


London Borough of Waltham Forest

Report Title	Sixty Bricks, Next Steps Proposal
Meeting / Date	Cabinet, 14 th March 2024
Cabinet portfolio	Councillor Ahsan Khan, Deputy Leader (Housing and Regeneration) 
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Wards affected	N/A
Public access	OPEN except Appendices A and B which are 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 - Sixty Bricks Development Pipeline Summary (Exempt) Appendix B – Development Pipeline Analysis (Exempt) Appendix C - Sixty Bricks Options Analysis Appendix D - Closing Down Process Appendix E – Equalities Screening
1. Summary	
1.1	Following the successful completion of Sixty Brick's Phase 1 development programme at the end of 2022, a review of the company was commissioned. In parallel to this, an Affordable Housing Commission was appointed to review housing need in the borough and make recommendations to maximise the delivery of genuinely affordable housing in response to increasingly challenging economic and financial conditions.
1.2	The recommendations of these reviews included delivering a more diverse housing pipeline and developing stronger relationships with external funders and developers.
1.3	In January 2024, Sixty Bricks presented an updated delivery pipeline, required very significant council investment to deliver. Due to challenging economic conditions and the current financial constraints, an assessment of this pipeline has confirmed that the council is not in a

position to provide the level of investment or funding guarantees required to enable the development pipeline to be delivered and maintain Sixty Bricks as a viable delivery route.

- 1.4 Given the success of the company in delivering Phase 1, and the potential role it could play in the future, it is proposed to make the company dormant. This retains the option to revive Sixty Bricks, should the council wish to do so, once economic and financial conditions have improved. Going forwards, it is proposed future housing delivery is via the self-delivery and developer partnership routes. Sixty Bricks delivered its Phase 1 profitably and is being made dormant to minimise future liabilities.

2. Recommendations

2.1 Cabinet is recommended to:

- 2.1.1 Approve that Sixty Bricks is made dormant.
- 2.1.2 Note the implementation plan to make the company dormant and approve a budget of £150,000 to appoint the require specialist financial and legal advisory services.
- 2.1.3 Approve that the final terms of making the company dormant will be delegated to the Strategic Director of Resources, in consultation with the Strategic Director of Place.

3. **Proposals**

- 3.1 Sixty Bricks was established in 2017 as the council's wholly owned development company to add value to the council's existing housing delivery models. It was envisaged that Sixty Bricks would have a broad remit to act entrepreneurially, through land acquisitions, developing and managing a mixture of housing tenures, including market and affordable rent homes, and developing and operating commercial and retail premises. These flexibilities are reflected in the company's Memorandum & Articles of associations and the legal agreement between the council and Sixty Bricks.
- 3.2 Sixty Bricks successfully completed its Phase 1 development programme at the end of 2022, comprising 299 new homes, of which 78% were affordable, including 188 social rent homes. The schemes were also delivered to a high standard, with the Jazz Yard being nominated for a number of design awards, including being shortlisted for the Architect's Journal Awards 'Housing Project of the Year' in the over £20m category.
- 3.3 Sixty Brick's Phase 1 was delivered solely using land sold to the company by the council. Similarly, all of Sixty Brick's equity and debt financing was provided by the council. All the completed homes have now been sold or reserved. All reserved homes are scheduled to be

completed this financial year (by 31 March 2024). The outstanding loan balance for Phase 1 will be fully repaid by Sixty Bricks to the council once this final property has been sold.

- 3.4 Since the inception and completion of Phase 1, Sixty Brick's operating environment has changed significantly. Construction costs have increased, sales values have softened, the cost of debt has become more expensive and the council's Housing Revenue Account (HRA) and General Fund have become more constrained.
- 3.5 Following completion of Phase 1, and in light of the changing economic and financial circumstances, a review of Sixty Bricks was undertaken by 31Ten, a team of commercial specialists, which was completed in Autumn 2023. Whilst acknowledging the successful delivery of Phase 1, the report identified the need for Sixty Bricks to diversify its development pipeline in order to become a more self-sustainable business that is less reliant on council land and funding. In doing this, Sixty Bricks could demonstrate that it was adding value to the council's in-house delivery models.

Sixty Bricks Development Pipeline Proposal

- 3.6 Sixty Bricks have presented their development pipeline proposal, the key elements of which are set out in Appendix A (Exempt).

Analysis

- 3.7 Each element of Sixty Bricks' proposal has been analysed in terms of their viability and deliverability, the key issues that would need to be addressed, the potential implications for the Council, and whether they could enable Sixty Bricks to become a sustainable business model.
- 3.8 The detailed analysis is provided in Appendix B (Exempt),
- 3.9 In summary, Sixty Bricks' proposal does not provide a viable pipeline based on current market and funding conditions. It has not been demonstrated how the long-term pipeline would be funded, and that the income generated from the pipeline is sufficient to cover Sixty Bricks' operating costs.
- 3.10 The pipeline will require external funding to deliver, which has not been secured. Based on their discussions with external funders, Sixty Bricks has advised that a parent company guarantee from the council would be required to enable them to secure external funding, which the Council is not in a position to provide.
- 3.11 The only project that is deliverable is Priory Court. However, Sixty Bricks proposes to deliver the Priory Court scheme as a development manager, not as a commercial development company. The project can be delivered in-house, thereby avoiding the need to fund Sixty Bricks' operational costs.

- 3.12 Given that only Priory Court is viable, and that the project could be delivered in-house, the current business case for retaining a standalone housing company does not represent value for money, as the costs of retaining the company (i.e. the Board, Senior Management Team and project teams) are significantly higher than the costs of an in-house project team (i.e. a project manager, plus management support) for Priory Court.

New Approaches to Delivery

- 3.13 Last year's Waltham Forest Affordable Housing Commission bought together a group of external experts to advise the council on how to maximise the borough's affordable housing delivery. A key recommendation of the Commission was that the council reviews its delivery model to strengthen governance and accountability in decision-making across all delivery vehicles, to allow opportunities to be maximised in the current challenging delivery context.
- 3.14 Consolidating delivery in-house is a response to the above recommendation. It addresses the impact of capital funding constraints on the council's overall housing delivery pipeline by consolidating and focusing the delivery model. The in-house delivery functions have the skills and capabilities to deliver the Council's housing delivery priorities set out in the Capital Investment Strategy. The council Capital Delivery team has successfully completed a number of self-build housing projects, including Juniper House and Central Parade, and established successful partnerships to deliver larger-scale regeneration projects including Fellowship Square and Marlowe Road.
- 3.15 Furthermore, in response to the current economic and financial challenges, the council is exploring and implementing new ways of working, acting nimbly in the market place to take advantage of current market conditions, and deliver affordable homes for residents cost effectively, for example through the recent acquisition of 197 homes from Pocket Living's development at Osier Way.

4. Options & Alternatives Considered

- 4.1 The following options have been considered, the detail of which is provided in Appendix C:
- Option 1: Sixty Bricks to continue as a conventional housebuilding company.
 - Option 2: Reset Sixty Bricks to be a more entrepreneurial development company.
 - Option 3: Make Sixty Bricks dormant.

Recommendation:

- 4.2 It is proposed that Sixty Bricks is made dormant. This option is proposed as it provides the Council with the flexibility to respond to the current financial challenges, minimising its financial exposure, achieving operational savings, whilst retaining the opportunity to revive the company in the future.
- 4.3 Should this recommendation be approved, it is proposed that external advisory support is procured to set out and support the process for making the company dormant.

5. Council Strategic Priorities (and other National or Local Policies or Strategies)
 - 5.1 The proposal responds to the Council's Medium-Term Financial Strategy 2024-2034, and Capital Investment Strategy, which set out the Council's capital investment programme to deliver the Council's priorities.
 - 5.2 In response to current economic market conditions and pressures on local government finances, the Council has established a new Capital Prioritisation Framework to guide strategic decision-making around current and future capital investment in council services, to maintain service delivery, invest in housing stock, and ensuring investment alleviates budget pressures through efficiency improvements.
 - 5.3 The recommendation responds to this by supporting the continued delivery of new affordable housing and our residents' priorities, through internal delivery routes, which currently offer the best financial solution. However, by making Sixty Bricks dormant, the opportunity to review this delivery route remains open in the future, subject to the Council's financial position.

6. Consultation
 - 6.1 Consultation on the proposals has been carried out with internal Council stakeholders, including the Senior Leadership Team, and the Sixty Bricks Board.
 - 6.2 The proposals were presented to Housing Scrutiny Committee on February 22nd 2024.

7. Implications
 - 7.1 Finance, Value for Money and Risk
 - 7.1.1 The detailed financial implications of Sixty Bricks ceasing to trade will be confirmed in due course, when there is greater clarity on when it will cease to trade. A final set of audited accounts will also be required. A summary of Sixty Bricks' current financial position is provided in Appendix B (Exempt).
 - 7.1.2 The Council would be liable for any Sixty Bricks financial commitments within their current contractual arrangements (for example fee appointments to progress their Phase 2 schemes). If the Council decided not to proceed with these schemes, it would still have to abide

by the terms of the fee appointments, including paying any outstanding invoices.

- 7.1.3 As part of the process to make the company dormant, there will be professional fees, severance payments and potentially the write down of scheme costs. However, corporation tax paid in previous years might be recovered to offset some of these additional costs.
- 7.1.4 External financial and legal advice is required to terminate loan and working capital arrangements, deal with any asset transfers, close bank accounts and manage any employment implications (e.g. redundancies and TUPE transfers).
- 7.1.5 There would also be administrative costs to manage the dormant company associated with filing annual dormant accounts and an annual confirmation statement at Companies House.
- 7.1.6 Exit costs of making the company dormant will be incurred during financial year 2024/25 and funded from the budget strategy reserve.

7.2 Legal

7.2.1 The Shareholder Agreement between the Council and Sixty Bricks includes a termination clause, enabling the Parties to terminate the Agreement upon:

- the written agreement of the Parties; or
- when a resolution is passed by the Shareholder instituting a process that shall lead to the Company being wound up, and its assets being distributed among its creditors, Shareholder or other contributors; or
- the Company ceasing to carry on its business; or
- the Shareholder giving not less than 90 days written notice to the Company of the date on which all or part of this Agreement will terminate.

7.2.2 If the decision is taken to carry on with the projects, but not through Sixty Bricks, the existing contracts could be novated to the Council, by agreement with the other party to the contract.

7.2.3 There are various legal routes for winding down Sixty Bricks, the detail of which is set out in Appendix D. It proposed that the company is made dormant, so that it can be revived in the future should the Council wish to do so.

7.3 Equalities and Diversity

7.3.1 The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled

persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

7.3.2 An Equalities Impact Assessment is not required in relation to this report because no new policy changes or initiatives are proposed. However, the council must have proper regard to equalities outcomes in the exercise of statutory homelessness functions, and individual initiatives discussed in this report may subsequently require Equalities Impact Assessments as part of the decision-making process.

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

7.4.1 There are no sustainability implications directly associated with the proposals set out in the report.

7.5 Council Infrastructure

7.5.1 Making Sixty Bricks dormant will have potential HR implications for various delivery teams in the Place directorate and for Sixty Bricks.

7.5.2 The Sixty Bricks client management function within the Council's Housing Delivery team will not be required.

7.5.3 Housing delivery will be managed through in-house delivery teams.

7.5.4 There will be redundancy and TUPE implications relating to Sixty Bricks staff.

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

None