Appendix F

Valerie Sharpe

Subject: FW: HCA Brickfield briefing note
Attachments: HCA Brickfield briefing note.docx

From: Tom McCormack
Sent: 21 October 2016 14:57
To: Heather Lockwood (Heather.Lockwood@hca.gsi.gov.uk)
Cc: Roy Coulter
Subject: HCA Brickfield briefing note

Heather,

Please find attached a briefing note about a situation we are currently dealing with at one of our new developments in Plumstead, London SE18.

I thought it might be useful to brief you, as the situation is unusual and may generate some publicity from next week once we have met with the residents concerned.

In developing this briefing note, I have tried to address the key issues I thought most relevant to you, including the governance and financial implications.

As always, my approach is to share information with you in and open and transparent way, so that in that spirit, I hope this is helpful.

If you have any questions or require additional information, please don't hesitate to let me know.

I will of course keep you informed as this progresses.

Kind Regards,

Tom

c.c. Roy Coulter, Chair

Briefing note for the HCA on Brickfield Cottages, Plumstead, London SE18

Background

Brickfield Cottages is a development of 40 affordable rented homes which was completed in Dec 2015 with funding from GLA.

On Bank Holiday Monday, 2 May 2016, there was a ground collapse at the front of one of houses, with a deep hole opening up in front of one of the houses. Thankfully, no one was hurt. As the ground collapse impacted on utility pipes, however, the emergency services attended, and they advised that the utilities be disconnected. As a result, RB Greenwich attended as well and working with our staff, the residents were rehoused for that evening. Most were housed in a local hotel and a few preferred to stay with friends/family.

The following day, on the advice of engineers, the hole was filled with concrete. All but five households were then returned to the site that same day on the advice of our engineers and RB Greenwich. We were advised that the five households should not return until further investigations were done. This included the home where the ground collapse and occurred and the two dwellings in the terrace on either side. We have provided temporary accommodation for four families, with one household preferring to make their own arrangements with friends

We immediately informed our insurers of the incident and with their advice we brought in an expert in these matters called Peter Brett Associates (PBA).

PBA's initial expert advice

PBA advised that to establish the cause, we carry out further investigations, including digging a series of deep rotary boreholes, as well as some supplementary non- intrusive work, including a ground resistivity survey, which involves inserting metal electrodes into the ground to help build a 2d picture of ground conditions at depth.

These investigations have been ongoing and an interim report from PBA has now concluded that although they have identified no existing mines per se, the ground conditions in the immediate areas of the collapse are consistent with historic chalk mining activity on the site. They have therefore concluded that it is likely that the collapse has been caused by historic mining activity.

Based on their expert advice, we immediately agreed to carry out further strengthening works around the collapse where they had identified "weak ground". We are actioning all of their recommendations because the safety of our residents is absolutely paramount to us. A contractor is currently undertaking the works required to strengthen the ground around the collapse. This work essentially involves pumping a concrete based mixture of grout into the ground.

This work is nearing completion. In the absence of us undertaking this work, PBA assessed that the risk of a further ground collapse was "moderate to high". They also reported that once their recommendations were actioned, the risk would revert to "low".

Further Matters arising from expert investigations by PBA

In the PBA investigations, they also have identified a second area of the site where the piling contractor had identified "voids" whilst installing the piles during construction. Work was temporarily halted while the contractor consulted with the NHBC about how to proceed. An agreement was reached by the contractor and the NHBC that they fill these "voids" with concrete before carrying on with installing the remaining piles.

PBA are now advising that in the context of the subsequent ground collapse, the existence of these voids might also indicate historic mining activity in that area of the site and that further deep bore ground investigations should commence to establish the facts.

PBA have also informed us that in the context of historic mining activity on the site, the drainage solution pursued by the contractor, which was the use of deep bore soakaways, might be adding to the risks of further ground collapses and that an alternative draining solution should be investigated.

Once again, as the safety of our residents is paramount, we have agreed all of PBA's recommendations and we have now received quotes for the contractor to carry out further works. We anticipate that these further works will start on site very shortly.

To facilitate those works, a further three households will need to move temporarily and we are in the process of communicating with them and making the necessary arrangements to re-house them temporarily so that the works can progress quickly.

Safety of all residents

Hexagon's focus throughout has been the safety of all residents on the site. We have therefore asked PBA to provide us with a risk assessment about the safety of the remaining 32 households.

PBA have advised that unless we do some further substantial investigations across the site, they are unable to assess the risks of a further collapse across the site more generally.

They have also advised that if the site remains tenanted, the investigations could take several years and would be very disruptive (i.e. invasive boreholes being dug with substantial machinery in roads, gardens, etc.). Alternatively, if the site is vacant, investigations to assess the risk properly will take about ten months

Decision to decant the estate and provide temporary rehousing while investigations works are completed

In the context of the original ground collapse, the subsequent finding of probable historic mining activity in two locations on the site, the absence of a risk assessment of a further ground collapse on the rest of the site, and the timescales for those investigations to take place, we have decided that the only real option moving forward is to fully decant the remaining 32 households on the estate on a temporary basis so that further investigations can proceed.

Communication with residents

We have written to all residents this week inviting them to a meeting on 26 October to inform them. This will be our second open meeting with residents as the first was held shortly after the incident. We have also been providing regular updates as news has become available.

Temporary housing availability

Moving 32 households in the context of a London housing shortage will no doubt be challenging. That is because Hexagon will not be able to rehouse these residents on our own as we simply do not have enough vacant homes to do so.

When the homes were let ten months ago, 30 of the 40 households were housed by LB Greenwich and in the context of that partnership we are currently in discussions with RB Greenwich to seek their assistance. Initial discussions have been encouraging and we are meeting them again next week to progress.

Although RB Greenwich's lettings pool is of much bigger than ours, we don't expect they can sort this on their own given their own demands. So at their instigation, we are also now exploring the feasibility of purchasing some street properties with the assistance of some grant funding via their pool of RTB receipts, which they are keen to spend.

A further option is for Hexagon to buy some street properties to be used temporarily for decanting and we have included the purchase of 10 street properties in our current plans.

We have investigated the use of private lettings, though initial indications are that landlords are reluctant to offer their properties for this purpose. Whist we may succeed in getting some private lets, but it is clear to us that the entire decanting will not be achieved by this means alone.

Another option is to make all our own void properties available temporarily, which we intend to do, given the unusual circumstances. This may help but our turnover rate is relatively low so further solutions are needed which we are very actively pursuing.

In summary, we don't anticipate that there will be one answer to the temporary re-housing requirement, and we are therefore pursuing all possible options.

Costs incurred to dates and the insurance position

Costs incurred to date total £471k. These include the cost of filling the hole, hotel costs for residents, surveyor fees, PBA fees, and contractor fees. Current indications are that £426k of this will be reimbursed by our insurers.

Future costs and the insurance position

In respect of future costs, our insurers have withdrawn subsidence cover across the estate, and under the policy, they are not obligated to cover the costs of "preventative works". This means that insurance will not be available to offset the further investigation costs or any remedial works required.

Estimated costs of further investigations

Looking ahead, PBA estimate that further investigations across the remainder of the estate will cost in the region of a £1m, though further remediation costs (i.e. additional grouting) if any, are an unknown until we know the results of the investigations.

Legal advice on where liability for the ground collapse costs lie

Legal advice from our solicitors, Devonshires, is that in respect of our uninsured losses, we have a good legal case against the original ground investigation firm employed to investigate the site prior to our decision to build on the site, and/or the contractor, that will allow us to recover these costs.

That advice has been provided in the context that prior to commencing construction, we were given clear assurances about proceeding with construction, specifically in the context of information provided to them about known historic mining activity in the wider area.

Devonshires have now commenced correspondence with both the contractor and the ground investigation firm.

Modelling the impact of worst case scenarios in the business plan

In the context of this unplanned event, Hexagon's Finance & IT Director has modelled the impact of the project on Hexagon's liquidity, and on the income and gearing cover in the loans. For the sake of prudence, she has assumed that no costs can be recovered from legal action against third parties which is clearly something of a worst case in the context of Devonshires legal advice.

Works costs include the site investigation, remediation and associated security. Housing costs include housing in temporary accommodation (i.e. some short term hotel costs), other social housing properties, homes let from the private sector and an estimated 10-15 homes purchased on the open market, depending on whether grant funding is available from RB Greenwich, disturbance payments, compensation payments, and council tax during the void period.

We have also factored in some additional administration costs: such as some extra staff to manage the decant and return, help with public relations and communications, legal advice and court fees .

Two very prudent scenarios have been modelled and the results are summarised below:

Scenario A – the site is decanted, investigated and repaired, allowing for residents to return by December 2018. Projected total cost as per above over 31 months rise to £3.8m, plus spend to date (which as per above is mostly covered by insurance)

Scenario B – the site is decanted, but investigations indicate that it is not viable to repair, leading to demolition and permanent rehousing for the residents. This would incur an impairment charge in the accounts and repayment of the grant to the GLA. Projected total cost over 31 months £5.5m, including grant repayment. Non-cash impairment charge of £8.25m.

Impact on liquidity

Scenario A – with no further loan facilities, cash balances reduce to £2.6m at the lowest point in November 2017 before recovering strongly

Scenario B - with no further loan facilities, cash balances reduce to £2.3m at the lowest point in November 2017 before recovering strongly

Impact on covenants

Under scenario A, interest cover reduces to 292% in 17/18, compared to the covenant level of 110%. Gearing rises to 60%, compared to the covenant level of 70%. Under scenario B income cover reduces to 255% in 17/18, and gearing rises to 63%.

In summary, two prudent worst case scenarios (i.e. very prudent assumptions re: future costs incurred, alongside an assumption of zero recovery of uninsured losses) have been included in our business plan to stress test it, and whilst the resultant losses are clearly not desirable, they don't present any fundamental challenge to Hexagon's underlying financial health.

It is also important to note that Hexagon's Board have developed a suite of measures in respect of their defined "risk appetite" and all of the out turn financial metrics are within the Board's stated risk appetite.

Allowances in our most recent cash flows and updates going forward

Scenario A has been included in Hexagon's medium term cash flow forecast and thus in the quarterly financial return submitted this month to the HCA.

Hexagon's Development and Regeneration Director, who is acting as project manager, will update the financial model once a month so that latest figures can be including in Hexagon's medium term cashflow as we move forward.

Board involvement

Hexagon's Board have been kept fully informed by officers. On 5 May the CE wrote to the entire Board informing them of the incident. This was followed by a verbal report to the Audit and Risk committee on 10 May, a full report to 7 June Board, and two further reports to the 27 September Board.

The Board are very aware of the challenges that this development presents, and are firmly in the driver's seat in respect of managing the risks it presents. At the last Board meeting, the Board agreed that our Lead Board Member for repairs and maintenance (Ian Watts, Hexagon Board member and MD of Paragon Housing) be appointed by the Board to a special Board position that now sees him working closely with officers in moving this forward. Ian will also lead on reporting back to the Board as this progresses.

Conclusion

- Hexagon built Brickfield Cottages in good faith with the benefit of a full ground investigation report carried out by professional advisors.
- An unforeseen event has arisen which has required a speedy response. We responded quickly and effectively to the initial incident.
- We are now in a position where we believe that only real option is the route is to decant the estate to carry out more intrusive investigations.
- The decanting will be a challenge, but we will deploy a number of options and we will work closely with RB Greenwich, with whom our initial conversations have been productive.
- Most of the costs incurred to date will be covered by our insurers.
- Future "preventative" works costs will not be covered by our insurer

- We are putting the safety of our residents, both current and future, at the forefront, and that is the context in which we have decided that doing further investigations and is both necessary and right.
- Initial indications are that successful legal action against the site investigators and/or the contractors to recover any uninsured losses is likely.
- Despite that advice, we have decided that it would be prudent to run two worst case scenarios through our Business plan to stress test it
- Neither of the tested scenarios presents a significant threat of our financial health.
- The Board is driving our response and is very much in control of how we are responding.

Tom McCormack

Chief Executive

21 October 2016

Valerie Sharpe

Subject: FW: Enquiry from the Social Housing Regulator

From: Tom McCormack
Sent: 17 November 2016 16:56
To: 'Angela Holden'
Subject: RE: Enquiry from the Social Housing Regulator

Dear Ms Holden,

Thank you for your attached letter dated 18 November.

I can confirm that the first indication of any significant problem with the land on this new development was indeed on 2 May 2015 when the ground collapse occurred. In making that point, it might be helpful if I outline some of the relevant background to our development of the site to provide you with a fuller picture.

Prior to purchasing the site and carrying any construction works, a ground investigations firm (RSK) were commissioned by the Contractor (Skillcrown) to carry out a geo-environmental assessment of the site. This was done before Hexagon purchased the site. Hexagon was a named beneficiary of the report.

In that report, RSK explicitly cited the history of known mining in the local area, and highlighted the site's proximity to these areas. In response to this context, RSK carried out a large range of investigative techniques aimed at establishing whether the site was suitable for residential development. These thorough ground investigations included a large range of techniques, including geophysical (micro gravity) survey, dynamic probing (super heavy), rotary drilled open boreholes, and cable percussive drilled boreholes.

RSK's report concluded that that these investigations *"confirmed the absence of any voids associated with chalk mine workings at depth"* on the site. The report went on to recommend the use of piled foundations in a limited area of the development (i.e. one terrace of 15 homes) during construction. In the end, piled foundations were used across the whole site (25 further homes) to provide an additional level of assurance.

Based on the report's findings, the Contractor confirmed their build price to Hexagon and we proceeded to buy the site and simultaneously enter into a design and build contract with Skillcrown. I should also emphasise that the RSK report was formally submitted to the Local Authority Planning Department as part of a planning condition which needed to be discharged, and the ground investigation report was therefore signed off by the Council (Royal Greenwich).

As pointed out in my note, whilst on-site, the contractor did encounter two voids (on a different part of the site to the collapse) when trying to position two piles. Piling was temporarily halted whilst a 3D survey of the voids was undertaken and the NHBC were consulted on an appropriate way forward. In consultation with the contractor's engineers and the NHBC, the UK's leading independent standard-setting body and provider of warranty and insurance for new homes, it was agreed that the voids should be filled with concrete. This was done and new locations were identified for piles. No other 'ground problems' were reported to us during construction.

In conclusion, we believe that Hexagon has acted in the best interests of our residents at all times in relation to the pre site investigations, the construction of Brickfields Close, and in response to the unforeseeable ground collapse. It is therefore very clear to us that the ground collapse of 2 May 2015, whilst most unfortunate, has not a function of any breach of the consumer standards by Hexagon.

We would of course be more than happy to answer any queries or provide additional information as required.

Your Sincerely,

Tom McCormack

Chief Executive
Hexagon Housing Association
130-136 Sydenham Road
London SE26 5JY

From: Angela Holden [mailto:Angela.Holden@hca.gsi.gov.uk]
Sent: 15 November 2016 16:06
To: Tom McCormack
Subject: Enquiry from the Social Housing Regulator

Dear Mr McCormack

Please find attached a letter making enquiries of Hexagon following your recent referral to the Regulator. Please feel free to contact me if you have any questions.

Yours sincerely

Angela Holden
Senior Advisor, Investigation and Enforcement
HCA The Social Housing Regulator
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Please forward any Freedom Of Information Act or Environmental Information Regulation requests to: mail@homesandcommunities.co.uk

HELP SAVE NATURAL RESOURCES. THINK BEFORE PRINTING THIS EMAIL
Homes and Communities Agency; Arpley House, 110 Birchwood Boulevard, Birchwood, Warrington, WA3 7QH (reg.address for legal documents) 0300 1234 500 mail@homesandcommunities.co.uk VAT no: 941 6200 50

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