for shareholders.

A basic Viability Assessment of a Kingsbridge estate redevelopment illustrates the difference the funding model makes. If OHG chose to use a JV with a private developer there would be around **£21.4m LESS** to fund additional 'affordable' housing and fair deals to existing residents.

Kingsbridge Viability Assessment (Project Stone Version at 2017 market values)

Tenure and number of units	Revenues
1. Private sales 285 units	£169m
2. Social rent replaced - 80 units (size mix to reduce overcrowding)	£7.88m
3. Shared ownership: 26 new buyers	£8.18m
4. Shared ownership for 16 returning owners	£1.6m
Subtotal: revenues from 'affordable'	£17.66 (£7.88m + £8.18m + £1.6m)
5. Commercial/retails units	Assume no rent from shops etc.
6. GLA grant	Assume none. Could be £6m like 2017 bid
Total	£187m

Costs	Totals
1. Construction costs: materials & labour, medium/high rise blocks	£94m

2. Professional fees & contingency: 15% of construction costs	£14.1m
3. Compensation to owners: resident and non-resident	£12.9m
4. Compensation to tenants	£0.58m
5. Temporary accommodation	£0.26m
6. Demolition	£0.81m
7. Community Infrastructure Levy	£2.1m
8. Marketing costs: 3% of value of (285) private sales units (£169m)	£5.1m
Total costs so far	£129.85m
9. Borrowing costs @ 5% of total costs*	£6.5m
Total	£136m

Surplus distribution by different funding models	Totals
Surplus before profit = £187m revenues – £136m costs	£51m
1. JV standard profit level: including 20% on private sales revenue	
a) Affordable units: profit @ 6% of £17.66m	£1.06m
b) Private sales units: profit @ 20% of £169m total sales value	£33.8m
c) Total Profit (a+b)	£35m
£ Remaining (£51m surplus – £35m profit)	£16m (for S106*)
2. HA borrowing: minimum standard profit level: 10% on cost	
Profit margin as 10% of total costs	£13.6m
£ Remaining (£51m surplus – £13.6m profit)	£37.4m (for S106*)
Difference between max/min standard profit levels (£35m-£13.6m)	£21.4m

*Project Stone did not maximise affordable housing. In a planning application 'remaining' surplus revenues above the developers profit, would be devoted to providing affordable housing & other community benefits in a Section 106 agreement, so market sale units, revenues, and profits would be reduced. But a similar differential in margins would apply.