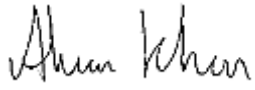


## LONDON BOROUGH OF WALTHAM FOREST

Meeting / Date	<b>Cabinet</b> <b>3 November 2022</b>	
Report Title	<b>Sixty Bricks Phase 2 Pipeline Budget Approval</b>	
Cabinet Portfolio	Councillor Ahsan Khan, Deputy Leader and Portfolio Lead Member for Housing and Regeneration	
Report Author/ Contact details	Darren Welsh Corporate Director Housing Place Directorate <a href="mailto:Darren.welsh@walthamforest.gov.uk">Darren.welsh@walthamforest.gov.uk</a>	
Wards affected	Leytonstone Leyton William Morris Chingford Green High Street	
Public Access	<b>OPEN except for Appendix 1 which is EXEMPT</b> in accordance with Section 100(A-H) of the Local Government Act 1972 and Schedule 12A as amended, on the grounds that it involves the likely disclosure of exempt information as defined in Part 1, paragraph 3, as it contains 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 1 – Financial Summary Phase 2 Sites (EXEMPT) Appendix 2 – Equality Analysis	

### 1. SUMMARY

- 1.1 This report recommends that Cabinet approve a delivery budget for Sixty Bricks, the Council's wholly owned housing development company, to deliver its Phase 2 pipeline.
- 1.2 The Phase 2 development programme is outlined in the Sixty Bricks 2021/22 Business Plan that was agreed by Cabinet in July 2021.
- 1.3 The Phase 2 sites will deliver approximately 281 new homes, including 50% affordable on a habitable room basis. The delivery of these

schemes aims to maximise affordable housing provision across the Borough.

- 1.4 The report also provides background on the establishment of Sixty Brick's as the Council's wholly owned development company and provides an update on the delivery of schemes under the Phase 1 Programme, to date.
- 1.5 The Phase 1 programme is delivering 299 homes with a total budget of £100 million. Phase 2 will be a continuation of the existing, successful delivery model.

## **2. RECOMMENDATIONS**

- 2.1 Cabinet is recommended to:
  - 2.2.1 Approve the provision of finance by the Council to Sixty Bricks of up to £130 million over the period 2022/23 to 2027/28 for development and investment activities related to the Phase 2 development pipeline.
  - 2.2.2 Note that the £130 million is comprised of a £66.5 million General Fund commercial loan and £63.5 million HRA contribution.
  - 2.2.3 Note that the finance, identified in 2.2.1, will be allocated, to each scheme within Phase 2 following a satisfactory business case being submitted for Cabinet approval, prior to any planning application.

## **3. PROPOSALS**

### **Background**

#### **Company Formation**

- 3.1 On 24 May 2016, Cabinet approved in principle the establishment of a wholly owned company to provide housing investment and delivery in the Borough and to deliver a commercial return to the Council. On 11 October 2016, Cabinet approved the establishment of Sixty Bricks as a private company limited by shares, in which the Council would be the sole shareholder.
- 3.2 In the same 11 October 2016 Cabinet report the Council specified:
- 3.3 The Business of the Company is:
  - a) To operate as a commercial company (for trading or other purposes) and deliver a financial return for the benefit of the Council and/or to fund the Company's future business activities.
  - b) To purchase land and property either from the Council or on the open market
  - c) To acquire, develop, construct and/or refurbish residential homes and retail or commercial premises in accordance with the Business Plan.

- d) Any other activity reasonably incidental to the above.
- 3.4 Whilst in the first instance the development and investment activities of the Company were proposed to relate almost entirely to housing development within the Borough, it was recommended that the Objects of the Company are unrestricted and that, subject to Shareholder (i.e. the Council) approval, the Company can operate outside of the Borough. This openness and flexibility were recommended to allow the Company to undertake other non-residential commercial development and investment, and also to undertake development or investment activities on sites either owned by the Council already or acquired by the Company outside of the Borough.
- 3.5 The recommended form for the Company at the time of being established was a wholly owned Company Limited by Shares. This allowed for future flexibility for the Council and the Company to determine the most appropriate structure and approach to future development or investment activities beyond those initially envisaged when it was set up. In this form the Company can claim Stamp Duty Land Tax relief on land transfer from the Council (as sole shareholder in the first instance).
- 3.6 Operating through such a Company continues to offer an easier route to implement structures for projects going forward. For instance, the Council may decide to deliver projects through a series of individual vehicles i.e.: with the Company acting as a holding company for the vehicles, or to split distinct elements of a complex project into separate vehicles.
- 3.7 The benefits of scheme delivery via the Sixty Bricks model include the following:
- a) Access to external financing arrangements.
  - b) The company's ability to deliver a profit for shareholders on commercial elements of the programme.
  - c) Control over the direct delivery of affordable housing, something that may not be possible through the disposal to a private developer.
  - d) A financial return to the Council through onward lending and asset growth where Sixty Bricks builds for the Council, and profit repatriation to the Council.
  - e) The potential to hold properties with a wider range in rental values than is allowed within the limits of HRA rent controls
  - f) Units delivered at net carbon zero.

### **Governance**

- 3.8 The Board of Directors of Sixty Bricks are made up of six board members including an independent chair, two non-executive directors and three senior Council appointed officers who lead the Company with the executive team.

- 3.9 The company's client is LBWF Housing team, which is led by the Strategic Director Place and the Corporate Director of Housing.
- 3.10 The appointment of Council officers to external companies is subject to ratification by full Council.
- 3.11 These activities of the Company and the interests of the Shareholder, the Council, are governed by a Shareholder Agreement which sets out the terms under which the Company operates and how the Council, as shareholder, participates in the Company.
- 3.12 The Council as Shareholder is represented by a Shareholder Committee. The Shareholder Committee enables the Council to draw expertise and leadership from across the Cabinet in representing its interests and is supported by Officers through the preparation and consideration of proposals.
- 3.13 The Shareholder Committee is formally constituted as a sub-committee of Cabinet to allow it to carry out its duties on behalf of the Council.
- 3.14 Those occupying the following Cabinet posts currently make up the Shareholder Committee:
- Leader (acting as Chair)
  - Deputy Leader and Portfolio Lead Member for Housing and Regeneration
  - Deputy Leader and Portfolio Lead Member for Climate and Air Quality
  - Portfolio Lead Member for Public Service

### **Phase 1 Programme**

- 3.15 Since its formation as outlined above, Sixty Bricks has been delivering the Phase 1 development pipeline on behalf of the Council. The initial investment and delivery budget for the Phase 1 schemes was approved in the same 24 May 2016 Cabinet report as outlined in section 3.3.
- 3.16 The Sixty Bricks Phase 1 development programme will be completed by late 2022 and will have successfully delivered the following units:

<b>Tenure</b>	<b>Units Delivered</b>
Social Rent	189
Shared Ownership	32
Private	78
<b>Total</b>	<b>299</b>

3.17 Sansom Road (32 units) and Hylands Road Phases 1 & 2 (120 units) will deliver 100% social rented housing.

#### **Further investment programme**

3.18 The schemes comprising the Phase 2 programme have an estimated capital funding requirement of £130 million, comprising development led activities i.e.: design, planning and construction. The breakdown of anticipated budget per scheme is outlined in the exempt Appendix 1.

3.19 The decision to provide finance for any one development or investment opportunity will be subject to:

- a) A satisfactory financial appraisal being provided demonstrating that the opportunity is financially viable.
- b) There being sufficient headroom within the agreed finance to be provided to the Company by the Council.
- c) Any project specific approvals being in place, ie: where Cabinet approval, or other appropriate approvals, is required for the disposal of land to the Company.

#### **Phase 2 Programme**

3.20 On the 9 July 2020 Cabinet approved a loan of £3.18m to Sixty Bricks to develop the Phase 2 pipeline to RIBA 3, design stage subject to schemes demonstrating viability at outline feasibility stage.

3.21 The Sixty Bricks Phase 2 schemes were presented and agreed by Shareholder Committee in July 2021 as part of the Sixty Bricks Business Plan.

3.22 The Council has subsequently worked with Sixty Bricks to review the Phase 2 schemes and ensure that they are viable and deliverable in line with the Council's policies and aspirations, as well as Sixty Brick's emerging 2022 business plan. These schemes are at various stages of development with some ready to be submitted for planning.

#### **Proposals**

3.23 This report proposes a budget for the delivery of the Sixty Bricks Phase 2 Programme. The budget is detailed in the exempt Appendix 1.

3.24 Sixty Bricks Phase 2 is made up of the following five sites:

Site	Ward	Social Rent	Shared Ownership	Private	Total
Vicarage Road		8	4	11	23
Church Lane Carpark		18	27	60	105
Priory Court		21	19	43	83
Osborne Grove		10	7	18	35
Chingford Hub		13	5	17	35
				<b>Total</b>	<b>c.281</b>

3.25 The indicative numbers to be delivered for each scheme under Phase 2 are shown above. Unit numbers are still subject to change following planning, design, and financial review.

3.26 It is anticipated that Church Lane, Priory Court, and Vicarage Road will be progressing to planning submission in early 2023. Some individual scheme business cases will be submitted for Cabinet approval in Dec '22, and consultation with key stakeholders including ward Members will take place prior to planning application submission.

- a) **Vicarage Road:** 190-192 Vicarage Road sits within a primarily residential area bounded by Lea Bridge Road to the North, Church Road to the West, and Leyton High Street to the East. Within these arterial routes, the street network is a traditional grid arrangement of terraced 2 and 3 storey housing, interspersed by some larger properties.
- b) **Church Lane Carpark:** The site is currently used as a car park, MUGA, play area and cycle-hub. A 'Greenway' cycle route runs along the edge of the site connecting Church Lane to the A12 crossing bridge. The adjoining land at the north of the site is in the ownership of TfL and forms part of the Leytonstone Underground station.
- c) **Priory Court:** The Priory Court Estate is in William Morris Ward in the west of the London Borough of Waltham Forest and was established in 1946. The Priory Court scheme is formed of 4 infill parcel areas of HRA Land, within the existing Priory Court Estate.
- d) **Osborne Grove:** Osborne Grove is located in Walthamstow and is a 9-minute walk from Waltham Central train and bus station, located around the corner from Walthamstow High Street. Palmerston Road and the neighbouring 1 Osborne Mews was also acquired by the Council to form the wider development site opportunity.
- e) **Chingford Hub:** The Library and Assembly Hall is a two and three storey building overlooking Chingford Green. The site is located

within the Chingford Green Conservation Area and the North Chingford District Shopping Centre, with Chingford Overground station located approximately 0.5 km to the east. The new development will re-provide a library and assembly hall.

- f) Council officers from Property, Finance, and Planning have worked to reach a consensus on indicative tenure mix and land values for each of the schemes, including financial and commercial outcomes for the HRA and General Fund. The financial summary for Phase 2 is in the exempt Appendix 1.

3.27 The delivery of Sixty Bricks Phase 2 pipeline schemes will ensure:

- g) A robust Sixty Bricks Business Plan and continued financial viability for the Company going forward.
- h) The ability for Sixty Bricks to continue to fulfil the Council's corporate objectives and priorities to deliver affordable housing and net zero carbon developments in line with the Corporate sustainability agenda.

#### **4. OPTIONS & ALTERNATIVES CONSIDERED**

##### Sell with Planning Permission

4.1 This option would mean disposing of each of the schemes once planning has been granted. This would mean:

- a) The Council not retaining the assets.
- b) Not guaranteeing a Net Zero development benchmark.
- c) Unlikely that schemes would deliver any social rent units and potentially only 25% - 35% affordable rent.

4.2 It is therefore not beneficial for the Council to consider this option.

##### Do nothing

4.3 If the Council were to do nothing with the proposed sites:

4.4 LBWF would not deliver additional affordable housing in the borough.

4.5 The sites would not maximise their potential to deliver income to the Council.

4.6 The Council would not be actively managing its assets to realise development value.

4.7 Sixty Bricks pipeline would be depleted without further schemes and would become unviable as a subsidiary company of the Council.

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

- 5.1 Direct delivery of new homes to contribute to increased housing delivery targets for the Borough, targeting 50 per cent affordable delivery is a key plinth of the Waltham Forest Housing Strategy: Housing Futures; A decent roof for all adopted by full Council in April 2019.

## 6. CONSULTATION

- 6.1 Individual scheme engagement with key stakeholders will take place on a site-by-site basis as proposals are developed and submitted for planning and will include statutory consultation of neighbours and any other identified special interest groups through the planning process.

## 7. IMPLICATIONS

### 7.1 Finance, Value for Money and Risk

- 7.1.1 The General Fund budget of approx. £66.5m would be made available as a commercial loan to Sixty Bricks to deliver the private for sale homes. This would be at an interest rate in the range of 6.5% to 8% offering a return to the Council of between £4.9m and £6.2m.

- 7.1.2 The HRA contribution of £63.5m would directly fund the affordable units supported by Shared Ownership Sales and RTB Receipts or GLA Grant and HRA Borrowing. A placeholder exists within the HRA Capital Programme for Phase 2 along with assumptions around the rental income return to the HRA.

- 7.1.3 A consistent HRA affordability framework has been established against which to assess the addition of new housing stock (either via new build or acquisition). This framework includes 3 key requirements for a scheme to be considered viable:

- Revenue generated is sufficient to **cover all operating costs** (inc. interest) in every year of the scheme
- The scheme **pays back** within 40 years
- The scheme delivers minimum annual **revenue growth** to the HRA of 1%

- 7.1.4 The Affordable Units on each individual, scheme will be taken forward on this basis and will be subject to individual Cabinet Approval by scheme.

### Risks & Mitigations

- 7.1.5 There are currently risks associated within the property development sector such as increasing construction costs, changes in interest rates, legislation, and changes in the property sales and rental markets. The key risks and mitigations are listed below:



- (i) Construction inflation – Build costs have increased approximately 20% over the last 12-18 months due to supply impact from Brexit, and market conditions. The updated appraisals include further build cost forecasts as well as up to 10% contingency to account for any further unforeseen cost increases.
- (ii) Borrowing Terms and Interest Rate – The cost of borrowing has spiked within recent months and impacts both the lending terms that can be provided by the Council to Sixty Bricks, as well as the ability for potential buyers of the completed homes to access affordable mortgages. The Council is working closely with Sixty Bricks to ensure appropriate funding terms are in place to facilitate the Phase 2 programme.
- (iii) Sales Risks - risk of declining sales values will be managed by independent and regular updates on market conditions from independent valuers.

7.1.6 The ownership of property over the medium to long term can be considered a strong investment (for developers as well as buyers) and with a growing demand for private and affordable housing nationally there is no reason to suggest this will change. The business model benefits to the Council are considerable and compelling as per the forecast profit targets detailed in the report. The risks will be managed through preventative due diligence undertaken, a proactive procurement strategy and governance and controls in place.

## 7.2 Legal

7.2.1 Under sections 1 and 12 of the Local Government Act 2003 the Council may borrow money 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.

7.2.2 The Council has the power to provide financial assistance (loan) for housing purposes under section 24 of the Local Government Act 1988 where the immediate landlord of the occupier is not a local authority. In this instance the landlord will be the Sixty Bricks. This power is subject to consent of the Secretary of State. The Secretary of State has set out pre-approved consents in the "General Consents 2010" (July 2011) and the "General Consents 2014" (April 2014). The Council can provide financial assistance to Sixty Bricks under Consent C of the General Consents 2010.

## 7.3 Equalities and Diversity

7.3.1 Delivery of the Sixty Bricks Phase 2 schemes will contribute positively to age and disability qualities through providing 90% of all new housing built to Part M of the Building Regulations ADM (a), Volume 1: Dwellings,

Category 2: Accessible and Adaptable, and 10% to ADM (4) Category 3: Wheelchair User Dwellings.

7.3.2 All schemes will be delivered to a Lifetime Homes standard.

7.3.3 If required, full Equality Analysis will be undertaken for each project as the proposals progress to deter and militate against any potential negative impacts that may affect the delivery.

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

7.4.1 Sixty Bricks, zero carbon standards in development will support the Council's ambitions to address the Climate Emergency and act as an exemplar to other developers within the borough.

7.4.2 Phase 2 Working towards Zero Carbon via LETI guidance principles with a fabric first approach. Each scheme faces different challenges depending on scale, height, orientation etc, but we are using where possible green roofs, electric vehicle charging points, photovoltaics, MVHR and ASHP technology with SUDS and ecological improvements.

7.4.3 It is anticipated that building to these standards will result in higher quality and affordability in home running costs in the borough. In addition, it will provide opportunity for investment in developing the skills base required to bring forward these homes for workers in the borough.

7.4.4 The net zero standards outlined above are currently being achieved for all Phase 2 schemes, except for Priory Court however all efforts are being made for this scheme to achieve the highest sustainability credentials.

**7.5 Council Infrastructure**

7.5.1 N/A

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

None