


LONDON BOROUGH OF WALTHAM FOREST

Meeting / Date	Cabinet 12 January 2023	
Report Title	Sixty Bricks Phase 2 – Priory Court Scheme Approval	
Cabinet Portfolio	Councillor Ahsan Khan, Deputy Leader & Portfolio Lead Member for Housing and Regeneration	
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Wards affected	William Morris	
Public Access	OPEN except for Appendix A 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 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 A – Financial Appraisal - Exempt Appendix B – Site Plan Appendix C – Equalities Matrix Appendix D – Sustainability Matrix	

1. SUMMARY

- 1.1 This report sets out the business case for the Priory Court scheme, which is part of the Sixty Bricks Phase 2 development pipeline.
- 1.2 This report is therefore seeking approval for the Council to drawdown a budget of up to £34.759m comprised of both General Fund and Housing Revenue Account (HRA) funding, for Priory Court on the basis that a satisfactory business case has been provided within this report for the scheme.

2. RECOMMENDATIONS

For the funding drawdown, Cabinet is recommended to:

Budget

- 2.1 Agree to a new capital budget of £17.253m in the Housing Revenue Account (HRA) capital programme funded by sales of shared ownership properties, Right to Buy receipts, and other housing capital resources to fund the affordable housing element of the scheme.
- 2.2 Agree to a new capital budget in the General Fund of £17.506m to fund the loan to Sixty Bricks Ltd; the loan will be funded by borrowing.
- 2.3 Delegate authority to drawdown an additional budget of up to 10% variation for the Priory Court scheme to the Strategic Director, Place in consultation with the Strategic Director of Finance and Governance. The variation will be funded by both the HRA and General Fund. This was included at the Nov '22 Cabinet as part of the £130m, development packed for the Sixty Bricks Phase 2 pipeline.

Loan

- 2.4 Agree that the Council make a loan available to Sixty Bricks Ltd of up to £17.506m based on a loan agreement, and the financial appraisal in Appendix A, with the final terms of the loan delegated to the Strategic Director of Finance and Governance in consultation with the Corporate Director of Housing.

Development Agreement & Lease

- 2.5 Agree that the Council enter into a Development Agreement with Sixty Bricks Ltd, with the final terms delegated to the Strategic Director, Place in consultation with the Commercial Director of Property & Delivery and the Strategic Director of Finance and Governance.
- 2.6 Agree that the Council grant leases for the land outlined in Appendix B, to Sixty Bricks Ltd, who will develop the Priory Court site in accordance with the terms of the Development Agreement.
- 2.7 Agree that the final terms of any leases be delegated to the Commercial Director of Property & Delivery in consultation with the Strategic Director, Place and the Strategic Director of Finance and Governance.

3. PROPOSALS

Background

- 3.1 The Council is committed to providing quality, sustainable housing in Waltham Forest and is working towards delivering a new Local Plan target of 27,000 homes over the next fifteen years.
- 3.2 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.
- 3.3 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.

- 3.4 The Sixty Bricks Phase 2 schemes were presented and agreed by Shareholder Committee in July 2021 as part of the Sixty Bricks Business Plan.
- 3.5 The Sixty Bricks Phase 2 schemes, including Priory Court, also form part of the Company’s 2022-2037 Business Plan update, which has been submitted for approval by Shareholder Committee in January 2023.
- 3.6 In November 2022 Cabinet approved the provision of finance by the Council to Sixty Bricks of up to £130 million over the period 2022/23 - 2027/28 for development and investment activities related to the Phase 2 development pipeline. The provision of any financing is subject to a financially viable business case with supporting financial appraisal being presented to Cabinet, on a scheme-by-scheme basis. This report contains the business case for the Priory Court scheme.

Location and Key Site Information

- 3.7 The Priory Court Estate is in the William Morris Ward in the west of the borough and was established in 1946. The Priory Court Estate has a PTAL level 2 rating, meaning that the site has reduced accessibility to the public transport network. The proposed scheme is formed of 4 infill parcel areas of HRA land, within the wider Priory Court Estate.

3.8 Priory Court Proposals

- 3.9 The proposed Priory Court development is a tenure blind scheme which will deliver much needed social rented and shared ownership units on HRA land together with private for sale units.
- 3.10 The scheme has an indicative planning submission date of January 2023 and practical completion date of September 2025, as outlined in the scheme programme below.
- 3.11 The Priory Court scheme will deliver 50% affordable units on a habitable room basis. The indicative unit breakdown for Priory Court is outlined below:

Priory Court Tenure Split			
Private	Shared Ownership	Social Rent	Total
43	19	21	83

- 3.12 The proposed development improves the connectivity and routes through Priory Court and creates new active frontages, providing overlooking to streets and shared areas, making these spaces feel safe and secure to use.
- 3.13 The landscape proposals will provide a new Multi Use Games Area (MUGA), public play park, a ‘play way’, as well as improved access and connectivity around the site, providing 3,936sqm of play provision.
- 3.14 The current delivery programme for Priory Court is as follows:

Cabinet Approval	Jan 2023
Planning Submission	Jan 2023
Construction Partner Procurement	March 2023
Planning Consent	May 2023
Start on Site	Nov 2023
Practical Completion	Sept 2025

- 3.15 The financial appraisal information for Priory Court is outlined in exempt Appendix A.

Risks & Mitigations

- 3.16 There are currently risks facing the construction sector such as increasing build costs, changes in interest rates and legislation, and changes in the property sales and rental markets. The key risks and mitigations are listed below:
- 3.17 Construction inflation – build costs have increased approximately 20% over the last 12-18 months due to supply impact from Brexit, and market conditions.
- 3.18 Sales Risks – risk of declining sales values will be managed by independent and regular updates on market conditions from independent valuers.
- 3.19 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.
- 3.20 The risks will be managed through preventative due diligence, a proactive procurement strategy and ensuring that governance, including gateway procedures (RIBA 0 to 8) and controls are in place. At the procurement stage, we will re-assess the financial appraisal and implement any risk mitigation measures if required. Risks will also be managed via the 10% contingency.

4. OPTIONS & ALTERNATIVES CONSIDERED

Do Nothing

- 4.1 If the Council were to do nothing with the proposed site, it would be more difficult to meet its housing delivery requirement. Furthermore, the Council would not deliver the public realm and amenity improvements to the estate. This option is not recommended, as the Council would lose the opportunity to provide new homes and significantly redevelop a portion of the estate.

Alternative Delivery Route

- 4.2 If the Council were to not develop the scheme via Sixty Bricks, it could directly deliver the scheme under housing powers funded by HRA borrowing. There are benefits to the Council in transacting with Sixty Bricks Ltd to deliver this scheme. These benefits include the delivery of homes specifically aligned with the tenure need in the borough, particularly 50% social rented accommodation and Council control over public realm design and outputs. Priory Court is an infill site on HRA land and as such would not be commercially palatable to most Registered Providers and developers.

Sell with Planning Permission

- 4.3 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 and could not guarantee the delivery of 50% affordable housing. There would also not be a guarantee of the provision of social rented housing and at the 50% level currently aimed for by Sixty Bricks. In addition, this option would mean that the Council would not benefit from HRA revenue income, would not retain its asset and associated value and further on-lending opportunities.

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.
- 5.2 The delivery of the Priory Court scheme supports key principles of the Council's emerging 15 min neighbourhood strategy by ensuring the provision of neighbourhood social infrastructure, a Multi-Use Games Area (MUGA) and high-quality public realm and amenity space.

6. CONSULTATION

- 6.1 Consultation has been carried out with internal and external stakeholders to progress delivery of the site. This includes liaising closely with community, business and voluntary sector stakeholders and Ward Councillors. The Council have completed the statutory consultation of Council tenants under s105 of the Housing Act 1985. The consultation feedback has been considered. Full consultation with residents will form part of any planning process.

7. IMPLICATIONS

7.1 Finance, Value for Money and Risk

- 7.1.1 An assessment of the financial viability has been carried out by Sixty Bricks and their subcontractors with interrogation and separate analysis carried out by Housing Delivery and Housing Finance. LBWF Finance has interrogated the Sixty Bricks Priory Court scheme to ascertain its ability to generate sufficient income to meet operating payments, debt

commitments and to allow growth while maintaining service levels. The scheme has been assessed financially overall as the HRA will fund the Affordable Housing Units and the sale of private units will allow Sixty Bricks to repay the loan provided by the Council. Details are set-out in Appendix A.

7.1.2 The financing of the scheme is split based on the proposed tenures of the units. The Private units will be funded by way of a loan to Sixty Bricks from the Council and the Affordable units by HRA Resources. Both contributions are also assessed individually.

7.1.3 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 Priory Court scheme and independent advice has suggested charging an interest rate of 180 points above the PWLB rate to ensure it is state aid compliant.

7.1.4 General Fund

7.1.5 The Council will be required to make a loan available to Sixty Bricks of up to £17.506m on the basis of the current financial appraisal. The loan will be funded by borrowing. The loan will be made in stages equal to 100% of costs as costs are incurred. The rate of interest and details of the loan is set by finance will be set to reflect current market conditions so that there is no element of state aid.

7.1.6 It is planned that the loan investment in Sixty Bricks will be repaid on completion of the development. The required loan required based on the current financial appraisal is as follows:

Loan Priory Court	2023/24 £000's	2024/25 £000's	2025/26 £000's	2026/27 £000's	Total £000's
Loan to Sixty Bricks	679	5,284	8,182	3,361	17,506
Loan Repayment	0	0	0	(17,506)	(17,506)
Net Cost to the GF	679	5,284	8,182	(14,145)	0

7.1.7 The land value currently included in the appraisal is £447k. Property are undertaking a Red Book Valuation of the site, for further consideration at pre-tender stage. Property will be consulted on the Head of Terms for the Development Agreement and sign-off the delegated report. We are seeking Cabinet approval to delegate the final financial terms to senior officers.

7.1.8 Housing Revenue Account ((HRA)

7.1.9 The proposed scheme will charge Social Rents on the rented units. The acquisition of the 40 affordable units has been assessed against the HRA affordability framework. This ensures the scheme is viable and that

it is consistent with the outputs from other New Build schemes. 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%.The acquisition meets the hurdles set as part of the framework although it pays back over 49 years

7.1.10 The required HRA capital budgets to be approved based on the current scheme appraisal are as follows:

HRA Capital Priory Court	2023/24 £000's	2024/25 £000's	2025/26 £000's	2026/27 £000's	Total £000's
Development Costs		5,176	8,626	3,451	17,253
1-4-1 RTB Receipts		(2,070)	(3,451)	(1,380)	(6,901)
Shared Ownership Sales		0	0	(2,385)	(2,385)
Net Cost of Development		3,105	5,176	(315)	7,966

7.1.11 A capital budget of £17.253m was approved by HIG on the 8 November 2022 for the Housing Revenue Account (HRA) capital programme funded by RTB receipts, sales of shared ownership units, borrowing and other housing capital resources to fund the affordable housing element to be built for the HRA. The total development cost to the HRA includes a 5% commission payable to Sixty Bricks of £822k.

7.1.12 The use of RTB receipts on this scheme allows 40% of the development costs to be funded and along with the receipts from the shared ownership first tranche sales reduces the overall borrowing required from within HRA resources to £7.966m.

7.1.13 Value for money is ensured via the tender exercise that will be taken for a full construction contractor, subject to approval by Cabinet.

7.1.14 Risks and mitigations have been considered as part of the overall financial appraisal exercise with various sensitivities being run against the base assumptions. To maintain financial resilience this scheme will need to be able to respond appropriately to any future changing conditions. The current mitigating actions are strategic and timely, underpinned by stress testing.

7.1.15 The up to 10% variance for Priory Court and the whole of the Phase 2 pipeline was approved at Cabinet in Nov '22 and is composed of General Fund and HRA funding.

7.2 Legal

7.2.1 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.

7.2.2 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 occupier 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.

- 7.2.3 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. Council lending to Sixty Bricks Limited is to be structured and provided at market terms and rates so that it does not constitute State Subsidy.
- 7.2.4 The disposal of housing land by the Council to Sixty Bricks Limited must be in accordance with the General Housing Consents 2013 which allow disposals of vacant land and land for consideration equal to its market value.

7.3 Equalities and Diversity

- 7.3.1 The delivery of the Sixty Bricks Priory Court scheme 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. Priory court will be delivered to a Lifetime Homes standard.
- 7.3.2 If required, a full Equality Analysis will be undertaken for the scheme as the proposals progress to mitigate against any potential negative impacts that may affect the delivery.

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

- 7.4.1 Priory Court is achieving London Plan Sustainable build standards. The energy supply for the new homes will be provided by air source heat pump systems with Heat Interface Unit to each home for hot water and heating. High efficiency mechanical ventilation heat recovery (MVHR) will provide cooling within individual homes. Roof areas will have photovoltaic panels to support energy efficiency of the scheme.
- 7.4.2 Improvements are being made to the connectivity of the existing estate with the creation of new frontages, providing overlooking to streets and shared areas, making these spaces feel safe and secure to use. Well-designed spaces incorporate existing nature and enhance the biodiversity of the site. A new enhanced MUGA will continue to support health activities for estate residents.
- 7.4.3 New social homes will have a positive impact on the health and wellbeing of people on the housing register waiting for permanent accommodation.

7.5 Council Infrastructure

7.5.1 N/A

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

None