Exempt or confidential report The following paragraph of Part 4b Section 10 of the constitution applies in respect of information within Appendices A, B and C and it is therefore exempt from publication: Information relating to the financial or business affairs of any particular person (including the Authority holding that information). Members and officers are advised not to disclose the contents of the appendices

APPENDIX B OVERVIEW AND SCRUTINY - 19 Oct 2021

Committee: Cabinet Date: 6 September 2021

Wards: Abbey, Figges Marsh, Ravensbury

Subject: **Support for Clarion Estate regeneration programme**

Lead officer: Director for Environment and Regeneration, Chris Lee

Lead member: Cabinet Member for Regeneration, Housing and the Climate Emergency

Contact officer: Deputy FutureMerton Manager, Tara Butler

Reasons for urgency – the Chair has approved the submission of this report as a matter of urgency as delaying it to the next Cabinet meeting would delay works on the three estates.

Recommendations:

A. To note that the programme-level viability deficit of identified by Clarion Housing Group (Clarion) in April 2020 in relation to their proposed regeneration of the High Path, Ravensbury and Eastfields estates represents a significant barrier to delivery;

B. To agree that the Council remains supportive of Clarion's delivery of the Merton Estates Regeneration Programme (MERP) and the objectives of Merton's Estates Local Plan 2018 to improve the lives of existing residents and provide new homes;

C. To agree to support the proposed adjustment of the Sales Clawback mechanism in the Stock Transfer Agreement to suspend the Council's eligibility to the 5% Sales Clawback mechanism so long as MERP is in the course of being delivered and remains in a deficit position at programme-level. The mechanism will be triggered only if MERP's financial performance reaches or exceeds a break-even position.

D. To agree to support an amendment to the Stock Transfer Agreement to commit Clarion to delivering Decent Homes Standard upgrades linked to any failure to achieve regeneration delivery milestones to ensure these works are guaranteed to be delivered within a specified timeframe irrespective of the status of MERP;

E. To agree to support an amendment to the Stock Transfer Agreement to specific partnership working arrangements between Clarion and the Council to include open book business plan progress updates and monitoring and regular identification, management and mitigation of risks to viability and deliverability with forums to be established at operational (Officer) and strategic (Senior Officer and Member) levels with Clarion counterparts. This approach is proposed to ensure proactive management and monitoring of future risks.

F. To delegate authority to the Director of Environment and Regeneration in consultation with the Cabinet Member for Housing Regeneration, and the Climate Emergency, to conclude any documentation, including, without limitation, amendments to existing agreements between the Council and Clarion, necessary to implement the recommendations C-E above on the best terms which in their view are reasonably achievable .

G. To agree that the 2010 Nominations Rights Deed will be preserved and that the council will continue to receive 100% nominations to true voids but that a protocol between Clarion Housing Group and the council be drawn up so as to assist Clarion in meeting its regeneration ambitions and ensuring that the council can continue to discharge its statutory housing duties and protect the public interest. Any such protocol will be jointly prepared between the council and Clarion Housing Group and be delegated to the Director of Community and Housing in consultation with the Cabinet Member for Housing, Regeneration and the Climate Emergency.

H. To ask officers to continue to consider options for a freehold asset to the Council that may reflect some value of the claw back suspension and, should a mutually agreeable asset transfer be agreed, to delegate authority to the Director of Environment and Regeneration, and the Director of Corporate Services to conclude that transfer in consultation with the Cabinet Member for Housing Regeneration, and the Climate Emergency and the Cabinet Member for Finance.

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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. Clarion Housing Group are delivering regeneration across three estates Eastfields, High Path and Ravensbury, supported by Merton’s Estates Local Plan (2018). The 15 year programme is the largest housebuilding programme in Merton; it will build approximately 2,704 new homes, including replacing approximately 1,174 homes for existing tenants and homeowners to a modern standard.

1.2. The council supports the estate regeneration; it provides new homes to modern standards for the existing social housing and private residents on the three estates; it provides new homes to accommodate existing households that are currently living in overcrowded accommodation particularly at High Path; the regeneration provides modern homes, community rooms; investment to create space for shops and services along Merton High Street and Morden Road, new playgrounds and landscaping (including addressing issues of drainage, parking, providing play spaces and flood risk) and it provides more than 1,000 new homes, a significant proportion of future housing delivery, in Merton: important benefits for tenants and owner occupiers alike in a post Covid 19 where the quality of residents homes and neighbourhood are an important contribution to health and wellbeing.

1.3. This support has been made through a series of council decisions in from 2014 onwards, including the production and adoption of Merton's Estates Local Plan (2014 to February 2018) to guide planning decisions on the three estates and ensure that all three estates are regenerated. The council also agreed the "10 Commitments" with Clarion to ensure residents are treated fairly during the regeneration and has been monitoring the progress through the council's Sustainable Communities Overview and Scrutiny Panel.

1.4. On 6 April 2020 Clarion wrote to Merton's Chief Executive advising that a significant viability gap had emerged in relation to the proposed Merton Estates Regeneration Programme (MERP) encompassing the High Path, Eastfields and Ravensbury Estates. The programme-level viability gap, on a growth model basis, had swung from a surplus position at the point of the grant of planning permission in April 2019 to a deficit as of April 2020 as set out in the confidential section of this report. Clarion advised that this level of deficit was a serious risk to deliverability and measures needed to be explored to reduce this deficit and mitigate risks to delivery.

1.5. This report covers the following principal areas:

a) The background and reasons for how and why the programme-level MERP viability gap has emerged, as reported by Clarion and scrutinised by LBM and their consultants;

b) An overview of the process which has taken place over the last 12 months to address this viability gap inclusive of extensive cost and value optimising, programme refinement, options and scenario testing which took place via collaborative working between LBM and Clarion;

c) The proposed measures identified as an output of this process to reduce the deficit to a position Clarion has confirmed is sufficient to allow them to commit to delivery; and

d) Analysis and justification of the proposed commitments this report recommends LBM supports the reduction of Clarion's viability deficit at the time of writing this report, as set out in the confidential section of this report, but note that this is subject to final financial due diligence and subject to exchange of contracts and to manage risk across the remainder of the delivery programme, as set out in the recommendations of this report.

e) The report covers the following principle areas - Heads of terms for the purposes of facilitating Merton Estate Regeneration Programme

1.5.2 Councillors should note the following matters which are expanded in more detail within the report:

(i) The above recommendations A-H are set out "in principle" subject to further legal and financial due diligence and the final agreement to the Heads of Terms is delegated to the Director of Environment and Regeneration in consultation with the Cabinet Member for Housing, Regeneration and the Climate Emergency. Should Cabinet resolve these principles, the financial and legal due diligence will continue.

(ii) That Clarion's business plan for MERP has been robustly scrutinised, challenged and iteratively developed through dialogue over the last 12 months by LBM Officers, Members and Merton's independent financial viability consultants, SQW. This includes the identified viability deficit and a range of potential mitigation and value optimisation measures and interventions.

(iii) That the options for scheme optimisation and value enhancement identified and referred to in the body of this report have not been designed in detail or subject to either formal planning or public consultation. Subject to endorsement of the recommendations set out above, Clarion will commit to progressing with design development, public and stakeholder consultation and seeking any necessary consents with full acknowledgement that this still represents their risk to deliverability and that the council's planning decisions are not fettered by Cabinet and council decisions on the estate regeneration.

(iv) That the outputs and conclusions of the process reported in this paper have been focused on identifying a viability position that Clarion can commit to delivering the full regeneration programme of all three estates to unlock the homes, jobs, placemaking and sustainability benefits the full programme would deliver relative to Decent Homes Standards upgrades, including

- the provision of new homes to meet the needs of tenants and help address overcrowding
- improved external areas, landscaping and open spaces, which are particularly important in a post Covid19 world
- greater sustainability within the developments and improved comfort within the new homes
- Contributions towards local infrastructure and travel which helps access to local amenities
- contributes to Merton's share of London's housing needs, which is for targets of 918 new homes in Merton per year for the next 10 years.

(v) That officers have endeavoured to ensure that the recommendations put before the Cabinet are proposed both to enable the delivery of full regeneration benefits for all three estates, whilst also ensuring adequate fallback, milestone-linked, provisions regarding Decent Homes Standards are secured to protect the position of residents should MERP fail to proceed at the pace anticipated.

(vi) That significant risks to financial viability and deliverability still remain, notwithstanding Clarion's commitment to deliver and proceed with MERP on the basis of the viability deficit identified in the confidential section of this report, and that is important for LBM and Clarion to work openly, proactively and collaboratively within an agreed governance framework to ensure these risks can be pre-empted, identified and managed effectively across the remaining duration of the programme.

(vii) That officers are working to monitor Clarion's housing and maintenance following recent events where the standard of repairs and maintenance fell well below the expectations of the residents and of the Council; regular updates are being provided by CHG to the Council to ensure that they are tackling repairs and maintenance issues to a good standard and in a timely fashion particularly on the Eastfields Estate.

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Committee: Cabinet

Date: 6 September 2021

Wards: Abbey, Figges Marsh, Ravensbury

Subject: Appendix A - Support for Clarion Estate regeneration programme

Lead officer: Director for Environment and Regeneration, Chris Lee

Lead member: Cabinet Member for Regeneration, Housing and the Climate Emergency

Contact officer: Assistant Director for Sustainable Communities, James McGinlay

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Recommendations:

A. To note that the programme-level viability deficit of c.-£258 million which was identified by Clarion Housing Group (Clarion) in April 2020 in relation to their proposed regeneration of the High Path, Ravensbury and Eastfields estates represents a significant barrier to delivery;

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C. To agree to support the proposed adjustment of the Sales Clawback mechanism in the Stock Transfer Agreement to suspend the Council's eligibility to the 5% Sales Clawback mechanism so long as MERP is in the course of being delivered in its entirety and remains in a deficit position at programme-level. The mechanism will be triggered only if MERP's financial performance reaches or exceeds a break-even position.

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a) The background and reasons for how and why the programme-level MERP viability gap has emerged, as reported by Clarion and scrutinised by LBM and their consultants;

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- the provision of new homes to meet the needs of tenants and help address overcrowding
- improved external areas, landscaping and open spaces, which are particularly important in a post Covid19 world
- greater sustainability within the developments and improved comfort within the new homes
- Contributions towards local infrastructure and travel which helps access to local amenities
- contributes to Merton's share of London's housing needs, which is for targets of 918 new homes in Merton per year for the next 10 years.

(v) That officers have endeavoured to ensure that the recommendations put before the Cabinet are proposed both to enable the delivery of full regeneration benefits for all three estates, whilst also ensuring adequate fallback, milestone-linked, provisions regarding Decent Homes Standards are secured to protect the position of residents should MERP fail to proceed at the pace anticipated.

(vi) That significant risks to financial viability and deliverability still remain, notwithstanding Clarion's commitment to deliver and proceed with MERP on the basis of a viability deficit of c. -£65m, and that is important for LBM and Clarion to work openly, proactively and collaboratively within an agreed governance framework to ensure these risks can be pre-empted, identified and managed effectively across the remaining duration of the programme.

(vii) That officers are working to monitor Clarion's housing and maintenance following recent events where the standard of repairs and maintenance fell well below the expectations of the residents and of the Council; regular updates are being provided by CHG to the Council to ensure that they are tackling repairs and maintenance issues to a good standard and in a timely fashion particularly on the Eastfields Estate.

2 DETAILS

2.1. Background context

2.1.1 The comprehensive regeneration of the High Path, Eastfields and Ravensbury Estates (the Estates), and collectively referred to as MERP, is a long-established priority for LBM following the transfer of these Estates to Clarion's predecessor, Circle Housing Merton Priory (CHMP) via Stock Transfer Agreement dated 22 March 2010. CHMP's obligations and responsibilities have since been assumed by Clarion.

2.1.2 As set out in more detail in the council's decision reports in February 2018 (Estates Local Plan and Clarion Regeneration progress) MERP will deliver positive benefits, which include:

- employment opportunities generated during the construction phase;
- replacement homes, including affordable homes, built to a modern standard and addressing the structural and insulation issues known at Ravensbury and Eastfields in particular,
- New homes, including affordable homes, amounting to approximately 20% of Merton's future housing supply and the opportunity to address the known overcrowding problems affecting some social rented households, particularly in High Path;
- upgraded and improved social infrastructure provided as part of the completed development;
- new playgrounds, outdoor recreational facilities, trees, landscaped open space provided as part of the completed development;
- improved access to the site, bin storage, cycle and car parking, electric charging points; and
- new business space for shops, cafes, restaurants, workshops etc within a new high street frontage at Merton High Street and Morden Road

2.1.3 All three sites have outline planning permission (granted April 2019) and the Section 106 agreement links the three estates for viability purposes and requires all three estates to progress to regeneration during the 15-year programme.

	Existing homes	Proposed homes	Progress on regeneration
Eastfields	466	800	Substantial pre-application work on Phase 1 but paused by Clarion before submission
High Path	608	1704	Phase 1 (136 homes) completing 2021. All to be occupied by existing residents to move into. Phase 2 has planning permission
Ravensbury	100	200	Phase 1 (21 homes) completed 2020. All occupied by existing residents to move into. Phases 2-4 have planning permission
TOTAL	**1174**	**2704**	

2.1.4 The original 2010 Stock Transfer Agreement committed Clarion to delivering Qualifying Works (as defined in the Stock Transfer Agreement) to upgrade existing homes to Decent Homes Standard within a specified time period.

2.1.5 In July 2014 council resolved to suspend the Decent Homes obligation in lieu of the proposed comprehensive regeneration of the Estates, and instead support the delivery of Decent Homes via estate regeneration. The council decision in July 2014 also established estate regeneration as the preferred option for delivering a range of benefits including better quality homes for existing residents, addressing housing needs and existing overcrowding, increasing housing supply in the borough, creating high-quality places and facilitating the regeneration of smaller Estates via a programme-level cross-subsidy model.

2.1.6 The Stock Transfer Agreement also included a Sales Clawback mechanism entitling LBM to 5% of all sales of market tenure homes sold on the open market.

2.1.7 Since the summer of 2013 Clarion, and its predecessor CHMP, have consulted and engaged with residents and homeowners on the Estates regarding the proposed regeneration of the Estates. Following extensive consultation and engagement, Clarion’s Residents’ Offer was agreed in 2015 following consideration by Cabinet. During this time the council also in consulted, drafted and adopted its Estates Local Plan to guide and support the regeneration of the Estates (council decision 7 February 2018, see background papers).

2.1.8 Merton’s Planning Application Committee resolved to grant outline planning permission at planning committee on 8 March 2018 for the proposed regeneration of the High Path (17/P1721), Eastfields (17/P1717) and Ravensbury (17/P1718) Estates. The Section 106 Agreement – a single Agreement tying together all three permissions - was signed, and planning permission granted on 26 April 2019.

2.1.9 It should be noted that Phase 1 of the High Path Estate redevelopment and Phase 1 of the Ravensbury Estate regeneration were granted full planning permission separately and in advance of the outline permissions for the full estate-wide proposals.

2.1.10 The outline permission and S106 Agreement followed Merton’s Estates Local Plan 2018 which established the principle of a linked financial and delivery model whereby the surplus value generated by the regeneration of the High Path Estate would cross-subsidise the regeneration of the Eastfields and Ravensbury Estates (which were identified as financially unviable considered in isolation).

2.1.11 Clarion submitted a detailed Financial Viability Appraisal to support the three-interlinked planning applications for the Estates, which was scrutinised by the Council’s independent viability assessors as part of the planning application process. The report from the Council’s independent viability assessors identified that there were a number of variances in Clarion’s financial viability appraisal, the cumulative effect of which could actually reduce the viability of the overall programme concluding therefore that there was not capacity for the development to fund additional affordable housing or planning gain beyond that proposed in the three outline planning applications (Report to Planning Applications Committee, 8 March 2018 – High Path Estate; para, 8.5.17). Overall Merton (as local planning authority) concluded that the proposed delivery of 27% affordable homes (729 units) across the three Estates represented the maximum reasonable amount of affordable housing which could be delivered in line with adopted planning policy and guidance at the time.

2.1.12 Additionally, in line with the Mayor's Affordable Housing and Viability SPG 2017, the Council's independent viability assessors recommended the inclusion of a viability review mechanism to be secured via S106 Agreement to ensure that any upside changes to financial performance across the duration of the programme due to policy, market and economic factors could be captured. The principle of this proposed S106 review mechanism formed part of the Planning Application Committee's resolution to grant permission, and was subsequently incorporated into the S106 Agreement, signed in April 2019. It should be noted that the S106 Agreement and its provisions are not proposed to be amended as part of this process.

2.2. Overview of MERP's viability deficit position

2.2.1 As noted above, on 6 April 2020 Clarion wrote to the council's Chief Executive advising that a significant viability gap had emerged in relation to MERP. The programme-level viability gap on a growth model basis, reported by Clarion and their financial viability consultants Savills, had swung from a surplus position of c. +£148m at the point of the grant of planning permission in April 2019, to a deficit of c. -£258m as of April 2020.

2.2.2 The scale of the reported viability gap was such that Clarion could not commit to delivering MERP on this basis. This was not an unreasonable position for Clarion to take given that the reported financial viability performance (reported as of April 2020) falls well short of any standard of financial viability, whether considered in a planning context or any other commercial context. The principle of this position is supported by LBM's independent financial viability consultants, SQW Ltd (formerly BPP Regeneration,).

2.2.3 It is important to note that the planning system has a specific definition of financial viability. Planning policy and guidance acknowledges that it is acceptable for a developer to make a return from development as compensation for risks taken. This principle is established by national planning policy and guidance (Planning Practice Guidance 2019, Para. 018) and was incorporated into the planning permissions for the Estates, with the Minimum Return Requirements to Clarion defined in the Section 106 Agreement. In planning terms, it would be rational and justifiable for a developer to not consider a scheme to be deliverable if it does not hit minimum levels of required return.

2.2.4 Notwithstanding the established principles of financial viability in a planning context, ultimately, Clarion could choose to deliver MERP even if the scheme does not deliver any required level of developer's return, or any positive financial return at all if they consider that the benefits of delivering the scheme outweigh the costs. This is relevant given their status a Registered Provider, a strategic affordable housing provider in the borough with contractual and statutory obligations to provide its residents with decent homes and address overcrowding, and as the sole delivery body with responsibility for the comprehensive regeneration of the Estates.

2.2.5 A key point underpinning this report and framing the process which has taken place over the last year has been the importance of establishing the level of financial performance for MERP which Clarion considers sufficient in order for them to commit to delivery of the full regeneration programme. At the outset of the process, Clarion indicated that achieving break-even position (disregarding any required developers return) would be sufficient to provide the confidence they need to commit to delivery. “Break even” can be definied as a scenario where income generated exceeds the costs of delivery. The precise formula for calculating “break even” will be agreed in the heads of terms. Across the last 12 months it has become apparent that this will be a challenging bar to achieve, and Clarion has since indicated a willingness to commit to delivery of MERP whilst still in a deficit position of -£65million, at the time of writing; this position is discussed in more detail later in this report.

2.2.6 It should be emphasised that Merton cannot compel Clarion to deliver the comprehensive regeneration programme. Clarion has obligations under the Stock Transfer Agreement to deliver Decent Homes, and clearly delivering Decent Homes by refurbishing the existing homes and not providing any new housing; this would be the default position should the full regeneration scheme go ahead.

2.2.7 Since Clarion’s reporting of the identified viability deficit of c. -£258m in April 2020, for the last 12 months LBM, Clarion and their respective consultant teams have worked collaboratively in exploring options to optimise the viability performance of MERP to reduce the viability gap to a level at which Clarion is willing to commit to delivery. This process has taken place via a series of workshops between LBM Officers, Clarion development leads and consultant teams, together with regular strategic meetings of a Steering Group comprising the Leader of the council, the Cabinet Member for Regeneration, Housing and the Climate Emergency, the Directors of Environment and Regeneration; Community and Housing; the council’s head of housing needs and the assistant director of sustainable communities.

2.2.8 This process entailed a number of strands of enquiry to test options for enhancing viability and deliverability which are detailed more fully below:

2.2.9 ***Assessment of Clarion’s reported viability deficit*** - a forensic review of all financial viability costs, values and assumptions to identify cost efficiencies and savings, where feasible. This involved testing and challenging Clarion’s assertions regarding the extent of the reported viability deficit and the underpinning reasons to drive improvements in financial performance beyond that originally reported;

2.2.10 ***Scheme options testing and value optimisation*** - testing options for generating additional value through proposed scheme revisions, particularly through the creation of new homes across all tenures, programme and phasing optimisation with a focus on value creation at the High Path Estate;

2.2.11 ***Testing options for adjusting the terms of the original Stock Transfer*** *Agreement* – covering potential adjustments to Decent Homes provisions, the clawback mechanism and commitments to partnership working; and

2.2.12 Consideration of implementing Exceptional Circumstances Relief in relation to LBM Community Infrastructure Levy (CIL).

2.3. **Assessment of the reported financial viability deficit**

2.4. Further to Clarion's letter to the council's Chief Executive dated 6 April 2020, Clarion provided updated Financial Viability Appraisals prepared by Savills, for each of the three Estates and also for MERP at a programme-level to substantiate Clarion's assertions regarding the viability deficit.

2.5. The Council appointed independent financial advisors SQW to undertake a review of Clarion's financial viability position for Merton's estate regeneration with a line-by-line assessment of the reported April 2020 position compared with the position reported by Clarion to the council in January 2018 ahead of planning committee. SQW examined the reported position and stated reasons for the shift in the viability position identifying areas of agreement, disagreement and where further evidence was required. Suggestions were also made regarding potential approaches to reducing and mitigating the deficit. This analysis was undertaken at a specific point in time (SQW reported on 30 June 2020 following iterative dialogue with Savills). It was, and still is, understood and agreed that the viability position will continue to evolve throughout the delivery of MERP, so this review was focused on identifying the principal drivers for the emergence of a viability deficit and potential mitigation strategies. The inputs and assumptions reviewed in June 2020 formed the basis for the subsequent dialogue and options testing process.

2.6. For the avoidance of doubt, the financial model reviewed was structured identically to that reviewed at the time of the original grant of planning permission and the fixed Assumptions remain as per Appendix 5 of the S106 Agreement (i.e. professional fees, marketing costs etc).

2.7. Appendix B provides the details of Clarion's financial viability assessment position for each Estate as reported in 2018 (the planning scheme), and as reported in April 2020, with cost movements identified for ease of comparison.

2.7.1 Following independent review and analysis of Clarion's financial viability assessments, it was concluded that the cost and revenue positions reported by Clarion and Savills were largely robust. A number of relatively minor clarifications and amendments were made to the viability assessments following interrogation, and the reported deficit was reduced from -£258m to -£235m. However, Clarion's overall reported position was considered justifiable.

Why had the financial viability of the project changed?

2.7.2 It was apparent that a number of factors had acted cumulatively in creating the viability deficit rather than one single issue. These multiple factors then interacted to generate disproportionate finance costs. The principal driving factors have been highlighted below (see Appendix B for overall summary comparison of all cost and revenue assumptions):

2.7.3 **Private sales income (-£28.7m) –** despite an overall increase in dwellings for sale, in part due to a switch in tenure of some previously assumed Private Rented Sector dwellings, the reported overall revenues were lower than previously anticipated, partly due to a flatter than anticipated housing market since the grant of planning permission, and more conservative market assumptions regarding potential future growth, impacted not least by Brexit.

2.7.4 Savills' reporting on values was undertaken prior to Covid-19 and the subsequent Stamp Duty Land Tax relief measures imposed by HM Treasury. Whilst some locations around the UK, and even within London, have experienced significant house price growth particularly since Q3/Q4 2020, the impact has been geographically variable and has also been variable depending on house types (i.e. typically lower value growth for flats in denser, city locations compared to higher growth for detached homes with outside space beyond urban areas). These effects were not factored into reporting over the last 12 months, but both Merton Council, Clarion and their advisers acknowledge that the residential sales market has experienced significant volatility over the course of the pandemic, and there remains significant uncertainty regarding future market performance. In this context it was considered that Savills' more conservative assumptions made in April 2020 regarding values and future growth potential, which were backed up by market evidence and independent review at the time of initial reporting, were considered appropriate and pragmatic. This position will need to be monitored carefully in the future and any 'upside' opportunity through value growth will still be captured by the same S106 affordable housing review mechanism which will remain unchanged – the growth would, however, need to be considerable to have any material impact on viability.

2.7.5 **Private Rented Sector income (-£56.6m) –** there were two principal drivers for the reduction in private rented sector income: firstly, Clarion reducing the original number of private rented dwellings in High Path following a switch to private sale, and secondly, a softening of the return on PRS investment once expenses had been deducted. This was substantiated by market evidence and in line with observations and risks originally observed by the council's financial advisors in January 2018.

2.7.6 **Affordable housing income (-£16.4m) –** driven by the valuation of all affordable homes on a Social Rent (with some at London Affordable Rents) rather than on an Affordable Rent basis, in line with updated GLA Guidance. This was accepted. Rent convergence (for void units) was also excluded from the appraisal, in line with GLA requirements, resulting in a further loss of assumed income of -£3.3m.

2.7.7 **Returning homeowners (-£20.7m) –** More leaseholders chose to sell their properties to Clarion than was originally anticipated.

2.7.8 **Ground rents (-£18.4m) –** ahead of pending government legislation, income from anticipated Ground Rents has now been excluded from the calculations.

2.7.9 **Commercial values (-£17.4m) –** a combination of lower assumed rents and softer yields, evidenced by market comparables, and the exclusion of any assumed value on the proposed community spaces results in a reduction in assumed commercial income. This was evidenced and substantiated, particularly within an overall challenging high street trading environment.

2.7.10 **Net Development Value (-£157.6m) -** Together with some other, less significant, shifts in income line items (see Appendix B) Clarion reported an overall reduction in anticipated revenue at programme-level of -£157m. Whilst some elements were clarified and challenged with some minor improvements made to this position, following independent review the cumulative reported position was considered to be justified.

2.7.11 On the cost side, the principal increased cost items were as follows:

2.7.12 **Build costs (+£40m) –** an increase of 4.7% with the reasons stated by Clarion's cost consultant, Mace, being the impact of 2018 Building Regulations amendments relating to fire safety and the cost increases associated with the forthcoming changes to Part L of the Building Regulations (zero carbon). Whilst this was identified as an issue requiring further interrogation, challenge and substantiation (with more detail subsequently provided), the evidence and benchmarking provided was considered robust.

2.7.13 **Leaseholder buy backs (+£31.1m) –** ultimately fewer leaseholder residents have opted to return than originally modelled resulting in increased leaseholder buybacks for Clarion. These costs generate significant finance costs early in the cashflow.

2.7.14 **Community Infrastructure Levy (CIL (+£12.9m) –** the anticipated increase in CIL liability was cited by Clarion as being driven by multiple factors including the increase in Mayoral CIL following the new rate (from £35 to £60 per square metre) increase introduced by the Mayor of London on 1st April 2019 by and potential increased liability arising in relation to the provision of replacement homes. Given the early stage of the delivery process and the lack of certainty regarding precise phase timings and potential relief eligibility it is considered that this overall liability could be mitigated to an extent, however the upwards increase driven at least in part of the Mayor of London's CIL 2 is acknowledged.

2.7.15 **Finance costs (+£175m)** – the reported increase in finance cost is by far the biggest contributor to the overall programme deficit. This is the result of the cumulative cost increases, the frontloaded timing of many of these increased costs being incurred (i.e. leaseholder buybacks) without being matched by anticipated revenue increases, which have also reduced. The impact on finance costs is exacerbated by the cross-subsidy model which carries finance costs across the whole development programme.

2.7.16 **Total development costs (+£271m)** – this figure is predominantly driven by the disproportionate cashflow impact and the timing of development cost increases resulting in increased finance costs.

2.8. **MERP Profit (reduction from +171m to -£258m)** – the cumulative impact of increased costs and decreased revenues resulted in a **-£429m** swing in scheme performance from a surplus position to a significant deficit position. Following some further refinements and clarifications relating to relatively minor points (i.e. ensuring High Path was modelled on a maximum parameter basis, as per the planning approval Financial Viability Appraisal), the deficit position was reduced in June 2020 to **-£237m,** but the relative scale of the deficit remained.

2.9. Following review by LBM and SQW it was clear that the underpinning reasons for the stated shift in the viability performance of MERP could be substantiated. The position reported above reflected a given point in time (April 2020) and the position will continue to flux, not least due to the impact of Brexit and Covid on values and costs, however the overall reported position could be justified.

2.10. The cross-subsidy model which, in a surplus scenario, allows High Path to subsidise the regeneration of Eastfields and Ravensbury Estates also generates a programme-level disproportionate finance cost burden when High Path's financial performance shifts, as it has, to a deficit-position.

2.11. **Deficit reduction – options testing**

2.12. Clarion clarified that they would be unable to commit to delivering MERP with the programme-level viability deficit at -£237m below break-even point, and even further away from generating a profit. The council and Clarion committed to working collaboratively to test potential options for reducing this deficit.

2.13. A series of workshops with Clarion, Merton officers and their respective consultant teams took place between October 2020 and February 2021 to facilitate open dialogue, presentation of options, scenario testing and iterative feedback and challenge by both parties. These workshops took place within the context of regular Steering Group meetings at a strategic level with the Steering Group, comprising senior LBM Officers and Members and Clarion counterparts, meeting regularly to provide strategic direction and feedback for Clarion's development and design team and LBM officers to implement.

2.14. A structured process was established to test, in sequence, the potential for cost savings and value enhancements across MERP.

2.15. Early work focused on the following aspects:

(i) Refinement of S106 financial contributions based on latest estimates;

(ii) Optimisation of CIL through maximising relief;

(iii) Identification of cost savings on physical works; and

(iv) Optimised delivery programme.

2.16. Following detailed review, challenge and testing, a total of **£42.4m** of cost savings were generated through these workstreams.

2.17. Cumulatively, through incorporating these cost savings into the overall programme combined with the clarifications and adjustments made in the summer of 2020 following independent review, the financial performance of the overall MERP deficit was improved from the originally reported -£258m to **-£194.5m**, referred to as the 'Optimised Baseline' (October 2020).

2.18. **Scheme optimisation**

2.19. A further opportunity to potentially unlock additional value from MERP to contribute towards reducing the deficit was identified: the potential reconfiguration of the approved regeneration proposals to increase the number of homes, including affordable homes.

2.20. Clarion and the council agreed to test the potential viability implications of building more homes at both the High Path and Eastfields Estates, recognising the limited scope to achieve this at Ravensbury.

2.21. The proposed options testing exercise was structured at the outset to consider the following implications for each option:

(i) High-level modelling of potential massing, distribution and quantum of floorspace with reference to the approved planning permission;

(ii) Reporting of financial viability performance using the model and assumptions agreed via the S106 Agreement and the additional cost and revenue metrics reviewed and agreed as part of the Optimised Baseline (October 2020).

(iii) High-level consideration of potential planning risks and implications in the context of the outline planning permissions including, potential programme implications, resident and community implications, implications for Compulsory Purchase Order (CPO) land assembly strategy and overall assessment of potential deliverability.

2.22. This exercise was undertaken outside of the format of planning pre-application dialogue or public consultation. The design information prepared was the minimum required to inform potential massing and floorspace figures to inform the viability testing and an indicative deliverability assessment.

2.23. The process focused on identifying options which could potentially both enhance financial performance and deliverability. All feedback provided by Merton to Clarion relating to the proposed scheme options was provided without prejudice to any future pre-application discussions based on detailed design development or any subsequent determination of planning applications.

2.24. Ultimately any proposed variation to the approved planning permissions would be subject to extensive and detailed pre-application engagement, public and stakeholder consultation and will need to demonstrate its acceptability in planning terms.

2.25. **Eastfields – consideration of scheme optimisation and densification.**

2.26. It was agreed from the outset by both Merton Council and Clarion that not regenerating Eastfields was not an option that either party would consider to improve the financial viability even though it was acknowledged that the financial performance of Eastfields in particular had significantly worsened since 2018, with the development costs significantly increasing, principally driven by an increase for Clarion in leaseholder buy-back costs and increased construction costs.

2.27. A standalone workstream was undertaken to explore potential options to create additional value.

2.28. Clarion and their team provided robust, but high-level design, planning and viability justification to articulate the reasons why there is limited value creation potential at Eastfields even if some limited densification might be potentially feasible, notwithstanding clear design and planning challenges. Ultimately the potential value uplift generated by creating additional private dwellings would not outweigh the additional costs. This was tested at a high-level by Clarion and their conclusions were considered reasonable. This was not unexpected, and it was accepted that amendments to Eastfields are unlikely to create significant additional value / cost reductions sufficient to materially close the programme-level deficit.

2.29. **High Path – scheme optimisation and densification options testing**

2.30. Options for building more homes at High Path Estate (than were originally part of the outline planning application) were developed by Clarion and their design team.

2.31. Clarion presented a high-level assessment of the risks associated with each option from the perspective of programme, planning, land assembly, impact on residents and overall deliverability.

2.32. Further to the testing of an initial five options, a further option – Option 6 – was developed, incorporating feedback from the Steering Group, LBM officers and their consultants. Option 6 comprised the following principal elements:

a) Localised additional massing concentrated in High Path Phases 4 – 7 both within and outside of approved planning parameters. High Path Phases 2 and 3 were predominantly excluded from consideration due to the progressed stage of design and importance of expediting delivery to re-home existing residents.

b) A potential increase in permitted total dwellings at the High Path Estate from 1,704 new homes to 2053-2277 new homes (range dependent on unit size), representing an increase of 349 – 573 dwellings (c. 20% - 34%).

c) Replacement of the proposed office block in Phase 4 with residential use above ground and first floor town centre commercial use.

Additional High Path Option		**High Path total homes**	**Overall MERP viability deficit**
6	Localised additional massing Phases 4-7 + switch of office to residential use (above first floor)	Up to 2,277	-£95.7m

2.33. Whilst this option contributed towards a further reduction in the overall programme-level viability deficit, the viability gap remained significant at nearly £100million and a clear risk to overall deliverability.

2.34. Option 6 also relied on the following assumptions:

a) The entirety of the net additional residential floorspace was assumed to be provided as market housing with no net additional affordable housing. This was not acceptable to the council

b) Private Sales Clawback eligible to LBM was still applicable.

2.35. **Proposed adjustment of the private sales clawback mechanism**

2.36. Having gone through the process of interrogating Clarion's finances, and seeing if more new homes or new grant would plug the viability gap the only remaining option to address the viability deficit was the proposed adjustment or concession of the 5% Sales Clawback mechanism included in the Stock Transfer Agreement.

2.37. As set out earlier in the report, the 2010 Stock Transfer Agreement signed by Clarion and Merton Council required Clarion to pay Merton Council 5% of the value of any private tenure home built on former council land

2.38. As the regeneration programme prioritises rehousing existing residents first, the clawback would only be payable to the council towards the end of the regeneration programme once all existing tenants had been rehoused and private homes could be built and sold. If regeneration did not go ahead and no new homes were built, no clawback would be payable.

2.39. Clarion and their consultant team demonstrated that the following would be sufficient to move the programme-level viability performance from a deficit to a marginal surplus position:

- a 100% suspension of Sales Clawback across all three Estates,
- plus building the additional homes at High Path (option 6)
- plus all the additional homes (option 6) at High Path being for market sale
-

Option	Sales Clawback?	MERP Clawback Total	Viability Deficit/Surplus
MERP Optimised Baseline	Yes	£52m	-£194.5m
MERP + High Path Option 6	Yes	£72.7m	-£95.7m
	No	£0	+10.7m

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2.40. It should be noted that this programme-level surplus would still not generate anywhere close to the level of profit or return to Clarion which could be considered reasonable in a planning context, in line with planning policy and guidance, the metrics incorporated into the S106 Agreement, or indeed development industry standards (even for Registered Providers delivering affordable housing).

2.41. It should further be noted that Clarion and LBM both agree that should the Sales Clawback suspension be accepted:

- Clarion would only not have to pay clawback while MERP viability was negative

- Should MERP break even or show a profit at any time in the 15-year programme, Clarion would have to resume paying the 5% clawback again on private sale homes built on former council land

2.42. This would allow the council to capture any potential future upwards movement in values and revenue generation relative to costs beyond that currently forecast, and ensure that the proposed adjustment of the mechanism is focused on enhancing deliverability of MERP to unlock wider housing and regeneration benefits.

2.43. It should be noted that Merton's independent financial advisors SQW consider that it is unlikely that Clarion will reach break even or profit.

2.44. LBM Officers and Steering Group Members stipulated that in return for suspending eligibility to this future income stream for the council, the council would want to see additional affordable housing.

a) Additional affordable homes would be required at the High Path Estate should any option to build new homes (above the existing regeneration programme) be pursued; and

b) Contractual assurances that if Clarion do not hit delivery programme milestones then (irrespective of the progress of the comprehensive regeneration scheme) the delivery of Decent Homes Standards upgrades would be required and enforced.

2.45. **Delivery of net additional affordable homes and implications**

2.46. In response to feedback from LBM officers and the Steering Group, Clarion tested a number of potential affordable housing scenarios and agreed to deliver a range between 349 and 573 additional new homes at High Path, of which

- 40% (between 139 to 229 homes, depending on the total number of new homes built) would be affordable and of these
    - 60% (84 to 137 homes) would be social rented
    - 40% (56 to 92 homes) would be shared ownership

2.47. The implication of this additional affordable housing, combined with the suspension of the council's right to Sales Clawback, would be an overall programme-level deficit of -£65m.

2.48. Importantly, Clarion has agreed that they would be willing to commit to delivery on the basis of a -£65m deficit and would be prepared to absorb the risk and subsidy required to progress on this basis. This deficit position is correct at the time of writing.

2.49. LBM Officers and the Steering Group requested further tenure split options to try and secure more socially rented homes. This demonstrated that if all the additional 40% affordable housing (143 homes) at High Path were to be socially rented rather than a 60:40 split in favour of social rent: shared ownership, the financial position would be worse at -£83m and Clarion confirmed they could not proceed with any of the regeneration on that basis.

2.50. Clarion has only agreed, at this stage, to commit to delivery on the basis of the deficit not worsening from the -£65m position.

2.51. It is important to note the following points:

a) The proposed additional affordable housing cannot be justified from a financial viability perspective. MERP remains in a significant deficit position if additional affordable homes are required, and also assumes Sales Clawback is suspended. Any additional affordable housing provided by Clarion would be proposed on the basis of seeking to optimise affordable housing outcomes for the Borough.

b) All affordable homes – inclusive of replacement and net additional homes would be delivered in Phases 1, 2, and 4 of the High Path Estate regeneration. This accelerates delivery when compared with the previously assumed phasing of clawback payments which would have been realised across Phases 3-7, weighted towards the end of the 15 year programme. The suspension of the clawback whilst in a deficit position actually unlocks these additional affordable homes; without this suspension r, the scheme would be so significantly unviable Clarion confirmed it would be undeliverable.

2.52. It is therefore recommended that the proposed suspension of Sales Clawback (only while MERP is in a deficit position) is appropriate subject to Clarion progressing with variations to the approved outline planning permission for the High Path Estate which will deliver additional affordable homes. (council decisions on planning applications is not fettered by any Cabinet or full council decision on this project),

2.53. Clarion has committed to delivery of MERP subject to the overall deficit position not worsening beyond -£65m. However the baseline viability position of -£65m and option to provide a range between 349 to 573 new homes as set out above provides a platform for developing scheme revisions.

2.54. LBM Officers have also asked that CHG consider the transfer of a freehold asset to the council in consideration of the benefit the viability of the overall MERP by the suspension of the clawback. Whilst this would not be income generating for the council for some significant period (possibly exceeding 125 years) it would be designed to not impact further on the overall viability of the. This request is in active consideration but has not yet been agreed by either party.

2.55. **Merton CIL Implications – including consideration of Exceptional Circumstances Relief**

2.56. The letter from Clarion dated 6 April 2020 cited increased CIL costs as a key driver of the MERP deficit. This letter further proposed that LBM should consider granting Exceptional Circumstances Relief in respect of the proposed LBM CIL liability arising due to the challenging viability position.

2.57. The council has not supported this approach as the LBM CIL contributions will generate significant contributions to the delivery of local infrastructure and services including schools, parks, open spaces and healthcare facilities.

Indeed, the granting of relief would be a matter for the local planning authority rather than LBM as a landowner.

2.58. It is further noted that the anticipated LBM CIL receipts generated over the life of the MERP programme will significantly increase as a result of the additional homes proposed at the High Path Estate. The movement in estimated LBM CIL receipts is shown below – there is an overall movement of +£24.1m. This is a benefit to LBM, in the context of the consideration of the wider recommendations proposed (i.e. Sales Clawback waiver).

	Planning Approval - April 2018	**Optimised Baseline - October 2020**	**With additional homes at High Path**
LBM CIL estimate (MERP)	c. £25.8m	c. £27.9m	c.£49.8m

2.59. **Decent Homes Standards commitments**

2.60. Should LBM agree to adjust the Sales Clawback mechanism as proposed, then Clarion has committed to delivering Decent Homes upgrades (the Qualifying Works) linked to milestones agreed in relation to MERP,

2.61. This would commit Clarion to delivering the Qualifying Works should programme milestones fail to be achieved, even if the regeneration programme is still intended to be delivered. This additional provision will be incorporated into the proposed arrangements and SLLP are advising on the most appropriate legal mechanism for this.

2.62. It is requested that responsibility for specifying the detailed programme and milestone dates for the Qualifying Works linked to the regeneration programme be delegated to the Director of Environment and Regeneration in consultation with the Cabinet Member of Housing , regeneration and the Climate Emergency to progress.

2.63. **GLA Grant – risks and assumptions**

2.64. Both the approved schemes comprising MERP and the proposed reconfigured scheme are reliant on securing GLA Grant (Affordable Homes Programme 2016-21) on the basis of:

- Social Rented - £60,000 per unit
- London Shared Ownership - £28,000 per unit

2.65. Clarion's Optimised Baseline position reported in October 2020 assumed total GLA Grant of c. £46.08m across MERP.

2.66. Should more affordable homes be built at High Path or equivalent, proceed then the assumed GLA Grant could increase by c. £6.75m to a total of c. £52.83m across the whole programme.

2.67. However, for phases which are due to commence after March 2023, the new criteria set out in the Mayor's Affordable Homes Programme 2021-2026 will instead apply. The Mayor's updated grant criteria stipulate that funding will not be available for affordable homes that replace homes that have been, or will be, demolished.

2.68. This is a clear strategic risk both to the overall viability and deliverability of MERP but also Clarion's wider regeneration pipeline across London. Clarion has confirmed they are in discussions with the GLA on the impact of this on estate regeneration projects and have confirmed that they won't seek further support from the council on the MERP to mitigate this risk.

2.69. Current levels of GLA Grant remain as a key assumption in the overall MERP financial model. This remains a key risk to deliverability and is a risk that will need to be actively monitored in Clarion's ongoing business plan. To mitigate this risk, the draft Heads of Terms include a provision requiring Clarion to underwrite the risk associated with existing levels of assumed GLA Grant.

2.70. **Future risk management and mitigation**

2.71. It is clearly regrettable that this significant viability deficit has materialised since resolution to grant planning permission was originally made in 2018.

2.72. Clarion and LBM will need to continue to work together collaboratively in order to tackle this challenge if residents on the estates are to have new homes built to modern standards and to help address overcrowding and to provide over 1,000 new homes to help address local housing need. The dialogue of the last 12 months has proven effective in testing alternative options, identifying what might be potentially feasible, as well as discounting unrealistic or inappropriate potential interventions.

2.73. LBM officers and Clarion both agree that close dialogue should be maintained throughout the remainder of the MERP delivery programme to assist in monitoring progress against the business plan, identifying, managing and mitigating risks.

2.74. It is therefore proposed that this collaborative working structure is formalised through the establishing of a regular 'operations level' working group to have oversight of business plan progress and risk on an ongoing basis and to facilitate open dialogue and pre-empt / manage issues at an early stage. It is further recommended that this operational level working group is complemented by a Steering Group to ensure that progress and key risks are also engaged with at a senior level, with relevant Members in attendance. The draft Heads of Terms include indicative content for the proposed annual business plan reporting which will be subject to refinement.

2.75. It is recommended that the precise terms of this arrangement are delegated to officers to progress and agree with Clarion and to be incorporated into the proposed amendments to the Stock Transfer Agreement. Clarion have agreed to indemnify the council for costs relating to the oversight and financial review of the Clarion business plan process.

2.76. **Nomination rights to Clarion Housing Group homes in Merton**

2.77. Out of the 86,000 homes in Merton, approximately 14% are available for affordable / social rent in Merton that can be used to house families on the council's housing waiting list. This is the fifth lowest in London (the regional average is 24.1%) Very few (usually between 100 and 200) of these existing affordable homes become vacant each year to enable the council to house households on the council waiting list.

2.78. Clarion Housing Group is by far the biggest Registered Provider in Merton and owns approximately half of these (6,200 homes). The remaining affordable / social rented homes are owned by many other social housing providers (e.g. Wandle Housing, L&Q, Notting Hill etc).

2.79. The council has statutory duties as set out in the Housing Act 1996 parts 6 and 7 to meet housing need. Without the availability of social rented homes to meet that need, those statutory duties would be difficult to discharge.

2.80. The council's housing waiting list is approximately 9,500 households (approximately over 20,000 people). The council nominates households on this waiting list to housing association homes as they become available for nomination in accordance with agreed nomination rights.

2.81. In 2020-21 Merton Council was able to nominate 191 households from the housing waiting list to vacant housing association homes (i.e. "true voids"). Clarion owned over 90 of the 191 "true void" homes.

2.82. In 2018 Merton Council obtained counsel opinion on the 2010 Nominations Rights Deed to clarify the position on "true void" homes during the estate regeneration project.

2.83. Counsel's opinion supported the council's position that Merton Council has a right to 100% of nominations in perpetuity to any of Clarion's "true void" homes during and beyond the estate regeneration period.

2.84. Members should be aware that Clarion have also sought legal advice on the 2010 Stock Transfer Agreement; their position can be summarised that Clarion believe that during the lifetime of the estate regeneration project Clarion have the right to use "true void" homes to help deliver regeneration by moving residents from within the three estates (known as decant).

2.85. As set out in this report, estate regeneration is complex and difficult to deliver. Recommendation B sets out that the council remains supportive delivering the Merton Estate Regeneration Programme for the wellbeing of its existing residents and the delivery of a significant number of new homes, including affordable homes.

2.86. The council, as housing authority, will work with Clarion to identify and assess the future use of any true void in light of the needs of delivery of regeneration of the three estates and the councils statutory housing duties. The provisions of the 2010 Nominations Deed in relation to the management of the "true voids" will continue to apply but both parties agree to adopt a pragmatic and rational approach to deciding the use of the true voids.

2.87. A working group, consisting of council and Clarion officers would meet to discuss the future use of any "true void" to obtain the council's express consent before the reletting of a true void to a tenant currently residing on one of the three regeneration estates takes place. Clarion will provide details of all true voids and their status to the council on a monthly basis. If the working group were unable to agree a position regarding the allocation of a "true void" then this would follow an escalation process, in the first instance to the Director of Community and Housing and an Executive Director for Clarion. Further escalation would be to Chief Executive Level.

2.88. Should councillors support this approach, officers recommend that this is secured with Clarion via a short protocol to ensure that any requests by Clarion are determined in a timely manner, to help deliver both the council's statutory housing duties and Clarion's estate regeneration swiftly and effectively. This protocol should be agreed between the two parties prior to resolving amendments to the Stock Transfer Agreement that might arise from any other recommendations in this report. Recommendation I of this report delegates the approval of this protocol to the Director of Community and Housing in consultation with the Cabinet Member for Housing, Regeneration and the Climate Emergency.

2.89. **Conclusions and recommendations**

2.90. This report has provided an overview of the dialogue which has taken place over the last twelve months between Clarion and LBM to test options for addressing a viability gap which has been identified and is of a scale that Clarion cannot commit to delivery of the comprehensive regeneration of the three estates.

2.91. The delivery of over 2,700 new homes, placemaking, environmental and employment benefits will not be realised if the deficit is not materially reduced.

2.92. A mix of potential measures have been identified which could contribute towards reducing this deficit from -£258m to a level at which Clarion is willing to commit to delivery. Clarion has identified that an acceptable deficit position for MERP is -£65m. This position does not represent a commercially viable scheme but is one Clarion considers is deliverable, and a subsidy requirement it is willing to absorb.

2.93. Even accounting for Clarion's commitment to proceed based on this deficit position, there remain a number of clear risks to viability and deliverability including market risks such as future build cost inflation and sales risks, land assembly and also GLA Grant funding availability. These risks are currently considered acceptable by Clarion but have to be acknowledged as clear risks to future viability and deliverability given the duration and scale of the programme.

2.94. To achieve this deficit reduction, beyond programme, cost and scheme optimisation measures identified within the control of Clarion, a number of future interventions have been identified which will need to be actively progressed by Clarion and LBM respectively and will require amendments to the Stock Transfer Agreement (responsibility of Clarion and Merton Council to agree) and securing relevant permissions (responsibility of Clarion to progress).

2.95. It is recommended that the interventions within the control of LBM are implemented as these are pre-requisites for enabling the delivery of MERP by Clarion. Clarion has indicated they could not commit to delivery without LBM committing to these interventions, and the financial modelling undertaken substantiates this position.

2.96. It is further acknowledged that even if Cabinet and Council accept the recommendations put before them in relation to specific LBM commitments, MERP could remain unviable and undeliverable without planning permission being progressed and secured by Clarion in relation to changes to the proposed High Path Estate regeneration scheme. This risk is carried by Clarion. This will be a matter for separate consultation, consideration and approval via the planning process and the planning process and any decisions by Merton’s Planning Applications Committee will be entirely separate from any council or cabinet decisions so remains a clear risk to deliverability. However, the recommendations below capture provisions to secure fallback provisions to ensure time-linked commitments from Clarion to investing in Decent Homes Standards to best protect existing residents. It is considered that subject to finalising terms considered to be in the best interests of the Council, the proposal to suspend the Clawback would be in the public interest as it is anticipated to assist the delivery of new homes which secures key objectives which contribute to the achievement of both a promotion of and an improvement in the economic, social and environmental well-being of the surrounding area.

2.97. As set out in previous council reports available in Section 12 “background papers” to this report, delivery of the MERP has significant benefits for Merton’s communities and for the borough.

2.98. Delivering the MERP helps to improve the quality of life for existing and future residents and meet the council’s policy requirements across a range of strategies and the requirements of the London Plan 2021.

2.99. Merton’s Core Planning Strategy 2011 sets out the spatial strategy for Merton. Within Merton’s Core Planning Strategy, it is identified that inequalities, including housing choices, need to be reduced and that a joined up approach with physical regeneration and other measures outside of planning will help to do this. Strategic objectives of Merton’s Core Plannign Strategy which the MERP helps to deliver, aim to provide new homes through physical regeneration and effective use of space through the delivery of high density new homes; and promote socially mixed, sustainable, vibrant and healthy communities.

2.100. Merton’s Estates Local Plan 2018 has been prepared by the Council to help guide what could be built and to assist with assessing planning applications for redevelopment of the three estates in the MERP. It expresses support for the aims of the MERP and recognises the opportunity to support substantial improvements to each of the Estates, to create sustainable, safe and well-designed neighbourhoods aimed at improving the quality of life and life chances of existing and future generations. It states this will be achieved through the regeneration of the whole estates at High Path and Eastfields, and the partial regeneration of Ravensbury.

2.101. By supporting the delivery of the MERP, Merton’s Estates Local Plan seeks to provide new homes for existing residents at the same time as creating an attractive, well-connected neighbourhood and providing new homes to help address the needs of future residents. It also recognises and promotes opportunities for environmental and economic benefits.

2.102. Merton's Estates Local Plan 2018 is based on deliverability evidence that shows that the three must come forward together to achieve regeneration. Delivery of the MERP as set out in this report presents a particular opportunity for the smaller estates at Eastfields and Ravensbury where regeneration is only financially viable if they are developed in conjunction with High Path as a comprehensive regeneration proposal.

2.103. The Mayor's London Plan 2021 is the spatial strategy for the whole of London and is part of all borough's statutory development plans. It sets out a number of objectives: to optimise the potential of development sites, make the most sustainable and efficient use of land, to improve quality of life, to deliver high quality new homes, to adapt and mitigate the effects of climate change and secure a more attractive and well-designed city.

2.104. Specifically on housing, the London Plan sets Merton's share of London's need for new homes as 918 additional homes per year based on housing need and capacity. It also sets strategic policies that encourage the replacement of existing housing with higher densities; encourage the provision of affordable housing; require high quality development creating functional, accessible and inclusive homes and neighbourhoods, with minimum unit and playspace requirements. There is also an emphasis on creating mixed and balanced communities, and it states that estate renewal should take into account the regeneration benefits to the local community.

2.105. Merton's Health and Wellbeing Strategy 2019-2024 recognises that the wider determinants of health and wellbeing include environmental factors such as having quality housing, good living conditions, access to good schools and other amenities

2.106. Delivering the MERP will replace poor quality, and in some cases defective housing stock across the three estates with modern homes that meet high standards of accommodation. It will make a significant contribution to the number of new homes in the borough, helping to address housing needs. It will provide jobs during the lifetime of the construction and in the case of High Path, new modern space for businesses along Merton High Street, supporting economic growth and jobs in accordance with Merton's Economic Development Strategy 2012, Merton's Core Planning Strategy 2011 and the London Plan 2021. Delivering the MERP will make significant improvements to placemaking and urban design within the three estates, improving the layout and legibility and including new measures such as electric vehicle charging points, additional cycle parking, better insulated homes and buildings and additional tree planting which will help to deliver Merton's Climate Change Strategy 2020.

2.107. Firstly, the measures summarised in this report which Clarion will need to progress are:

a) Clarion commitment to progressing with the re-design of elements of the High Path Estate approved scheme, undertaking detailed design, public and stakeholder consultation and securing any necessary planning approvals. Clarion assumes all planning and consultation risk and acknowledging that LBM's participation to date in this open dialogue regarding options testing has not constituted any approval or indication of acceptability in planning terms.

b) Clarion commitment to delivery of additional affordable homes as part of any re-designed scheme, targeting a significant quantum of additional Social Rented homes with due regard to the re-defined acceptable deficit baseline and LBM priorities regarding tenure split, for detailed discussion in due course.

c) Clarion commitment to agreeing an amendment to the Stock Transfer Agreement to commit to Decent Homes Standard upgrades tied to any failure to hit regeneration programme milestones to ensure these works will take place as a fallback even if MERP continues to proceed, albeit at a slower pace.

d) Clarion commitment to ongoing partnership working involving open book monitoring of business plan progress, regular updates of principal risks and approaches to managing and mitigating these risks through participation in regular ‘operational level’ workshops and less frequent Strategic Steering Groups. Arrangements to be secured via an amendment to the Stock Transfer Agreement.

e) Clarion commitment to the council’s position on the Stock Transfer Agreement that supports the council having 100% nomination rights in perpetuity for true voids in Merton, and that in exceptional circumstances Clarion can request the use of a true void where this ensures that this delivers estate regeneration and discharges the council’s statutory housing duties.

2.108. In the context of these commitments from Clarion, it is recommended that LBM commits to the following measures identified in this report:

a) Merton Council commitment to support the amendment of the Sales Clawback mechanism in the Stock Transfer Agreement to suspend eligibility to the 5% Sales Clawback mechanism so long as MERP is in the course of delivery and remains in a deficit position at programme-level. The mechanism will be re-introduced should MERP’s financial performance reach or exceed the break-even position.

b) Merton Council commitment to support the amendment of the Stock Transfer Agreement to incorporate provisions relating to future partnership working (see Para 2.81.4 above) to facilitate the identification, management and mitigation of viability and deliverability risks and ensure Clarion is held to account across the remainder of the delivery programme.

c) Merton Council commitment to draw up an effective process relating to the 2010 Nominations Rights Agreement, in conjunction with Clarion to set out how Clarion requests for the use of true voids for estate regeneration will be considered swiftly, transparently and effectively, so as not to delay decisions on accommodating housing needs.

2.109. It is recommended that delegated authority be given to the Director of Environment and Regeneration and the Director of Community and Housing in consultation with the Cabinet Member for Housing, Regeneration and the Climate Emergency to progress and negotiate the detailed provisions to facilitate these recommendations, including heads of terms and the final versions of any new or amended agreements.

2.110. The contents of the draft heads of terms are summarised below. The current draft Heads of Terms are included as Appendix D to this report.

1. In order to facilitate the delivery of the MERP, the Council has agreed to suspend its right to receive clawback from Clarion for so long as the MERP is being delivered. The arrangements will be set out in a supplemental deed between the parties.

2. Clarion will be obliged to deliver against a delivery plan attached to the deed. This will include achievement of milestones which will, crucially, include completion of decant of residents from existing homes into new homes.

3. There will also be attached to the deed, a revised iteration of the financial viability appraisal that is currently run and reviewed under the section 106 agreement for the three estates. That will establish a baseline position (which is currently acknowledged to be unviable).

4. If Clarion seeks to exclude one or more of the estates from the MERP then the Council will be entitled to re-impose clawback in relation to all new homes disposed of by Clarion.

5. If Clarion misses a long stop date then, unless this is due to force majeure or a Covid type situation, the decision as to whether to extend the long stop date will be referred back to Cabinet for further consideration.

6. If no extension of time is given and Clarion has clearly failed to achieve a milestone by a long stop date, its obligations to deliver the Decent Homes works will be re-imposed on all remaining parts of the estates that have not been regenerated at that point.

7. The parties are still discussing any other appropriate remedies for the Council if Clarion fails to achieve certain deliverables within agreed timescales.

8. If the MERP is successfully delivered, there is a further viability appraisal and any surplus above break even (assuming no priority return to Clarion) is paid to the Council up to a cap which is equivalent to the clawback it would have been entitled to receive under the original agreement, also allowing for interest due to the Council due to forgoing of Clawback receipts during the MERP's delivery.

3 ALTERNATIVE OPTIONS

3.1. The alternative to pursuing the proposed suite of recommendations to address the viability gap will be that Clarion will revert to solely delivering Decent Homes Standards refurbishment works across the Estates.

3.2. Delivering the fallback position will not address overcrowding issues nor provide new homes to contribute towards local housing need and the council's strategic 15-year housing target. Clarion report that 1 in 3 households are currently overcrowded. Additionally, Clarion report that most existing homes do not meet the Nationally Described Space Standards.

3.3. The fallback position would also likely lead to the cost of a proportion of required building improvements to be passed onto existing leaseholders under Section 20 of the Landlord and Tenant Act 1985 (as amended by Section 151 of the Commonhold and Leasehold Reform Act 2020)

3.4. The body of this report sets out alternatives that were considered in undertaking the review of Clarion's financial viability position with respect to the delivery of the MERP and it is not recommended that these alternatives are pursued further.

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. Consultation between Clarion and Merton Council is set out in the body of the report.

5 TIMETABLE

5.1. Should councillors resolve to agree the recommendations in the report, officers will prepare a timetable for delivery in consultation with the Cabinet Member for Housing, Regeneration and the Climate Emergency.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. Should the Council agree to adjust the Sales Clawback mechanism in line with this report's recommendation then LBM would be forgoing 5% of value of any new private dwellings sold on the Estates should regeneration proceed and so long as the programme-level viability position remains below break-even position. The estimated value of these receipts for the approved scheme (October 2020 – Optimised Baseline) was c. £52m.

6.2. The value of Sales Clawback in the context of a potentially optimised scheme (as of May 2021) is estimated at c.£72.7m. Based on the current scheme viability position being reported, subject to recommendations being adopted, LBM would be suspending their current eligibility for this figure.

6.3. However, as the council would not receive any clawback if the regeneration scheme did not proceed, the value of the potential sales clawback is entirely hypothetical in a scenario where the overall programme-level viability deficit is so significant that Clarion cannot deliver the scheme. It is also emphasised that without suspending the 5% clawback, the optimised scheme (subject to approval of Recommendations) would also not be viable or deliverable, no clawback would be payable to the council, and the regeneration and housing benefits would not be realised.

6.4. It is recommended that the 5% clawback mechanism be adjusted such that should financial viability performance improve across the life of the development programme and a break-even position at programme-level is reached, the council would once again start to receive the 5% Sales Clawback. Clarion has agreed to this proposal.

6.5. Anticipated LBM CIL receipts were previously estimated at £25.8m (October 2020 – Optimised Baseline) for the approved schemes. Subject to planning approval and scheme optimisation, LBM CIL receipts for the proposed optimised scheme are estimated at c.£49.8m.

6.6. Subject to the approval of the proposed recommendations, Clarion has committed to open book accounting, regular monitoring and updates regarding key value, cost and financial viability performance metrics within the context of the proposed programme-level risk management and mitigation governance arrangements. Clarion has also committed to indemnify the council's costs in monitoring the MERP.

6.7. The council prudently only utilises CIL and other receipts once received. As such, the Medium Term Financial Strategy makes no allowance for the anticipated CIL receipts generated by the scheme or the anticipated 5% Sales clawback under the Stock Transfer Agreement.

6.8. The proposals contained in this report do not change any arrangements made under the 2010 Stock Transfer Agreement in respect of property originally transferred under the agreement which is not included in the MERP In addition, it will not result in the council taking on any financial responsibility for meeting the Decent Homes standard or carrying out MERP.

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. This paper presents the rationale considered by officers for the council to agree to suspending a contractual right to proceeds of sale pursuant to the Clawback Agreement. Under section 8 of the Housing Act 1985, the council (as the Housing Authority) has a duty to undertake periodical reviews of housing conditions in its area and the needs of the area with respect to the provision of further housing accommodation. This duty may include assessing the quality and condition of housing accommodation of all different forms of tenures of housing accommodation in its area and not just affordable housing.

7.2. The council is entitled to rely on the general power of competence contained in s1 of the Localism Act 2011 in connection with considering the needs of the Borough and supporting housing need in the context of regeneration. This power authorises a local authority to "do anything that individuals generally may do" but this wide power is subject to certain limitations in other legislation. As the final terms of this proposal progress, further consideration will be made of the legal powers to conclude the final proposal and it is noted that the "in principle" decision is subject to the delegation to officers to conclude the terms and concluding all necessary legal and financial due diligence.

7.3. The final terms of the consideration for the suspension of the Clawback may be considered financial assistance as defined by ss24-26 of the Local Government Act 1988 which permits local authorities, subject to limitation set out in the legalisation and the Consent of the Sec of State, to provide financial assistance for the purpose of, or in connection with, the acquisition, construction, conversion, rehabilitation, improvement, maintenance or management of any property which is intended to be privately let as housing accommodation. Financial assistance may be considered a grant or loan and subject to concluding final terms and legal due diligence, the release of the Clawback consideration may be considered a grant. The Minister has issued General Consent and specific consent may be required in the event the final proposal does not fall with one of the general consents.

7.4. The proposal may be considered to be UK Subsidy (formally state aid) and any final proposals can only proceed in compliance with legislation relating to UK Subsidy.

7.5. Officers have set out that the suspension of the Clawback consideration and the postponing of the Decent Homes obligations are considered reasonable due to the potential loss of delivery of new homes if only the Decent Homes obligations was pursued by Clarion and the loss of perceived betterments for the Borough if the regeneration proceeds. Officers have also set out in this report the wider perceived betterments that the proposed regeneration is likely to deliver to the Borough and its residents. The final terms of the treatment of the Clawback and any ancillary stock transfer documents will be negotiated and settled by officers on such terms as officers consider reasonable and in the best interests of the Council in consultation with Members.

7.6. In coming to a decision, Members should consider whether the benefits of the proposals set out in this report would outweigh any dis-benefits of rejection of this proposal. Members are reminded, that as well as having regard to their fiduciary duty, that in coming to their decision they ensure that the decision is one which is rational in public law terms.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. None for the purposes of this report. For information and as reported to council in February 2018, an equalities impact assessment was conducted alongside and informed Merton’s Estates Local Plan 2018, which is the policy framework for the delivery of estate regeneration at Eastfields, High Path and Ravensbury. Merton’s estates local plan equalities impact assessment can be found here: https://www.merton.gov.uk/assets/Documents/lb_merton_sa_of_elp_appendices_final_november_2016.pdf

9 CRIME AND DISORDER IMPLICATIONS

9.1. None for the purposes of this report. For information, and as reported to council in February 2018, a sustainability appraisal, including crime metrics was conducted alongside and informed Merton’s Estates Local Plan 2018, which is the policy framework for the delivery of estate regeneration at Eastfields, High Path and Ravensbury.

9.2.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. As set out in the body of this report

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Appendix B – April 2018 FVA vs April 2020 FVA comparison

- Appendix C – Overview of viability performance of options testing
- Appendix D - draft Heads of Terms

12 BACKGROUND PAPERS

12.1. July 2014 – council decision on Circle Housing Merton Priory Estate Regeneration project (including stock transfer agreement suspension for the three estates) 9th July FINAL report.pdf (merton.gov.uk)

12.2. February 2018 – delivering Clarion Housing Regeneration project 2018-02-07 Council Delivering Clarion Regen vFINAL.pdf (merton.gov.uk)

12.3. February 2018 – Adoption of Merton's Estates Local Plan Committee report (merton.gov.uk)

12.4. Outline planning decisions 17/P1717 (Eastfields), 17/P1718 (Ravensbury) and 17/P1721 (High Path) for all three estates, with Section 106 agreement signed April 2019

12.5. Merton's Core Planning Strategy 2011 https://www.merton.gov.uk/planning-and-buildings/planning/local-plan

12.6. Merton's Health and Wellbeing Strategy 2019-2024 https://www.merton.gov.uk/assets/Documents/Health%20and%20Wellbeing%20Strategy%202019%20FINAL%20WEB.pdf

12.7. Merton's Climate Strategy and Action Plan 2020 https://www.merton.gov.uk/planning-and-buildings/sustainability-and-climate-change/climate-emergency

Appendix B – MERP Financial Viability Comparison – April 2018 (approved planning viability position) vs April 2020 (updated viability position

Table 1 - MERP Financial Viability Assessments Summary – January 2018 (Max Parameters): Approved planning viability position

Income/ Expenditure	High Path	Ravensbury	Eastfields	MERP
INCOME				
Private sale	£650,677,752	£51,930,655	£201,975,450	£904,583,857
Private rent	£178,226,610	-	-	£178,226,610
Rented (affordable)	£63,847,268	£16,791,380	£37,708,149	£118,346,797
RHO	£13,985,868	£604,552	£13,167,990	£27,758,410
Ground Rent	£12,277,698	£611,586	£5,942,757	£18,382,041
Commercial/Community	£42,832,029	£258,987	£866,566	£43,957,582
Rent Convergence	£567,866	£413,195	£2,343,976	£3,325,037
Grant Funding	£21,420,000	£6,420,000	£15,720,000	£43,560,000
Decent Home Savings	£9,439,645	£9,286,941	£6,953,871	£25,680,457
Refurb cost recovery	-	£2,276,902	-	£2,276,902
Net Development Value	**£989,527,275**	**£88,535,000**	**£283,796,325**	**£1,361,858,599**
EXPENDITURE				
Land Assembly	£7,000,000	-	-	£7,000,000
Buyback costs + tenant occupier loss*	£67,719,634	£3,203,510	£28,117,794	£99,040,938
Construction	£528,128,256	£61,710,608	£251,255,772	£841,094,637

Income/ Expenditure	High Path	Ravensbury	Eastfields	MERP
Professional fees	£44,890,902	£5,245,402	£21,356,741	£71,493,044
CIL + Section 106 + 278**	£31,451,192	£1,538,147	£5,989,487	£38,978,826
Sales & Marketing	£23,521,886	£1,678,261	£6,634,353	£31,834,499
Clawback	£32,533,888	£2,596,533	£10,098,773	£45,229,193
Finance	£22,856,123	£3,698,054	£44,837,885	£57,021,204
Gross Development Cost	**£758,101,880**	**£79,670,515**	**£368,290,805**	**£1,191,692,341**
Profit	**£231,425,395**	**£8,864,485**	**-£84,494,480**	**£170,166,258**
Profit on NDV	**23.81%**	**10.95%**	**-31.47%**	**12.88%**
Profit on TDC	**30.53%**	**11.13%**	**-22.94%**	**14.28%**
IRR	**17.07%**	**12.48%**	**-7.35%**	**11.00%**

Source: Savills FVA (April 2018) on behalf of CHG

Table 2 - MERP Financial Viability Assessments Summary – April 2020: updated viability position

Income/ Expenditure	High Path	Ravensbury	Eastfields	MERP
INCOME				
Private sale	£642,150,795	£36,479,731	£197,292,707	£875,923,233
Private rent	£121,627,465	-	-	£121,627,465
Rented (affordable)	£55,900.022	£17,010,792	£29,114,946	£101,989,173
RHO	£3,641,238	£199,986	£3,200,204	£7,041,428
Ground Rent	-	-	-	-
Commercial	£26,551,895	-	-	£26,551,895
Grant Funding	£21,600,000	£7,320,000	£17,155,000	£46,075,000
Decent Home Savings	£9,437,645	£9,286,941	£6,953,871	£25,678,457
Refurb cost recovery	-	£1,200,000	-	£1,200,000
Net Development Value	**£879,103,530**	**£71,497,450**	**£253,716,728**	**£1,204,317,709**
EXPENDITURE				
Land Assembly	£11,502,204	£289,057	£2,724,823	£14,502,527
Buyback costs	£71,998,543	£3,084,239	£46,717,653	£121,800,435
Tenant occupier loss	£2,550,440	£817,383	£2,309,319	£5,677,141
Construction	£556,369,659	£62,402,175	£262,566,668	£881,337,331
Professional fees	£47,291,421	£5,304,185	£22,318,167	£74,913,673
CIL	£34,941,406	£1,013,075	£8,144,198	£44,098,680

Income/ Expenditure	High Path	Ravensbury	Eastfields	MERP
Section 106 + 278	£4,839,283	£1,193,085	£2,552,744	£8,585,112
Sales & Marketing	£22,367,145	£1,186,223	£6,412,013	£29,955,936
Clawback	£38,188,913	£1,823,987	£9,864,635	£49,877,535
Finance	£95,438,642	£4,207,453	£84,799,883	£231,996,622
Gross Development Cost	**£885,487,655**	**£81,320,862**	**£448,410,104**	**£1,462,740,850**
Profit	**-£6,384,125**	**-£9,823,412**	**-£194,693,376**	**-£258,437,999**
Profit on NDV	**(0.75%)**	**(17.90%)**	**(84.79%)**	**(22.78%)**
Profit on TDC	**(0.72%)**	**(12.08%)**	**(43.42%)**	**(17.67%)**
IRR	**4.71%**	**(8.11%)**	**n/a**	**(0.97%)**

Source: Savills FVA (April 2020) on behalf of CHG

Table 3 - MERP Financial Viability Assessments Summary – April 2020: updated viability position indicating cost movements vs April 2018 position

Income/ Expenditure	High Path	Ravensbury	Eastfields	MERP
Private sale	£642,150,795 (-£8,526,957)	£36,479,731 (-£15,450,924)	£197,292,707 (-£4,682,743)	£875,923,233 (-£28,660,624)
Private rent	£121,627,465 (-£56,599,145)	-	-	£121,627,465 (-£56,599,145)
Rented (affordable)	£55,900.022 (-£7,947,246)	£17,010,792 (+£219,412)	£29,114,946 (-£8,593,203)	£101,989,173 (-£16,357,624)
Rent convergence	- (-£567,866)	- (-£413,195)	- (-£2,343,976)	- (-£3,325,037)
RHO	£3,641,238 (-£10,344,630)	£199,986 (-£404,566)	£3,200,204 (-£9,967,786)	£7,041,428 (-£20,716,982)
Ground Rent	- (-£12,277,698)	- (-£611,586)	- (-£5,942,757)	- (-£18,382,041)
Commercial	£26,551,895 (-£16,280,134)	- (-£258,987)	- (-£866,566)	£26,551,895 (-£17,405,687)
Grant Funding	£21,600,000 (+£180,000)	£7,320,000 (+£900,000)	£17,155,000 (+£1,435,000)	£46,075,000 (+£2,515,000)
Decent Home Savings	£9,437,645 (-)	£9,286,941 (-)	£6,953,871 (-)	£25,678,457 (-)

Income/ Expenditure	High Path	Ravensbury	Eastfields	MERP
Refurb cost recovery	-	£1,200,000 (-£1,076,902)	-	£1,200,000 (-£1,076,902)
Net Devt Value	**£879,103,530**	**£71,497,450**	**£253,716,728**	**£1,204,317,709 (-£157,540,890)**
EXPENDITURE				
Land Assembly	£11,502,204 (-£4,502,204)	£289,057 (-£289,057)	£2,724,823 (-£2,724,823)	£14,502,527 (-£7,502,527)
Buyback costs	£71,998,543 (-£7,989,236)	£3,084,239 (-£1,083,206)	£46,717,653 (-£22,039.270)	£121,800,435 (-£31,111,712)
Tenant occupier loss	£2,550,440 (+£1,159,887)	£817,383 (+£385,417)	£2,309,319 (+£1,401,008)	£5,677,141 (+£2,946,312)
Construction	£556,369,659 (-£28,241,403)	£62,402,175 (-£691,567)	£262,566,668 (-£11,310,896)	£881,337,331 (-£40,242,694)
Professional fees	£47,291,421 (-£2,400,519)	£5,304,185 (-£58,783)	£22,318,167 (-£961,426)	£74,913,673 (-£3,420,629)
CIL	£34,941,406 (-£8,941,406)	£1,013,075 (-£77,075)	£8,144,198 (-£3,844,198)	£44,098,680 (-£12,862,679)
Section 106 + 278	£4,839,283 (+£585,717)	£1,193,085 (-£591,085)	£2,552,744 (-£824,744)	£8,585,112 (-£830,112)
Sales & Marketing	£22,367,145 (+£1,154,741)	£1,186,223 (+£492,038)	£6,412,013 (+£222,340)	£29,955,936 (+£1,869,118)
Clawback	£38,188,913 (-£5,655,025)	£1,823,987 (+£772,546)	£9,864,635 (+£234,138)	£49,877,535 (-£4,648,342)

Income/ Expenditure	High Path	Ravensbury	Eastfields	MERP
Finance	£95,438,642 (-£72,582,519)	£4,207,453 (-£509,399)	£84,799,883 (-£39,961,998)	£231,996,622 (£174,975,418)
Gross Devt Cost	**£885,487,655 (-£127,385,847)**	**£81,320,862 (-£1,650,311)**	**£448,410,104 (-£80,119,299)**	**£1,462,740,850 (-£271,048,509)**
Profit	**-£6,384,125 (-£237,809,520)**	**-£9,823,412 (-£18,687,897)**	**-£194,693,376 (-£110,198,896)**	**-£258,437,999 (-£428,694,257)**
Profit on NDV	**(0.75%) (-24.56%)**	**(17.90%) (-28.85%)**	**(84.79%)**	**(22.78%) (-35.66%)**
Profit on TDC	**(0.72%) (-31.25%)**	**(12.08%) (-23.21%)**	**(43.42%)**	**(17.67%) (-31.95%)**
IRR	**4.71% (-12.36%)**	**(8.11%) (-20.59%)**	**n/a**	**(0.97%) (-11.97%)**

Source: Savills FVA (April 2020) on behalf of CHG – SQW comparison of cost and value movements

Appendix C – Summary of Options Testing Viability Outputs (February 2021)

Table 1 – Options 1-5 Savills FVA summary

NOTE – High Path Estate figures shown alongside overall MERP impact

Income / Expenditure Item	Optimised Baseline	Option 1	Option 2	Option 3	Option 4	Option 5
Income						
Private Sale	£643,421,129	£789,434,946	£862,930,001	£992,470,186	£1,069,041,871	£1,090,719,982
Gross Development Value (net of pc's)	**£890,387,893**	**£1,034,931,020**	**£1,108,586,449**	**£1,238,493,389**	**£1,315,073,019**	**£1,336,751,130**
increase from Baseline	**£0**	**£144,543,127**	**£218,198,556**	**£348,105,496**	**£424,685,126**	**£446,363,237**
Expenditure						
Construction	£550,041,211	£662,112,274	£694,541,822	£760,544,703	£803,007,622	£815,845,024
Professional Fees	£46,753,503	£56,279,543	£59,036,055	£64,646,300	£68,255,648	£69,346,827
CIL - Mayoral	£5,971,001	£8,431,782	£9,160,408	£10,634,913	£11,390,038	£11,650,929
CIL - Merton	£27,873,448	£40,444,560	£44,166,805	£51,699,434	£55,557,052	£56,889,834
Section 106	£4,454,549	£4,454,549	£4,677,802	£5,147,946	£5,386,958	£5,457,874
Sales & Marketing	£22,442,725	£27,154,204	£29,542,237	£33,757,105	£36,245,863	£36,950,411
Clawback	£38,465,806	£45,764,454	£49,439,207	£55,916,216	£59,744,800	£60,828,706
Finance	£81,924,911	£90,158,628	£95,734,184	£77,800,342	£76,281,573	£76,312,448
Gross Development Cost	**£863,978,340**	**£1,020,851,181**	**£1,072,349,707**	**£1,146,198,146**	**£1,201,920,741**	**£1,219,333,240**
increase from Baseline	**£0**	**£156,872,841**	**£208,371,366**	**£282,219,805**	**£337,942,400**	**£355,354,900**
Profit	**£26,409,553**	**£14,079,839**	**£36,236,742**	**£92,295,243**	**£113,152,278**	**£117,417,890**
Profit on GDV (exc DHS and grant)	3.05%	1.40%	3.35%	7.61%	8.78%	8.96%
Profit on TDC	3.06%	1.38%	3.38%	8.05%	9.41%	9.63%
MERP - deficit position	**-£194,520,547**	**-£217,505,821**	**-£188,729,185**	**-£133,819,472**	**-£108,438,356**	**-£102,514,632**
difference from Baseline	**£0**	**-£22,985,274**	**£5,791,362**	**£60,701,075**	**£86,082,191**	**£92,005,915**
Total Number of Units	**2704**	**2704 - 2900**	**2789 - 2996**	**2968 - 3191**	**3059 - 3293**	**3068 - 3322**

Table 2 – Option 6 Savills FVA summary (including affordable housing scenarios)

NOTE – High Path Estate figures shown alongside overall MERP impact

Income / Expenditure Item	2020 FVA	Optimised Baseline (Workshop 2)	Option 6 - 100% private uplift	Option 6 - 100% private uplift, nil clawback across MERP	Option 6 - nil clawback across MERP, plus deliver 40% AH uplift (143 units, 60/40 split) in P4
Income					
Private Sale	£653,628,547	£643,421,129	£1,072,984,730	£1,072,984,730	£997,688,058
Private Rent	£121,627,465	£125,894,981	£125,894,981	£125,894,981	£125,894,981
Affordable Tenures	£60,448,538	£60,972,817	£61,217,215	£61,217,215	£97,808,464
Commercial	£24,746,366	£24,746,366	£13,359,364	£13,359,364	£13,359,364
Grant	£21,600,000	£21,600,000	£21,600,000	£21,600,000	£28,356,000
Other	£13,752,600	£13,752,600	£13,752,600	£13,752,600	£13,752,600
Gross Development Value (net of pc's)	**£895,803,516**	**£890,387,893**	**£1,308,808,890**	**£1,308,808,890**	**£1,276,859,467**
Expenditure					
Land Assembly	£86,051,187	£86,051,187	£86,051,187	£86,051,187	£86,051,187
Construction	£562,093,668	£550,041,211	£783,439,883	£783,439,883	£796,289,813
Professional Fees	£47,777,962	£46,753,503	£66,592,390	£66,592,390	£67,684,634
CIL - Mayoral	£6,116,549	£5,971,001	£10,998,654	£10,998,654	£9,932,075
CIL - Merton	£28,824,857	£27,873,458	£55,557,052	£55,557,052	£49,822,730
Section 106	£4,839,283	£4,454,549	£5,392,212	£5,392,212	£5,392,212
Sales & Marketing	£22,740,171	£22,442,725	£36,131,744	£36,131,744	£33,065,403
Clawback	£38,762,801	£38,465,806	£59,941,943	£0	£0
Finance	£92,758,846	£81,924,911	£73,008,048	£66,241,719	£75,055,970
Gross Development Cost	**£889,965,323**	**£863,978,350**	**£1,177,113,113**	**£1,110,404,841**	**£1,119,807,162**
Profit	**£5,838,193**	**£26,409,543**	**£131,695,777**	**£198,404,049**	**£157,052,305**
Profit on GDV (exc DHS and grant)	0.68%	3.09%	10.34%	15.58%	12.72%
Profit on TDC	0.66%	3.06%	11.19%	17.87%	14.02%
MERP - surplus / deficit position	**-£236,945,176**	**-£194,520,547**	**-£95,762,311**	**£10,636,008**	**-£65,163,567**
difference from Optimised Baseline	**-£42,424,629**	**£0**	**£98,758,236**	**£205,156,555**	**£129,356,980**

Appendix D.

LONDON BOROUGH OF MERTON AND CLARION GROUP

MERTON ESTATES REGENERATION PROGRAMME

VARIATIONS

HEADS OF TERMS: (1) 12.08.21

1. BACKGROUND AND EXECUTIVE SUMMARY

1.1 London Borough of Merton and Clarion Housing Group have agreed to vary certain of the arrangements for the Merton Estate Regeneration Programme which were originally set out in a Stock Transfer Agreement dated 22 March 2010 made between (1) the Council and (2) Merton Priory Homes together with the associated suite of documentation entered into on that date. Clarion is the successor to Merton Priory Homes in relation to the arrangements.

1.2 Specifically, the Council is prepared to suspend the requirement for clawback payments to be made pursuant to the Clawback Agreement (as defined below), to facilitate the delivery of regeneration by Clarion on the Eastfields, High Path and Ravensbury Estates which fall within the programme. However, on this basis, the Council will require to monitor the progress of the programme on the basis set out in these Heads of Terms.

1.3 Should the programme ultimately deliver a surplus the Council will seek to recover Clawback and these Heads of Terms set out the proposed mechanism and approach to facilitating this, on the basis of a baseline position reflecting the MERP established upon exchange of the proposed Supplemental Deed (as defined below).

1.4 The parties have also agreed to further define and set out their respective obligations regarding business planning, reporting and monitoring as originally set out in the Partnership Agreement (as defined below).

1.5 For the avoidance of doubt these Heads of Terms and the proposed Supplemental Deed are entered into by the Council in its capacity as landowner and not in any other capacity. These Heads of Terms do not constitute approval by the Council of the Densification Proposal.

2. DEFINITIONS

Term	Definition
"**Actual Costs**"	means the reasonable and proper costs incurred to deliver the MERP up to the date upon which a relevant Affordable Housing Reappraisal is undertaken
"**Actual Revenues**"	means the income received by Clarion as a result of the MERP up to the date upon which a relevant Affordable Housing Reappraisal is undertaken
"**Affordable Housing Reappraisal**"	means the appraisals defined as such in the S106 Agreement and to be carried out by Clarion pursuant to its obligations in the S106 Agreement

"**Annual Business Plan**"	means an annual business plan to be prepared by Clarion and presented to the Steering Group, containing as a minimum the matters covered in paragraph 6.3 of these Heads of Terms
"**Break Even**"	means that an Affordable Housing Reappraisal demonstrates that the aggregate of Projected Revenues and Actual Revenues exceed the aggregate of Projected Costs and Actual Costs
"**Clarion**"	means Clarion Housing Group a community benefit society (registered number 28038R) of Level 6, 6 More London Place, London, SE1 2DA
"**Clarion Group Members**"	means Clarion and any subsidiary of it within the meaning of the Cooperative and Community Benefit Societies Act 2014, Companies Act 2006 or Housing and Regeneration Act 2008
"**Clawback**"	means the sums payable by Clarion to the Council under the Clawback Agreement from time to time
"**Clawback Agreement**"	means the Development and Disposals Clawback Agreement dated 22 March 2010 and forming part of the STA Suite
"**Council**"	means The Mayor and Burgesses of the London Borough of Merton
"**Delivery Plan**"	means the programme and timetable for the delivery of the MERP attached to these Heads of Terms
"**Densification Proposal**"	means the proposal prepared by Clarion and presented to the Council prior to the date of these Heads of Terms, to be further worked up and agreed by the parties as set out in these Heads of Terms subject to all necessary statutory approvals being received
"**Estates**"	means the Eastfields, High Path and Ravensbury Estates demarcated for the purpose of identification only on the attached plan
"**Long Stop Dates**"	means the long stop dates for the milestones within the Delivery Plan to be achieved, as set out in the Delivery Plan and including specifically (but not limited to) a long stop date for the handover of new homes for existing residents who are to be decanted, within each phase of the MERP as may be varied by agreement from time to time. Steering Group shall act reasonably in considering any request for the extension of a Long Stop Date and making any recommendations to the Council
"**MERP**"	means the Merton Estates Regeneration Programme comprising the demolition of existing housing stock and delivery of new housing stock on the Estates by Clarion and as more particularly described and in the planning permissions for the three Estates referenced in the S106 Agreement (references 17/P1717, 17/P1718 and17/P1721)
"**Milestones**"	means the milestones to be set out in the Delivery Plan including specifically (but not limited to) the handover of new homes for existing residents who are to be decanted, within each phase of the MERP

[***DN: Specific milestones to be agreed. These are likely to include substantive start on site for each phase, and completion of decant for existing residents in each phase***]

"**Nominations Agreement**"	means the nominations agreement forming part of the STA Suite
"**Partnership Agreement**"	means the partnership agreement forming part of the STA Suite
"**Projected Costs**"	means those reasonable and proper forecasted costs still to be incurred in the delivery of the MERP as at the date upon which a relevant Affordable Housing Reappraisal is undertaken
"**Projected Revenues**"	means all income still to be realised as a result of the MERP as at the date upon which a relevant Affordable Housing Reappraisal is undertaken
"**S106 Agreement**"	means an agreement under section 106 of the Town and Country Planning Act 1990 dated 26 April 2019 in relation to the MERP and made between (1) the Council (2) Clarion Affordable Housing Limited and (3) Prudential Trustee Company Limited as may be varied by agreement from time to time
"**STA**"	means a Stock Transfer Agreement dated 22 March 2010 made between (1) the Council and (2) Merton Priory Homes
"**STA Suite**"	means the suite of legal documents attached to, forming part of and ancillary to the STA all dated 22 March 2010
"**Steering Group**"	means a steering group to be formed between Clarion and the Council as set out in paragraph 6.1 of these Heads of Terms
"**Supplemental Deed**"	means the deed to be entered into between the parties pursuant to these Heads of Terms

3. **SUPPLEMENTAL DEED OVERVIEW**

3.1 The Council and Clarion will enter into a deed that will be supplemental to various documents within the STA Suite. This deed will relate specifically to the MERP and the Estates and will not affect the parties' wider obligations in the STA Suite.

3.2 The key principles to be comprised in the deed are:-

3.2.1 A positive commitment by Clarion to delivery of the MERP across the three estates.

3.2.2 Suspension of Clawback, in relation to the Estates, during delivery of the MERP;

3.2.3 Obligations on Clarion to deliver, or procure delivery of the MERP by Clarion Group Members, in accordance with the Delivery Plan;

3.2.4 Agreement of certain triggers relating to failure to comply with 3.2.1 or 3.2.3 leading to Decent Homes Standard commitments applying;

3.2.5 [***position to be agreed regarding the re-imposition of Clawback in certain circumstances where Clarion cannot demonstrate justification for failure to achieve certain deliverables within agreed timescales, as such timescales may be extended***]

3.2.6 Enhanced business planning, monitoring and reporting obligations to supplement those set out in the Partnership Agreement;

3.2.7 Clarification on the Nominations Agreement.

4. **SUSPENSION OF CLAWBACK**

4.1 The parties agree that the MERP meets the definition of “Estate Redevelopment” contained in clause 3.3 of the Clawback Agreement. Accordingly, the provisions of clause 3.3 of the Clawback Agreement apply to the calculation of any Clawback arising from the MERP and none of the other clawback provisions in the Clawback Agreement will apply to the Regeneration.

4.2 The parties further agree that any intragroup transactions between Clarion Group Members will not be considered to be disposals and that it is the final disposal of any open sale units on the open market that will be considered to be a relevant disposal for the purposes of calculation of the Clawback irrespective of which Clarion Group Member makes that sale. If a Clarion Group Member decides to hold housing stock to rent (other than as affordable housing), rather than to effect a disposal which would count towards the calculation of Actual Revenues, then it shall notify the Council of this decision and a valuation of the relevant stock shall be carried out and shall be counted as Actual Revenue notwithstanding that no disposal has taken place.

4.3 An updated iteration of the Affordable Housing Reappraisal will be prepared prior to entry into the Supplemental Deed and will be attached to the Supplemental Deed. This will form a “baseline” for the parties’ understanding of the viability of the MERP as at that date (notwithstanding that under the S106 Agreement there may be no obligation to provide this to the local planning authority as at that date). Viability shall be assessed on the basis of that Affordable Housing Reappraisal with the line item for “Clawback” excluded from development costs. The Affordable Housing Reappraisal and further iterations of it will be used for all calculations required pursuant to the Supplemental Deed, but in the context of the definition of Break Even for the purpose of these Heads of Terms and the Supplemental Deed.

4.4 The periodic Affordable Housing Reappraisals that Clarion is obliged to undertake pursuant to the S106 Agreement will be made available to the parties on a fully open book basis, and used to establish progress with and the financial status of the MERP as against the Delivery Plan during the suspension of the Clawback.

4.5 At the point in time that 95% of open market sales have been completed in relation to the final phase of the MERP, Clarion will refresh the Affordable Housing Reappraisal specifically in order to ascertain whether any surplus is available to be distributed as Clawback in accordance with the provisions of clause 3.3 of the Clawback Agreement, in addition to capturing the opportunity cost of Clawback revenues due to the Council forgone during the duration of the programme and suspension of the Clawback [***formula and basis for calculation TBC***]. A market valuation exercise will be carried out in relation to unsold units and values for those units attributed accordingly, for the purpose of this calculation. If there is a surplus above Break Even then Clarion will pay/procure the payment to the Council of that surplus up to a cap being the amount due pursuant to the Clawback Agreement (adjusted as above). [***TBC whether 100% of the surplus is payable to the Council, or a lesser proportion***]

4.6 The operation of clause 3.3 of the Clawback Agreement will be suspended until the MERP has been completed. The operation of the final Affordable Housing Reappraisal under paragraph 4.6 above shall be sufficient to discharge Clarion’s obligations in relation to Clawback and after Clarion has made the payment described in paragraph 4.6, it shall have no further obligations to the Council to pay Clawback in relation to the MERP.

4.7 As from the completion of the MERP and payment of the sums (if any) referred to in paragraph 4.6 above, the Clawback will cease to be suspended and the provisions of clause 3.3 of the Clawback Agreement will once again apply to all future disposals.

4.8 In the event that Clarion seeks to exclude one of the three estates from the MERP then the Council shall be entitled to cease the suspension of Clawback in relation to all phases delivered to date. Clarion will refresh the Affordable Housing Reappraisal specifically in order to ascertain whether any surplus is available to be distributed as Clawback in relation to the phases delivered to date, in accordance with the provisions of clause 3.3 of the Clawback Agreement, in addition to capturing the opportunity cost of Clawback revenues due to the Council forgone during the duration of the programme and suspension of the Clawback [***formula and basis for calculation TBC***].

4.9 [***Note: if Clarion fail to achieve a Milestone by a relevant Long Stop Date, where it is unable to demonstrate to the Council's reasonable satisfaction a justification for that failure, sanctions to be discussed and agreed between the parties.***]

5. **DELIVERY OF THE MERP**

5.1 The Supplemental Deed will oblige Clarion to use all reasonable endeavours to procure delivery of the MERP in accordance with the Delivery Plan.

5.2 Notwithstanding the delivery of the MERP, Clarion shall nonetheless remain obliged to comply with its general repair and maintenance obligations in relation to the Estates, throughout the period of the MERP, as set out in the STA Suite.

5.3 Clarion and the Council (but at no cost to the Council) will work together to seek to secure additional grant funding for the MERP whether as social housing assistance or as infrastructure grant funding. Clarion to underwrite any risk associated with securing existing assumed levels of grant given ongoing changes to the GLA regime.

5.4 Long Stop Dates and other agreed triggers may be extended or adjusted (as appropriate) due to (1) force majeure; and/or (2) Covid type events; and/or (3) otherwise if agreed by the Council pursuant to a recommendation made by Steering Group (see paragraph 6.1 below).

5.5 If either party considers it likely that an agreed trigger event (which may include failure to achieve a Milestone by a Long Stop Date) will occur then that party shall bring the matter to the Steering Group's attention at the next Steering Group meeting, on a fully open book basis, so that Steering Group can consider the position and agree whether an extension of time or other suitable adjustment of the appropriate tests should be:-

5.5.1 given (where the circumstances amount to force majeure or a Covid type event); or

5.5.2 recommended to the Council (where the circumstances do not amount to force majeure or a Covid type event, and/or where in relation to any time related triggers delay amounts to more than [TBA] months); or

5.5.3 refused (where the Steering Group acting reasonably does not consider an extension of time or other adjustment to be appropriate).

5.6 Where an agreed trigger (as may be adjusted as described in paragraph 5.5) occurs, Clarion shall commence the Decent Homes Works on that Phase within [***timescale to be agreed***].

5.7 The Council is required to consent to all disposals forming part of the MERP including the disposals from Clarion to a Clarion Group Member in accordance with the restriction of title imposed by clause 11.4.4 of the TR5 forming part of the STA Suite. The Council will confirm in the Supplemental Deed that Clarion's conveyancer is authorised to execute RX4 certificates in relation to each such disposal

5.8 The parties agree that the suspension of the Clawback pursuant to the Supplemental Deed will need to be carried out in accordance with the UK's subsidy control law. The parties intend that all expenditure that is facilitated by the suspension of Clawback will be made only to the extent that it constitutes appropriate expenditure on Services in the Public Economic Interest ("**SPEI**") and any excess achieved by Clarion as a result of the suspension of Clawback will be reimbursed to the Council. [***Trowers to review and confirm whether this reflects their previous proposal?***]

6. **BUSINESS PLANNING, REPORTING AND MONITORING**

6.1 **Steering Group**

6.1.1 Upon entry into the Supplemental Deed, the parties will form a Steering Group which will be responsible for decision making, recommendations, and monitoring progress in relation to the MERP including consideration and if agreed adoption of the Annual Business Plan.

6.1.2 The Steering Group will be comprised of:-

(a) [***job titles to be confirmed; number of participants from each side to be confirmed***]

6.1.3 It will meet quarterly (and at other times if the parties agree it is necessary).

6.1.4 The Steering Group will have authority to make recommendations to inform the Council's own internal decision-making processes, in relation to the achievement of Milestones by Long Stop Dates, compliance with Clarion's obligations to deliver the MERP and the application / review of Clawback. These decisions will need to be made by the Council's Cabinet or Full Council (as appropriate), whose discretion cannot be fettered.

6.1.5 The Steering Group will also be mandated to review the operation of the Supplemental Deed [half way through the delivery of the MERP [***to be defined***] and propose adjustments to processes if this is considered necessary, again for approval by respective parties.

6.1.6 If Steering Group cannot agree on a point within [***timescale***], the matter will be escalated to [Chief Executive officers] within the respective parties.

6.1.7 [***to consider what happens if CE's cannot agree – not all disputes will be appropriate to go to an expert?***]

6.1.8 Clarion will pay the Council's reasonable and proper costs associated with participation in the Steering Group and Operations Group, and the monitoring of progress and achievement of Milestones.

6.2 **Operations Group**

6.2.1 The parties will also incorporate an Operations Group which will be responsible for the day to day management and decision making in relation to the MERP, and reporting up to Steering Group.

6.2.2 The Operations Group will be comprised of:-

(a) [***job titles to be confirmed; number of participants from each side to be confirmed***]

6.2.3 It will meet monthly (and at other times if the parties agree it is necessary). The standing agenda will be a review of progress against the Annual Business Plan (see 6.3 below).

6.2.4 If the Operations Group identifies a material variance in performance against the Annual Business Plan in terms of timings, costs and/or values this shall be referred to the Steering Group which may commission a more in depth review of progress. [***to discuss "materiality" in this context***]

6.3 **Annual Business Plan**

6.3.1 Clarion shall be responsible for preparing an Annual Business Plan for review, discussion and if agreed adoption by the Steering Group.

6.3.2 The format for the Annual Business Plan shall be agreed by the Steering Group and shall as a minimum contain the following:-

(a) Dashboard of scheme outputs and progress for each Estate:

(i) Accommodation schedule for each phase of each Estate split by mix, tenure (nos. and %) with clear identification of status (RM submitted/approval, construction, PC), confirmation of starts and completions etc.

(ii) Programme summary (high level) with a focus on key dependencies

(iii) For High Path Estate this headline dashboard should also clearly split out the baseline planning position and the proposed scheme variations/densification

(b) Programme

(i) An over-arching strategic MERP programme supported by more granular programmes for each Estate – the Estate-specific programmes should include a comparison with the baseline programme – capture planning/RM approvals process, public consultations, CPO, decant / vacant possession process, detailed design, pre-construction tender process, site mobilisation, enabling and construction works, occupation target and achieved dates/milestones split by tenure

(ii) The strategic programme will need to be accompanied by a narrative/summary clearly summarising progress against the target programme highlighting key programme over-runs and proposed mitigations/programme savings

(iii) In addition Clarion will provide a details of its structural repair programme and a timetable for these works, for monitoring purposes

(c) Risk Register

(i) A strategic risk register (not an overly granular project/construction risk register) but focused on the key scheme (i.e. Estate) and overarching programme issues with a particular focus on strategic / cumulative risks and interdependencies

(ii) To include identification of key risks, assessment of risk to deliverability and viability and mitigation strategies etc.

(iii) To also include a 'look forward' approach to risk management including wider legislative, policy, stakeholder and market issues/risks

(d) Thematic focus on key issues in support of the risk register

(i) To include specific details on progress and issues with leaseholder buybacks, voids, nominations, management/repairs, CPO, GLA grant negotiations, planning RMAs, revised outline for densification, progress of communications against resident engagement strategy

(e) Viability Update

(i) As set out above, the purpose of the viability update is not to provide a full Affordable Housing Reappraisal for independent review and scrutiny (as this is covered under the S106 Agreement and the final review process described in paragraph 4 above).

(ii) Rather, the purpose is to require the Affordable Housing Reappraisal to be updated and compared to the baseline position (as defined) as a 'snapshot' in time to provide an indication of progress, key risks and live issues.

(iii) To be supported by a narrative against the key cost and revenue items – i.e. where actual costs are crystallised following contract awards and also the look ahead based on a market update on build costs forecasts, as with revenues etc. The intention is to provide the Council with reassurance that scheme viability is being actively monitored and risks to delivery mitigated wherever possible.

6.4 **Partnership Working Section**

[***Details to be worked up***]