


## London Borough of Waltham Forest

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Report Title	Priory Court, 100% Affordable Housing Proposal
Meeting / Date	Cabinet, 14 <sup>th</sup> March 2024
Cabinet portfolio	Councillor Ahsan Khan, Deputy Leader (Housing and Regeneration) 
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Wards affected	William Morris
Public access	<b>OPEN except Appendix B</b> 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 – Design Information Appendix B – Financial Information (Exempt) Appendix C – Equalities Screening Appendix D – Value for Money Checklist
1. Summary	
1.1	The Priory Court project will deliver 83 new homes and improved public realm, including a new larger Sports England multi-use games area, and comprehensive landscaping and highway improvement works that will benefit all residents within the Priory Court estate.
1.2	In January 2023 Cabinet approved the business case for the Priory Court scheme based on 50% affordable housing, allowing the project to progress to tender for a building contractor. The original scope was based on 21 homes for social rent and 19 homes to be offered to local people on a shared ownership basis. This update to Cabinet outlines the business case to: <ul style="list-style-type: none"><li>• Increase the level of affordable housing from 50% to 100%, comprising 21 social rent homes and 62 shared ownership homes;</li></ul>

- Commence construction of the project by the end of March 2024, in order to retain the £5m of grant funding that has been secured from the Greater London Authority (GLA) and Brownfield Land Release Fund to deliver the re-scoped project.
- To minimise the impact of Housing Revenue Account (HRA) reserves, to fund the scheme's development costs via the General Fund, with the HRA purchasing the homes at practical completion.

## 2. Recommendations

### 2.1 Cabinet is recommended to:

2.1.1 Approve the increase in the proportion of affordable housing from 50% to 100%, comprising a housing mix of a minimum of 21 social rented homes and maximum of 62 shared ownership homes.

### 2.1.2 Approve the following funding strategy:

- To allocate a capital investment of £38.08m in the General Fund to cashflow the development costs during the construction period, noting that interest costs of £1.18m will be accrued to be covered from General Fund reserves for up to 36 months, which will be repaid by the HRA on completion of the works.
- To allocate a capital investment of £39.26m from the HRA to repay the General Fund loan of £38.08m and interest cost of £1.18m (at a 5% borrowing rate), within 36 months of the project start on site date.
- That the HRA capital investment be funded through £14.17m of HRA borrowing, £11.73m of RtB receipts, £4.2m of GLA funding, £8.36m of shared ownership sales, and £798k of Brownfield Land Release Fund administered by One Public Estate.

2.1.3 Agree that works commence by the end of March 2024, which is required to retain the GLA grant and Brownfield Land Release Funding.

2.1.4 Agree that, subject to the decision on the future of Sixty Bricks and as set out in paragraph 3.9, that the contract for the delivery of the Priory Court scheme be novated to the Council.

## 3. Proposals

3.1 Priory Court is a priority new build project in the council's Housing Capital Programme. The scheme will deliver 83 new homes across three residential blocks on the Priory Court Estate, along with approximately 4,000m<sup>2</sup> of play space, including a new larger Sports England multi-use games area, and comprehensive landscaping and highway improvement works that will benefit all residents within the Priory Court estate. The

development will provide a net gain in trees, enhanced urban greening and biodiversity on the estate. Design information, including landscaping proposals is provided in Appendix A.

- 3.2 In January 2023, Cabinet approved the business case for the Priory Court scheme at 50% affordable housing, to be progressed to tender stage within an overall budget of £34.76m (excluding interest). This was to be funded through £17.25m of HRA borrowing to deliver 21 social rent and 19 shared ownership homes, and a General Fund loan of £17.51m to deliver 43 homes for market sale.
- 3.3 To date, delivery has been via the council's arms-length development company, Sixty Bricks. Planning permission was secured in July 2023 based on the housing mix approved by Cabinet in January 2023. Subsequent to this, a number of factors have changed, rendering the project unviable as scoped. Specifically, there have been:
  - Significant increases in borrowing costs.
  - Significant increases in construction costs, combined with softening market sale values, and slower sales rates.
  - Changes to GLA grant conditions, including social rent homes only being eligible for grant funding if the entire scheme is 100% affordable.
  - The need to replenish HRA reserves over the next 5 years.
- 3.4 To respond to the above challenges, it is proposed to swap the market sale homes to shared ownership and deliver a 100% affordable scheme. Further, it is proposed to fund the development costs from the General Fund during the development period, with the HRA purchasing the affordable homes (repaying the General Fund, including interest costs) on completion of the scheme.
- 3.5 By providing a greater proportion of the affordable housing as shared ownership and delaying the HRA payment until the new homes are complete, thereby avoiding interest costs being incurred by the HRA during the construction period, this enables the HRA to achieve a net revenue surplus from the first year of its investment.
- 3.6 The proposal achieves the HRA's financial hurdles, including a revenue surplus from Year 1, optimises affordable housing delivery, and enables GLA grant to be secured for the social rent homes, removing the need to use Right to Buy (RtB) receipts to subsidise this element of the scheme. The RtB receipts are only required for the shared ownership homes.
- 3.7 A competitive procurement process has been undertaken by Sixty Bricks to appoint a building contractor. Tender prices have been received within the project cost envelope. These have been reviewed by an external

Quantity Surveyor, who has confirmed that the tender prices represent value for money. A preferred contractor has been selected.

- 3.8 GLA grant has been secured for the social rent homes on the condition that construction works commence by 31<sup>st</sup> March 2024. This report seeks Cabinet approval to the tenure mix change, the funding strategy, and delivery timetable.
- 3.9 A separate report that proposes that Sixty Bricks is made dormant is being considered at this Cabinet meeting. If the decision to make Sixty Bricks dormant is approved, the scheme will be taken forward via council self-delivery. This change in delivery route can be achieved without any impact on cost, programme or the anticipated quality of the scheme to be delivered. This would be achieved by Sixty Bricks entering into the build contract with the appointed contractor and then the contract being novated to the Council by agreement between all three parties.

#### 4. Options & Alternatives Considered

##### 4.1 The following options have been considered:

- Option 1. Commencing the project before by March 2024, to retain the GLA grant.
- Option 2. Delay the project until a future date (to be confirmed).
- Option 3 Do nothing.

##### 4.2 A SWOT analysis was undertaken and considered the following key issues:

- The financial risk to the council, considering the current financial pressures.
- The council's ability to mitigate the risks identified.
- The need for grant funding for the project to be viable.
- Value for money and social value benefits.
- Reputational implications for the council.

##### 4.3 Option 1 is considered to be the best option because it:

- Can be funded through the General, with the interest costs being paid by the HRA on completion of the project, based on current borrowing rates.
- Delivers the HRA's financial hurdles, based on the scope and borrowing costs.
- Secures the GLA (£4.2m) and Brown Land Release grant (£798k), which is critical to the viability of the project.
- Delivers value for money, through the competitive contractor procurement process that has been carried out, and achieves cost fixity, as the works are being procured through a fixed price contract.

- Provides the quickest route to providing affordable homes to local residents at a time when the need for affordable homes (both rented and home ownership) is critical, particularly given the recent slow-down in housebuilding by both the private and public sector.
5. Council Strategic Priorities (and other National or Local Policies or Strategies)
    - 5.1 The proposals for Priory Court support the Council's commitment within the Housing Strategy to deliver more genuinely affordable homes, and create stronger and fairer communities.
    - 5.2 The Housing Strategy sets out the Council's vision for housing, which is:
 

*“Improved and fairer access to high-quality and genuinely affordable homes which provide a foundation for every resident to live a happy and healthy life.”*
    - 5.3 The Housing Strategy acknowledges the need to focus on more than just homes, with the design of buildings and accompanying social, economic, and community spaces being key to both how people perceive and experience new development and enabling healthy and fulfilling lives.
    - 5.4 The proposals for Priory Court seek to respond to this by providing an affordable mix of high-quality homes, for both rented and ownership, together with significant public realm improvements that will benefit both new and existing residents within the Priory Court estate.
  6. Consultation
    - 6.1 Consultation on the development proposals has been carried out with internal and external stakeholders to progress delivery of the site and secure resolution to grant planning permission. This includes liaising closely with community, Registered Providers, business and voluntary sector stakeholders and Ward Councillors.
    - 6.2 As part of external stakeholder communications, a newsletter was distributed in July 2023 to estate residents and stakeholders confirming Planning determination and next steps. A further update will be provided to residents and stakeholders following the cabinet decision, prior to works commencing on site.
    - 6.3 The proposals were presented to Housing Scrutiny Committee on February 22<sup>nd</sup> 2024.

## 7. Implications

### 7.1 Finance, Value for Money and Risk

- 7.1.1 The housing development market has been significantly affected by rising costs and stagnating values, which have made schemes unviable, resulting in a slowdown of development activity.
- 7.1.2 As a result of rising construction and borrowing costs, which have not been offset by rising sales values, the previously approved Priory Court scheme cannot be delivered within the approved budget or achieve the Council's financial hurdles.
- 7.1.3 The project costs have increased from £34.7m to £38m (excluding interest). Despite the additional cost, the proposed change of tenure, together with the GLA grant and contribution from RtB 1-4-1 funding, brings the scheme back to a viable position.
- 7.1.4 The Value for Money Checklist rating is Green, on the basis that:
- Value for money has been achieved on the construction works, through a competitive tender process, which has been reviewed and confirmed by an external quantity surveyor as achieving value for money.
  - The HRA's financial hurdles are achieved, including providing net revenue surpluses from year 1.
  - Reduces cost pressures of providing temporary accommodation, by delivering new social rent homes.
- 7.1.5 The risk of further cost increases is mitigated through the contracting arrangement with the contractor, which is a fixed price contract. Furthermore, a contingency allowance of circa £1.1m has been included within the project budget to manage ongoing cost risk.
- 7.1.6 Swapping the market sale properties to shared ownership reduces the sales risk to the Council, with shared ownership providing a more affordable route to home ownership, for which there has been strong demand on other Council developments (for example Central Parade and Juniper House). The construction programme also phases the completion of the shared ownership blocks to mitigate the sales risk, so that the first block (17 shared ownership properties) is marketed and purchasers secured prior to the marketing of the second shared ownership block.
- 7.1.7 The delivery structure requires the General Fund to 'cashflow' the development with the costs plus interest being recovered in the sales value (appropriation) to the HRA. This is the same model used for the delivery of both Central Parade and Juniper House. This delivery structure removed the interest charge to the HRA during the delivery of the scheme when no income (rent) is being received. With the HRA acquiring the properties on completion and sale, the rental income will fund the interest cost on the borrowing.

- 7.1.8 The General Fund will accrue interest costs of approximately £1.18m during the construction period, based on a borrowing interest rate of 5%. The interest costs will be funded from the General Fund reserves until the HRA purchases the completed units. The HRA investment will be committed in Q1 of FY 26/27 when the project is due to complete.
- 7.1.9 The scheme is forecast to achieve a positive cashflow for the HRA in year 1, assuming a borrowing rate of circa 5%, with the debt being paid back in year 19. A summary of the financial performance metrics is provided in Appendix B (Exempt).
- 7.2 Legal
- 7.2.1 Under sections 1 and 2 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 Under section 9 of the Housing Act 1985 the Council has the power to build homes for housing accommodation.
- 7.2.3 Changing the tenure mix may require a change to any Unilateral Undertaking/planning agreement which the Council must enter into as landowner.
- 7.2.4 The proposed form of building contract is a fixed price JCT Design and Build contract between Sixty Bricks and the contractor. Should it be necessary, the novation of the contract from Sixty Bricks Limited to the Council must be with the agreement of Sixty Bricks and the contractor, and in accordance with Council's Contract Procedure Rules.
- 7.2.5 Disposal of property from the Housing Revenue Account requires consent. The disposal of land by a shared ownership lease for market value, as is the case here, is permitted by the General Housing Consents 2013 under section 32 of the Housing Act 1985.
- 7.3 Equalities and Diversity
- 7.3.1 The increase in affordable homes will improve equalities and diversity outcomes by providing a greater number of good quality housing for people with the greatest need, at a cost they can afford.
- 7.3.2 The delivery of the 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 (4), Volume 1: Dwellings, Category 2: Accessible and Adaptable, and 10% to ADM (4) Category 3: Wheelchair User Dwellings. There is currently a lack of good quality accessible homes in the existing estate.
- 7.3.3 An EIA Screening report has been carried out. It is considered that an Equalities Impact Assessment is not required in relation to this report, as there are no adverse impacts on any of the outlined protected characteristics as a result of the proposed recommendations submitted in the report.
- 7.4 Sustainability (including climate change, health, crime and disorder)

- 7.4.1 Direct delivery of new homes to contribute to increased affordable housing delivery targets for the Borough, is a key plinth of the Waltham Forest Housing Strategy: Housing Futures; A decent roof for all adopted by full Council in April 2019. Changing the tenure mix to 100% affordable would increase the Council's contribution to its affordable housing delivery targets.
- 7.4.2 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 and high-quality public realm and amenity space.
- 7.4.3 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.
- 7.4.4 Improvements are being made to the connectivity of the existing estate with the creation of new frontages, providing overlooking to streets and shared areas, in order to provide safer outdoor spaces. Additional CCTV is also being installed to improve surveillance.
- 7.4.5 Homelessness and poor housing conditions are widely regarded as key health determinants. The scheme, when completed, will provide life chances, health and wellbeing benefits.
- 7.4.6 In addition to new affordable homes, the Priory Court scheme will deliver wider social benefits for the existing estate residents and community centre groups, including increased biodiversity through the landscaping of the public realm, and enhanced outdoor play space, including a new MUGA. Additional social value benefits will also be derived from training, labour and engagement opportunities during the construction of this scheme.
- 7.5 Council Infrastructure
- 7.5.1 The project will deliver 83 new affordable homes into the Council's housing stock, which will need to be managed within the existing staff structure and resources.

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

None