LONDON BOROUGH OF WALTHAM FOREST

Meeting / Date | Cabinet  
10 October 2019
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Report Title | South Grove Site C - Loan drawdown and land disposal to Sixty Bricks Ltd
Cabinet Portfolio | Councillor Simon Miller, Portfolio Lead Member for Economic Growth and Housing Development
Report Author/Contact details | Jennifer Daothong, interim Commercial Director Housing Delivery  
Families & Homes  
0208 496 4405, Jennifer.Daothong@walthamforest.gov.uk
Wards affected | Hoe Street Ward
Public Access | Open Except for Appendix B - Financial Appraisal; which is exempt in accordance with Section 100(A-H) of the Local Government Act 1972 and Schedule 12A as amended, on the grounds that they involve the likely disclosure of exempt information as defined in Part 1, paragraph 3, as they contain information relating to the financial or business affairs of any particular person (including the authority holding the information) and disclosure would not be in the public interest.
Appendices | Appendix A – Site Plan and Proposals  
Appendix B – Financial Appraisal (EXEMPT)  
Appendix C – Equalities Impact Assessment  
Appendix D – Sustainability Matrix  
Appendix E – Site C, Brunner Road, Legal Document Schedule

1. SUMMARY
1.1 This report puts forward the business case for the Brunner Road (Site C) site which is part of Sixty Brick’s phase 1 development pipeline and part of the Council’s Building Council Homes for Londoners programme.
1.2 This report is therefore seeking:
1.2.1 agreement, subject to a successful planning application, that the Council enter into a long lease for the Brunner Road, (Site C) site with Sixty Bricks Ltd,

1.2.2 approval for the Council to drawdown a loan of up to £11.152m and equity investment of up to £4.779m on the basis that a satisfactory business case has been provided within this report for the project and,

1.2.3 agreement that the Council enters into a development agreement with Sixty Bricks Ltd

2. RECOMMENDATIONS

For the funding drawdown, Cabinet is recommended to:

2.1 Budget
2.1.1 Agree to a new capital budget of £11.606m in the Housing Revenue Account (HRA) capital programme funded by GLA grant, sales of shared ownership property, borrowing and other housing capital resources to fund the affordable housing to be built for the HRA.

2.1.2 Agree to new capital budgets in the general fund of £11.152m and £4.779m to fund the loans and equity investment respectively in Sixty Bricks Ltd; the loans to be funded by borrowing and the equity investment to be funded from general fund reserves and/or capital receipts.

2.2 Loan

Agree that the Council make a loan available to Sixty Bricks Ltd of up to £11.152m on the basis of a loan agreement (as summarised in Appendix E), and the financial appraisal is at Appendix B, for the Brunner Road, Site C project, with the final terms of the loan to be delegated to the Strategic Director of Finance and Governance in consultation with the interim Commercial Director of Housing Delivery.

2.3 Equity Contribution

Agree that the Council makes an equity investment in Sixty Bricks Ltd of up to £4.779m.

2.4 Development Agreement

Agree that the Council enters into a development agreement with Sixty Bricks Ltd. Terms and conditions of this agreement to be agreed between LBWF and Sixty Bricks legal representatives.

2.5 Land Disposal

Agree in principle that, subject to planning permission, the Council will enter into a long lease for the land outlined on the plans attached at appendix A to Sixty Bricks Ltd who will develop the Brunner Road, site C site as set out in this report with the final terms of the lease to be delegated to the Director of Property and Asset Management in consultation with the interim Commercial Director of Housing Delivery and the Strategic Director of Finance and Governance.
Note that the development will require the leasehold transfer of land valued as shown in Appendix B currently in the General Fund to Sixty Bricks Ltd, in accordance with regulations governing General Fund land disposals, under the delegated powers recommended for approval.

3. PROPOSALS

3.1 The Council has committed to providing quality, sustainable housing in Waltham Forest as part of its recently adopted housing strategy: *Housing Futures: a Decent Roof for All (2019 to 2024)* and is working towards delivering new London Plan targets of 18,000 homes over the next ten years.

3.2 On 24 May 2016, Cabinet approved in principle the establishment of a wholly owned company as a means to provide housing investment and delivery in the borough and to deliver a commercial return to the council.

3.3 On 11 October 2016, Cabinet approved the principle of provision of finance by the Council to Waltham Forest Developments Ltd, now known as Sixty Bricks Ltd, of up to £100 million over the period 2016/17 to 2020/21 for development and investment activities.

3.4 Cabinet approved that such finance to be provided subject to a satisfactory business case being provided for each development or investment opportunity or activity, and on terms consistent with the options and recommendations set out in the Funding options report.

3.5 In January 2019 Cabinet agreed to enter into a grant agreement with the GLA to access £25.5 million of funding as part of the Building Council Homes for Londoners programme in order to deliver council homes within the borough. Brunner Road (site C) forms part of that programme and the GLA has agreed £2.9m grant funding for this scheme. Cabinet also agreed delegated powers for officers to agree terms for the disposal and/or transfer of Council sites to Sixty Bricks Ltd and to complete the transactions to enable the delivery of the programme.

3.6 In February 2019, Shareholders Committee, a subcommittee of Cabinet, approved the schemes contained within the Sixty Bricks phase 1 pipeline for development through to submission of a planning application. Shareholders Committee noted that a detailed business case with supporting documentation would be presented to Cabinet prior to authority to draw down funding being granted on a scheme by scheme basis.
3.7 The Brunner Road, site C project sits within the Sixty Bricks Ltd phase 1 development pipeline. The delivery of the Brunner Road, site C project provides new family housing in the borough alongside new facilities for the CCG and St. James’ GP Practice.

3.8 Location & Key Site Information

i. The site area = 0.243 hectare

ii. The properties fall within a PTAL level area 5. It is approximately 11 minutes’ walk to Walthamstow Central Bus and Rail/Underground Station. The development site is located to the south of the Walthamstow St James Conservation Area.

iii. The site is located within both the Walthamstow Town Centre Area Action Plan and South Grove & St. James Quarter Supplementary Planning Document area and therefore presents a significant opportunity for developing the area.

iv. A consultation plan has been developed, identifying key stakeholders including residents, as a first priority, and in line with any statutory obligations.

v. There are currently three commercial leaseholders in occupation of the site, the Council has had agreement from these leaseholders to terminate their leases, with the last leaseholder exiting the premises on 12th November 2019.

3.9 Approvals and Development Proposals

i. A full set of site surveys including a full structural survey have been undertaken which gives the project team assurances on design, cost and any potential risks.

ii. The Brunner Road, Site C project will provide 83 homes arranged over 8 and 12 storeys, with a policy compliant mix of social rent, intermediate and private sale units. The new homes are split into two separate residential cores; Core 1 accommodating a mixture of social rent and intermediate tenures, and Core 2 accommodating a mixture of intermediate and private tenures. Each core is designed to be indistinguishable in terms of quality and specification and will therefore be ‘tenure-blind’. Core 1 serves 23no. homes which are located between second and seventh floors. Core 2 serves 60 flats which are located between the second and eleventh floors. 8 of the 83 flats (10%) are fully wheelchair accessible. These flats are all for social rent and are therefore accessible via Core 1. 4no. wheelchair accessible parking spaces are provided for Core 1 residents.

iii. Each core has its own dedicated cycle store within a reasonable distance to their respective lobbies, and a shared communal residential refuse store for all tenures.
iv. A large portion of the ground floor is occupied by an NHS Health Centre, with a smaller NHS functional space (intended to be an NHS Wellness/ Advice and Information Centre) to the north west corner, and 12no. health centre parking spaces within the footprint of the building. The layout of the ground floor is designed with the principle of maximising active frontage to the west and south elevations, as a means of improving the wider public realm as well as improving passive security in and around the South Grove Masterplan.

v. Sixty Bricks has prepared a financially viable scheme with a payback period upon completion of the scheme. There will be financial benefits to the Council over this period due to the margin charged on loan rates. The appraisal prepared by the Council’s Finance Team is available at appendix E.

vi. NPS Quantity Surveying team have provided figures on total scheme cost, inclusive of construction costs, contingency, land value and on-costs. This are featured within the financial appraisal, appendix E.

vii. It must be noted that the unit mix and cost information provided above are an estimate and may be subject to change as the design proposals progress through the RIBA stages.

4. OPTIONS & ALTERNATIVES CONSIDERED

4.1 If the Council were to do nothing on the Brunner Road, Site C site, it would be an under-utilisation of an asset within a prime location in Waltham Forest. This option is not recommended as the Council would lose the opportunity to provide new homes and a new facility for the CCG and St. James’ GP practice.

4.2 The Council could dispose of the site on the open market. The Council would expect to receive a capital receipt but would have no control over future development of the site, except through planning powers.

4.3 There are benefits to the Council in transacting with Sixty Bricks to deliver this opportunity. Options to be considered along with the individual benefits are set out in the confidential Appendix B.

5. SUSTAINABLE COMMUNITY STRATEGY PRIORITIES (AND OTHER NATIONAL OR LOCAL POLICIES OR STRATEGIES)

5.1 Delivery of the Brunner Road Site C site is at a very early stage but it is intended that developing the site will meet three of the key objectives of the Sustainable Communities Strategy:

5.2 Managing population growth and change – The development of additional housing in this very accessible location will assist the borough in meeting its housing targets.
5.3 **Retaining wealth in the Borough** – Provision of land for new, high-quality homes will attract new residents to the borough and will retain our existing residents’ spend within the borough to the benefit of all businesses.

5.4 **Creating wealth** – Additional residents in this area will bring new and increased spending capacity for the benefit of local businesses.

6. **CONSULTATION**

6.1 Consultation will be carried out with internal and external stakeholders to progress delivery of the Brunner Road Site C site. This includes liaising closely with neighbours and Ward Councillors.

7. **IMPLICATIONS**

7.1 **Finance, Value for Money and Risk**

7.1.1 Approval is requested for the Council to lend up to £11.152m to Sixty Bricks to carry out the development at Brunner Road, Site C. The loans will be made in stages equal to 70% of costs as costs are incurred. The rate of interest and details of the loan are set out in the confidential appendix B. The interest rate and terms have been set on expert advice to reflect current market conditions so that there is no element of state aid in this lending.

7.1.2 It is also proposed that the Council makes an equity contribution to Sixty Bricks equal to 30% of costs. This proportion of equity support has also been determined on expert advice as reasonable based on typical market financing of developers and so avoid any state aid issue. The equity investment will take place in stages in the same way as the loan. An overview of the draft equity subscription agreement is provided at appendix E.

7.1.3 The development will require entry into a long lease for the site with Sixty Bricks. The site is currently held by the General Fund. Disposal must accord with the regulations governing disposal of General Fund land which generally require disposal to be at market value. The land is valued as shown in Appendix B. This disposal together with others required for Sixty Bricks Phase 1 developments as approved by Cabinet may result in a capital receipt to the Council which may be used to meet in part the cost of the Council’s equity investment in Sixty Bricks. Any remaining equity contribution required will be met from general fund reserves.

7.1.4 It is planned that the loans and equity investment in Sixty Bricks will be repaid as soon as possible after completion. The development costs include a contribution to Sixty Bricks corporate costs which is expected, with contributions from other schemes, to meet those corporate costs over the medium term. Sixty Bricks will pursue the best annual rental deal possible with the CCG and any Sixty Bricks
developers’ profit achieved over 10% as a result of a more favourable rental stream agreement will be subject to a profit-sharing agreement with the Council.

7.1.5 The required capital budgets to be approved based on the business plan are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019/20 £’000</th>
<th>2020/21 £’000</th>
<th>2021/22 £’000</th>
<th>2022/23 £’000</th>
<th>Total £’000</th>
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<tr>
<td><strong>HRA Capital Programme</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Cost of construction</td>
<td>4,166</td>
<td>3,678</td>
<td>3,762</td>
<td>0</td>
<td>11,606</td>
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<tr>
<td>GLA grant</td>
<td>(1,323)</td>
<td>(1,323)</td>
<td></td>
<td></td>
<td>(2,646)</td>
</tr>
<tr>
<td>Sales of shared ownership properties</td>
<td></td>
<td>(1,582)</td>
<td></td>
<td></td>
<td>(1,582)</td>
</tr>
<tr>
<td>Net cost of development</td>
<td>2,843</td>
<td>3,678</td>
<td>857</td>
<td>0</td>
<td>7,378</td>
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<tr>
<td><strong>General Fund Capital Programme</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans to Sixty Bricks Ltd</td>
<td>1,173</td>
<td>3,841</td>
<td>3,524</td>
<td>2,614</td>
<td>11,152</td>
</tr>
<tr>
<td>Equity investment in Sixty Bricks Ltd</td>
<td>503</td>
<td>1,646</td>
<td>1,510</td>
<td>1,120</td>
<td>4,779</td>
</tr>
<tr>
<td>Repayments by Sixty Bricks Ltd</td>
<td></td>
<td>(15,931)</td>
<td></td>
<td>(15,931)</td>
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<tr>
<td>Net cost to general fund</td>
<td>1,676</td>
<td>5,487</td>
<td>5,034</td>
<td>(12,197)</td>
<td>0</td>
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7.1.6 The cost to the general fund of borrowing to fund these loans and the equity contribution over the period of development offset by interest due from Sixty Bricks will result in a net surplus to the Council of between £614k and £641k depending on which option in confidential appendix B is taken forward.

7.1.1 The effect of the development on the HRA revenue budget is estimated to be an increase of costs of £238k pa offset by increased rent income of £223k pa. This net cost is expected to reduce and move into surplus in future years.

7.2 Increased numbers of dwellings will increase the Council’s council tax income. The Council will also benefit, if development is successful, from ownership of an increasingly valuable development company.

7.3 There is provision in the HRA capital programme of £1m in 2018/19 and £600k pa in later years to meet the cost of pre contract works, and
acquisition costs, in respect of Sixty Bricks projects. These costs will be reimbursed by Sixty Bricks when the projects proceed. However the cost is a risk to the Council because if the projects do not proceed there will be no reimbursement. Approval for this scheme to proceed will reduce this risk to the Council.

7.4 There are risks associated with any large scale development of this kind. For instance costs may increase or values of newly constructed dwellings may fall. Sixty Bricks is wholly owned by the Council so any losses by the company are likely to ultimately fall on the Council. There is a risk that the arrangement might be challenged under state aid rules but the terms of funding of Sixty Bricks have been designed to minimise this risk.

7.4.1 Responsibility for insurance of the site whilst under development will rest with Sixty Bricks but is expected to be arranged through the Council.

7.5 Legal

7.5.1 The Council has the power to dispose of land to Sixty Bricks Limited under section 123 of the Local Government Act 1972 if it obtains bests consideration for the land.

7.5.2 Under sections 1 and 12 of the Local Government Act 2003 the Council may borrow or invest for any purpose relevant to its functions or for the prudent management of its financial affairs. The borrowing must be prudent and comply with the Prudential Code.

7.5.3 The Council has the power to provide financial assistance for housing purposes under section 24 of the Local Government Act 1988 where the immediate landlord or the occupier is not a local authority. In this instance, the immediate landlord will be Sixty Bricks Limited. This power is subject to consent of the Secretary of State (s25 of the 1988 Act). The Secretary of State has set out pre-approved consents in the General Consents 2010 and the General Consents 2014. The Council can provide financial assistance to Sixty Bricks Limited under Consent C of the General Consents 2010.

7.5.4 Any housing made available for private sale by Sixty Bricks Limited would not be covered by the 1988 Act referred to above. However, the Council may rely upon the general power of competence under section 1 of the Localism Act 2011 to fund Sixty Bricks Limited for the purpose of the company operating as a business to provide homes for market sale. The Council may also use this same power to provide loans to Sixty Bricks Limited for working capital.

7.5.5 Council lending to Sixty Bricks Limited is to be structured and provided at market terms and rates so that it does not constitute State Aid.

7.5.6 It is intended that the Council procure a developer for the scheme from a framework available to the Council which is in accordance with the Public Contracts Regulations 2015 and the Council’s Contract Procedure Rules. The Council will then novate (transfer) the contract to Sixty Bricks Limited.
7.6 **Equalities and Diversity**

7.6.1 The Equality Act 2010 requires public authorities to have due regard to the need to eliminate discrimination and advance equality of opportunity. The Council must further take into account its wider Public Sector Equality Duty (PSED) under s.149 of the Equality Act 2010 when making its’ decisions. The public sector equality duty (s.149, Equality Act 2010) requires the Council, when exercising its functions, to have “due regard” to the need to: eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited under the Act, advance equality of opportunity between those who share a “protected characteristic” and those who do not share that protected characteristic and foster good relations between persons who share a relevant protected characteristic and persons who do not share it (this involves having due regard, in particular, to the need to (a) tackle prejudice, and (b) promote understanding).

7.6.2 Potential future equality and diversity issues will be addressed and analysed as the project proceeds. The impacts will be updated and reported as and when further Cabinet approvals are required.

7.6.3 Delivery of the Brunner Road, Site C scheme will have substantive regeneration benefits in terms of residential accommodation and reprovision of new facilities for the CCG and St. James’ Medical Practise. There are no negative impacts for any of the Equality Groups. See Equality Assessment at appendix F.

7.7 **Sustainability (including climate change, health, crime and disorder)**

7.7.1 As delivery of the Brunner Road, Site C site progresses through the planning and delivery process the opportunities to address sustainability issues will be addressed. The planning process will ensure compliance with planning policies, including payment of a Carbon Offset Fund contribution to mitigate 100% of the remaining carbon emissions on the residential elements, and promote sustainability measures such as reducing energy and water consumption, recycling, use of public transport, walking and cycling.

7.7.2 Economic sustainability can be achieved by creating an area where people want to live and work. The additional housing increases footfall and spend, and in turn draws further investment opportunities into the area. Opportunities for local businesses as a result in the increased local population and spend will add to the economic sustainability of the programme.

7.7.3 Social sustainability can be achieved through improved place making where people want visit and stay longer in the area as the places feel more welcoming and issues of crime and safety are addressed. Reprovision of new facilities for the CCG and St. James’ practice will provide additional healthcare capacity to provide for the increasing population in the St. James' catchment area. There are no envisaged major impacts on the Council infrastructure as a result of this project.

7.7.4 See the sustainability matrix at appendix D.
7.8 Council Infrastructure
7.8.1 There are no envisaged major impacts on the Council infrastructure

8. BREXIT IMPLICATIONS
8.1 The implications of Brexit remain unclear to date. This will affect the construction and development sector, an industry that relies heavily upon certainty and market confidence. The impact of the continuing uncertainty. The most affected areas from continuing uncertainty will be a) workforce, b) materials and c) sales values.

a) A shortage of skilled workers could lead to higher project costs. This could cause delays to the programme and affect the viability of the scheme. This will be managed as part of the construction programme and project risk management processes. Mitigation measures include locking in a fixed price with the contractor at the earliest possible opportunity.

b) A weaker pound and potential loss of access to the single market could lead to the rising costs of imported materials. Again, this will be managed as part of the construction programme and project risk management processes. Mitigation measures include locking in a fixed price with the contractor at the earliest possible opportunity and using locally sourced materials.

c) Treasury predictions are that Brexit could result in a reduction in property values in the short term of between 10 – 18%. This outcome could mean the achievable prices for the open market units would be less than the value required by the Council to make projects viable. Should this situation occur the Council may have a number of options of alternate use of the open market units, including renting at open market rents or, subject to the availability of funding and subsidy, convert the units to affordable homes. This risk will be managed throughout the delivery of the programme and projects.

BACKGROUND INFORMATION (as defined by Local Government (Access to Information) Act 1985)

None