



The W2 Partnership: An Evaluation

Final Report

May 2014

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1. Introduction

- 1.1. Warwick District Council (WDC) and Waterloo Housing Group (WHG) entered into a Joint Venture Partnership Agreement in 2011 to deliver affordable housing in the District.
- 1.2. The Partnership is due to reach the end of the first phase in late 2014 so, in accordance with the Project Agreement, both parties wish to undertake an independent review of performance to date in order to determine whether to continue with the Joint Venture.
- 1.3. The Partnership appointed Campbell Tickell to carry out the review and this report sets out the findings of that review.

2. Terms of Reference

- 2.1. The terms of reference for the review were agreed as a series of nine questions:
 - i. What has the project delivered in terms of housing units, schemes, external funding?
 - ii. What will the project be delivering over the remaining 18 months in terms of the metrics identified above?
 - iii. How does this delivery compare in terms of original aspirations?
 - iv. What is the average rent for each dwelling type; how does this compare against local registered providers (RPs)?
 - v. What awareness does the sector have of the partnership; has this influenced behaviour of other providers in Warwick District?
 - vi. What awareness do Council members have of the partnership? Has this influenced them in their decision making?
 - vii. Is the project being managed in accordance with the signed agreement? If not is this good, bad and what's the learning?
 - viii. What qualitative evidence do we have about how well or otherwise the partnership is performing?
 - ix. Do we have evidence to suggest that our initiatives wouldn't have happened without W2 coming into existence?
- 2.2. A further question emerged during the interviews with WDC, who were seeking to establish whether the Partnership continues to offer value for money. Whilst a detailed analysis of the value for money of the project is beyond the scope of this review, we draw some very broad brush conclusions on this issue.

3. Our Approach

- 3.1. The review was carried out during March/April 2014 and consisted of:
- A review of key documentation (the Partnership Agreement, Project Board minutes, financial reports and rent analysis);
 - Interviews with key personnel who sit on the Project Board including 3 WHG officers and 2 WDC officers;
 - Interviews with 2 WDC Councillors; and
 - An interview with another RP active in the District.
- 3.2. A full list of interviewees is provided at Appendix A.

4. Background to the Partnership

- 4.1. In 2011, WHG approached the Chief Executive of WDC to discuss a new approach to increasing the supply of affordable housing in the District. The Council was receptive to such an approach, both because of the high level of housing need in the district and having been frustrated for some time about what they perceived as a lack of delivery by other RPs. Despite a Joint Commissioning Partnership, only 50-60 new homes a year were being developed (mainly on Section 106 sites) while the 2008-11 Homes and Community Agency (HCA) Bid Round saw the District receive a disproportionately low allocation of funding – only 7% of the total for the County (delivering 119 new homes). As a result, an increase in the supply of affordable housing was a key priority.
- 4.2. Having taken legal advice to ensure that the procurement complied with OJEU requirements and carried out a soft market testing exercise to ensure best value, the Council entered into a Joint Venture Partnership Agreement with WHG in November 2011. The Partnership was structured as a Joint Venture at least in part to navigate the EU procurement rules. Our understanding is that neither party has an equity stake invested in the JV.
- 4.3. Under the Agreement, WHG agreed to deliver at least 300 units of affordable housing over the first three years of the contract in exchange for a deferred land purchase and grant in the form of the New Homes Bonus. Land would be provided by the Council on a long lease at market value. A tenure split was agreed as 80 Affordable Rent (27%), 100 Social Rent (33%), 90 Shared Ownership (30%) and 30 Outright Sale (10%). The Agreement provided for up to two renewals up to a maximum of ten years.
- 4.4. The contract was based on WHG developing 23 named Council-owned sites across the District. These were predominantly small sites, with a total capacity of c200 units, with half the sites comprising 2 units or less.
- 4.5. The Funding Agreement identified total scheme costs of £37 million. This was funded principally by debt funding and sales (£21m and £8m respectively), Social Housing Grant of £2.3m and a contribution from WDC of £4m (mainly New Homes Bonus).

5. Our Findings

5.1. Question 1. What has the project delivered in terms of housing units, schemes, external funding?

5.1.1. As at March 2014, the partnership had delivered 55 Affordable homes across three schemes (see Table 1). These comprise 50 Affordable Rent and 5 Shared Ownership.

Table 1: Schemes completed March 2014

#	Site	No. Units	Date Completed	Mix			External funding
				Social Rent	Afford-able Rent	Shared Owner-ship	
1	Pottertons	22	March 2012		22		£149k NHB
2	Edinburgh Crescent	10	December 2013		10		£100k SHG £275k WDC S106 grant funding
3	Park Road, Leamington	58	March 2013		18	5	£181k NHB
		90	0		50	5	£705k various grants

5.1.2. From the information provided, it appears that the 55 units have been delivered for a total of £705,000 grant funding, or £12,800 per unit and £5.4m of WHG debt (£99,000 per unit).

5.2. Question 2. What will the project be delivering over the remaining 18 months in terms of the metrics identified above?

5.2.1. As at March 2014, WHG are reporting that they have a further:

- 72 units on site;
- 34 units with planning permission; and
- 418 units at pre-purchase stage.

5.2.2. Details of the schemes in progress are set out in Table 2.

Table 2: Schemes in progress at May 2014

#	Site	No Units	Stage/ Estimated completion date	Mix			
				Social Rent	Afford-able Rent	Shared Owner-ship	Open Market Sale
1	Trinity St/ Queensway	72	On site Dec 2014		42	28	
2	Fire Station /Gas Works	22*	On site Feb 2015		14	9	
3	Henley Road Garage site	7	On Site		7		
4	Bourton Drv Garage Site	5	On Site		5		
5	Station Approach	250	Land Purchased by WHG/WDC		n/k		
6	Pottertons	2	Pre-purchase		2		
7	West Rock	13	In Planning		n/k		
8	Print Works	40	Exchanged. In Planning		n/k		
9	New Bold Centre	25	Exchanged. In Planning		25		
10	Hawks Meadow	88*	Pre purchase	40	40	18	
		524					

**Figures taken from WHG spreadsheet, which contains discrepancies in tenure split*

5.2.3. Assuming that works proceed on schedule, at least two schemes (Trinity Street and Fire Station/Gas Works) - comprising 94 units - should be complete by March 2015. WHG estimate that they will have at least one further scheme completed by then, bringing the total number of units completed to 160-175. In addition, they predict they will have a further 300 units on site at that date.

5.2.4. Based on the information provided, the tenure mix is likely to be 118 Affordable Rent, and 42 Shared Ownership (based on the schemes delivered to date plus schemes 1-4 in Table 2). This would produce a tenure split of 74% Affordable Rent and 26% Shared Ownership. Clearly this is significantly less Social Rent than anticipated but this is due to the fact that the HCA are funding this tenure only in exceptional cases. However, affordable rents set by W2 have, on average, been set below 80% of market rent such that the nominal average to date of £113.05 (2013/14 level) is only slightly higher than the overall weighted average rent predicted of £111.85 (2012/13 level) and is lower in real terms.

5.3. Question 3. How does this delivery compare in terms of original aspirations?

- 5.3.1. The Partnership Agreement contains a target of at least 300 affordable units within three years (that is by November 2014) though the Agreement is silent on the stage at which a unit would count towards the target. The target was described by both parties in interviews variously as “an aspiration” and an “aim or hope”, rather than a hard target.
- 5.3.2. Clearly, this target has not yet been met nor will it be by November 2014 - WHG are estimating that they will deliver around 60% of this number. However, both parties appear positive about progress to date and optimistic about the future. This optimism is based on a number of factors:
- The fact that the new homes already completed have been delivered “from a standing start”;
 - While not meeting the target, progress has been good compared to the historically low number of units delivered in the district over recent years; and
 - The significant pipeline of what are seen as highly deliverable schemes (including one of over 250 units. On several of these schemes, WHG have control of the site.
- 5.3.3. Perhaps the most important difference in what has been delivered compared to expectations is the schemes themselves. There has been a fundamental shift in the basis of the partnership since its inception. The majority of the WDC sites identified in the original contract have, for various reasons (including local Member opposition) proved undeliverable. Instead, the focus has shifted to WHG purchasing sites owned by third parties on the open market. Both sides share a view that the original site list was not sufficiently robustly appraised at the outset and acknowledge that anyway these sites could only have delivered Phase One of the contract at most (that is, the first three years).
- 5.3.4. The Council’s view appears to be that WHG have been able to respond quickly and positively to this change in approach, effectively becoming the strategic land partner of the Council, stepping in to purchase a number of strategically important District and County Council-owned sites (such as Leicester Street), often before they come to market but (from the information we have been given) at market value. WHG, in turn, stressed the key enabling role the Council have played in ensuring these schemes can proceed.
- 5.3.5. This new approach has advantages for both parties. It enables the District to develop complex, often brownfield, sites thus taking the pressure off the Council to identify green-field sites in the Local Plan. It enables WHG to act quickly to purchase sites and to take a degree of risk with which they might not otherwise feel comfortable. It also has the advantage of delivering larger sites, making the target more likely to be achieved.

5.4. Question 4. What is the average rent for each dwelling type; how does this compare against local RPs?

5.4.1. Table 3 sets out the rent levels achieved on schemes developed to date compared to other RPs. This shows that Waterloo are achieving Affordable Rent levels at or below the average for the comparators.

Table 3: Average rents

#	RP	1 bed		2 bed		3 bed	
		No Units	Weekly Rent	No Units	Weekly Rent	No Units	Weekly Rent
1	Bromford			3	131.77	1	147.18
2	Orbit Heart Of England	7	96.27	5	118.87	2	142.80
3	Midland Heart	1	89.95	3	121.51		
	Average comparator rent		95.48		123.11		144.26
4	Waterloo	6	95.38	27	110.83	5	127.21
	Waterloo rent as % comparator rent		100%		90%		88%

5.5. Question 5. What awareness does the sector have of the partnership; has this influenced behaviour of other providers in Warwick District?

5.5.1. At the outset of the project, the Council took legal advice to gain assurance that the Partnership provided best value and undertook a soft market testing exercise with a number of RPs active in the District. This comprehensively demonstrated that WHG were best placed to deliver the innovation and commercial approach needed and the contract was procured on this basis.

5.5.2. It was reported that there was some initial “disquiet” from other RPs who were reportedly “peeved” at the exclusive nature of the partnership. The RP interviewed said that they received a phone call from a consultant and had not realised until afterwards that this call had been the assessment carried out for the market testing exercise. This was clearly somewhat irritating. The interviewee was aware of the Partnership but did not appear to know the detail, other than it was based on council-owned land which he speculated might be being sold at low or nil cost. He was unaware that the nature of the Partnership has changed, with the focus shifting to third party, rather than Council-owned sites.

5.5.3. Having said that, the RP interviewed did not feel that the partnership had had any significant impact on his organisation’s role in the District. He reported that he had a very positive relationship with the Council’s Enabling Team, about whom he was very complimentary. He sees this relationship as critical to how easy it is to work in an area and the fact that WDC are seen as positive enablers outweighs any perceived disadvantages the Partnership might bring.

5.5.4. WHG and the Council feel that the Partnership has acted as a catalyst for other providers to approach the Council to rebuild relationships. One interviewee suggested that the Council were probably “rubbing their hands together” at the level of interest shown. The Council however appears more circumspect. Despite some high level meetings to discuss new ways of working, the Council have yet to see any concrete proposals or innovative projects emerging from other providers.

5.6. Question 6. What awareness do Council members have of the partnership? Has this influenced them in their decision making?

5.6.1. Two councillors were interviewed: Norman Vincett (Portfolio Holder for Housing) and Nick Pitarello (Shadow Portfolio Holder).

5.6.2. While both were aware of the project (Cllr Vincett having been involved in the early stages of negotiations), neither were aware of detailed progress. The review did however prompt a briefing meeting with Cllr Vincett to bring him up to date with progress.

5.6.3. Both Members were in favour of the Partnership and saw the benefits as helping deliver affordable housing at volume and speed. The Joint Venture approach was lauded as enabling WHG to better understand the Council’s aspirations and ways of working. This type of partnership arrangement was seen as a good model for future relationships, for example should the Council decide to instigate its own development programme in the future.

5.6.4. However, both Members expressed a degree of concern about the exclusivity of the arrangements and wanted assurance that the project continues to deliver good value for money.

5.7. Question 7. Is the project being managed in accordance with the signed agreement? If not, is this good, bad and what’s the learning?

5.7.1. The Partnership Agreement sets out how the project will be managed via:

- A Project Board comprising 4 representatives from each party, to meet at least quarterly; responsible for the overall running of the Partnership
- A Feasibility Group comprising 2 representatives from each party, to identify sites and making recommendations on sites to the Project Board

5.7.2. Overall the project appears to be well managed and operating in accordance with the Partnership Agreement. The Project Board meets monthly (rather than quarterly) and plays an active role in steering the project.

5.7.3. There is strong commitment from both parties to the Project Board and attendance from both sides is good. The Board is currently chaired by Anthony Riley of WHG and it was felt that membership was appropriate in terms of the skills, roles and level of authority needed to operate effectively.

5.7.4. The positive features of the Project Board were considered to be:

- Its ability to respond quickly to issues. As well as the monthly meetings there is a high level of informal contact between meetings with individuals talking on the phone up to “2 or 3 times a week”;
- The membership has meant that the project board has the appropriate levels of authority and is therefore able to make decisions quickly, delegating upwards where necessary;
- The regular meeting schedule puts a strong focus on delivery, meaning that “things can’t drift”;
- Board members see themselves as colleagues rather than adversaries and approach problems as shared issues to be resolved collectively;
- It has facilitated a “joined up” approach within the council and with the county council. The planning department appears to be engaged with the partnership and other council-led initiatives (such as Warwick town centre plan) have been able to use the partnership for site assembly; and
- Regular meetings allow for informal information exchange, improving the level of sector and market intelligence, which is key to success in such a competitive market.

5.7.5. There were some (relatively minor) criticisms of the project management including:

- Aspects of the project administration are not as strong as they could be. The sign-off process for new projects in particular was described as somewhat “hit and miss”;
- The council reported that, on occasion, they feel that they have limited scope to challenge WHG on projects they bring forward and that meetings occasionally feel like a “rubber stamping exercise”. They do however acknowledge that this is often because WHG have “done their homework” and brought forward well-worked up schemes; and
- The minutes have not always formally recorded decisions that have been taken between meetings, such as agreeing rent levels.

5.7.6. In addition, the Chair highlighted the point that there should be a stronger discipline of checking at the start of each meeting whether any Project Board members have any Declarations of Interest to make in relation to sites.

5.7.7. Staffing changes within the Council were mentioned as an issue by both sides. While WHG have enjoyed continuity of W2 staff, the Council has lost three key members of staff who were involved from the project’s inception, leading to a loss of momentum. On a more positive note, Andrew Jones, the Deputy Chief Executive of the Council (who leads the project for WDC) was universally acclaimed as having provided real drive and momentum since he joined 12 months ago.

5.7.8. The Feasibility Group was a casualty of staffing changes at the Council. While it worked well at the start of the project (with Planners attending regularly for informal discussions on proposed sites), the loss of Council staff has meant that it did not operate for some time.

5.7.9. The Group has now been re-established and is reported to be slowly regaining lost momentum. It is regarded as a useful forum, especially given the informal discussions regarding sites with Planners that take place.

5.7.10 As the Partnership has not experienced any major conflict, it is not possible to say how well it might respond to such difficulties. There is however an ongoing issue regarding the Mortgagee in Possession clause in the Council lease, which WHG are seeking to vary in order to have an interest in asset value appreciation. This has yet to be resolved but is being discussed “off line” at a senior level.

5.8. Question 8. What qualitative evidence is there about how well or otherwise the partnership is performing?

5.8.1. The Partnership Agreement sets out 5 key principles by which the project will be managed. Interviewees were asked to score how well the Partnership is performing against these principles. The results are shown below in Table 4.

Table 4: Performance against key partnership principles

#	Key principle	Average Score*
1	Openness and trust	4.75
2	Skills and creativity	4.40
3	Developing and adaptive	4.40
4	Commitment and drive	4.25
5	Effective relationships	4.25

** 1 = not at all effective, 5 = highly effective*

5.8.2. Scores of both parties are broadly similar and high, reflecting the view that the Partnership is working well. All interviewees noted the high degree of openness and trust that has developed between the parties and the fact that the team works as a genuine partnership. This trust has meant that WHG feel able to act quickly and take a higher degree of risk than they might otherwise feel comfortable with, such as purchasing sites without planning permission.

5.8.3. Performance on Skills and Creativity was marked down slightly by the Council, reflecting a desire that WHG more amply demonstrate their creativity from project inception, rather than once projects are brought to the table by the Council. This point may require further exploration with WDC.

5.8.4. Both parties independently reported that the Homes and Communities Agency are “very impressed” by the Partnership, not least because the innovative approach taken to funding has meant significantly lower levels of grant input from them. The Partnership has made a strong bid in the 2015-18 bid round, with 200 units on named sites and a further 200-300 speculative units. This is significantly higher than the 2008-11 round, which delivered 119 new homes.

- 5.8.5. In addition, the Partnership has developed an innovative approach to use of the New Homes Bonus which is reportedly seen as a model by other councils.
- 5.8.6. Looking at the rent levels achieved, the low grant input and the use of the New Homes Bonus, one can broadly conclude that the Partnership is delivering at least as good value for money as was envisaged at the start of the Partnership.
- 5.9. **Question 9. Is there evidence to suggest that initiatives wouldn't have happened without W2 coming into existence?**
- 5.9.1. This is a key question for the Council as the Partnership potentially moves into a second phase. Officers from WHG are very clear that the Partnership has resulted in outcomes that would not have otherwise happened. They cite a number of projects that would not otherwise have been delivered including:
- **Pottertons**, where the original RP who developed the site was unable to make a final block of Affordable Rent homes financially viable. WHG believe that the site may have been lost to the open market had they not stepped in and purchased the scheme, though this has not been verified.
 - **Edinburgh Crescent**, where they bought a redundant community building which had become a local eyesore;
 - **Gas Works/Fire Station**, a complex site consisting of land owned by both the District and County Councils. WHG stepped in at a key stage to purchase the site, thus unlocking a complex land assembly deal. The site included a Grade 2 Listed Building – the type of project WHG say they would normally avoid.
- 5.9.2. There are a number of reasons why WHG feel that the Partnership has enabled them to deliver these outcomes. The long-term nature of the Partnership and the strength of the relationship has given them the confidence to take risks they would not otherwise have taken. They have access to information at an early stage, meaning that they can act quickly in a rising market.
- 5.9.3. The relationship has facilitated access to other Council departments, making it “easier to do business”. For example, the Planning Department has been a regular attendee at meetings and WHG have built a relationship with the Planning Committee, making presentations to them about the project. This type of informal relationship building has made it easier to resolve problems when they have arisen, problems that WHG suggests they may have “walked away from” in other circumstances. For example, they persisted in seeking a resolution to a planning issue on the Gas Works site, even when delays threatened the viability of the project. Had they encountered this problem elsewhere, WHG say that they would have abandoned the project.
- 5.9.4. The Council reported that the existence of the Partnership provides an internal mandate to resolve issues and break through internal bottlenecks, as the Council see that they have a shared interest in resolving problems.

- 5.9.5. A key question for the Council is whether the Council could have achieved better outcomes (more housing, housing developed more quickly, lower rents) with one or more other partners. This is impossible to answer. The outcome of the soft market testing carried out in 2011 suggested that WHG offered considerable advantages over other RPs working in the District and performance so far would appear to support this conclusion.
- 5.9.6. The Partnership appears to be working well to date and is gaining momentum in terms of the development pipeline. In considering whether to continue with the Partnership for a further phase, the Council must balance the theoretical potential gains it might achieve from other providers against the inevitable loss of momentum that would occur if the Partnership was dissolved and new relationships had to be built. It also has to ensure that the Partnership retains sufficient confidence to enable it bid in the 2015-18 HCA programme.

6. Conclusions and Recommendations

- 6.1. Two and a half years in, the W2 Partnership appears to be working very well. Although it will not reach the target of 300 units by November 2014, performance appears to be good with 55 Affordable Homes delivered, a further 100 or so on track to be delivered within 12 months and a substantial deliverable development pipeline.
- 6.2. The relationship between WHG and the Council seems very strong, with high levels of mutual trust and openness and a genuine spirit of partnership. This is bringing benefits to both parties. The Council has gained a strategic development partner able to work across a range of large and more complex projects than originally envisaged, enabling them to deliver sites more quickly than it might otherwise do. WHG is able to take longer term decisions and so a higher degree of risk than they otherwise would. W2 also appears to have acted as a catalyst for further development, such that WDC are now producing more affordable homes than for many years (both from W2 and a number of other associations).
- 6.3. There are a number of recommendations we would make which the Partnership may wish to put in place should the contract be renewed. These are mainly working practices rather than contractual terms and should therefore be relatively easy to agree. They include:
- Improving the sign-off process for new sites;
 - Ensuring that the administration of the project board is tightened up, by ensuring that decisions taken between meetings are fully recorded and that declarations of interest are made at the start of each meeting;
 - Reviewing the financial monitoring regime to ensure that it is meeting the information requirements of the council;
 - Firming up on employment targets (or rather the reporting of them, as all HCA contracts have requirements for local labour and apprenticeships which WHG indicated they are meeting);
 - Resolving the ongoing issue regarding the Council lease
 - Taking the opportunity to involve the HCA (for example, inviting Regional Officers to meetings).

- 6.4. We believe both parties are achieving real benefits from the clear focus, close working, simple lines of communication, speed of decision making and distribution of risks that the design of the W2 Partnership delivers. Despite the fact that the initial target of 300 homes will not be met by November 2014, there is a strong pipeline of schemes and, should the momentum continue, the Partnership should make a strong contribution to delivering affordable housing in the District.

Campbell Tickell**May 9th 2014**

Appendix A: List of Interviewees

Warwick District Council

1. Andy Jones, Deputy Chief Executive, Monitoring Officer & Legal Client
2. Mike Snow, Head of Finance
3. Norman Vincett, Portfolio Holder
4. Nick Pitarello, Shadow Portfolio Holder

Waterloo Housing Group

5. Dermot McRoberts, Group Finance Director
6. Anthony Riley, Group Development Director
7. Roy Mowbray, W2 Project Manager

Other Registered Provider

8. Chris Jones, Development Director, Midlands Orbit Homes