

London Borough of Hammersmith & Fulham

Report to: Cabinet

Date: 06/07/2020

Subject: Investment in Affordable Housing and Appropriation of Sites

Report of: Cllr Andrew Jones - Cabinet Member for the Economy

Responsible Director: Tony Clements, Interim Strategic Director for the Economy

Summary

In July 2019 Cabinet approved the '**Building Homes and Communities Strategy**' which set out the principles of a self-funding programme of investment in homes and community assets. Through the Building Homes and Communities Strategy, the Council is committed to using its assets to meet its strategic objective of delivering genuinely affordable homes.

The Council identified opportunities to deliver up to 1,800 homes and generate long-term income to support the Council's financial challenges. The strategic business case in the strategy sets clear objectives to:

- Build new, genuinely affordable housing which will help maintain the borough's vibrant social mix;
- Supports the Council's Business Plan priority of 'Building Shared Prosperity';
- Renew key community assets, including schools and leisure centres; and
- Generates income to reinvest in frontline services

This decision supported the 2018-2022 Business Plan objectives and aspirations and enabled the council to deliver much needed affordable housing at pace.

This report will enable the next wave of sites for delivery. It seeks approval to appropriate two sites known as the Farm Lane Site, and the Mund Street Site from General Fund to the Housing Revenue Account, and approval for the capital budgets needed to progress each site up to the planning application submission and procurement of contractor stages in the development cycle.

Recommendations

That Cabinet:

1. Agree that Appendix 1 is not for publication on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

2. Approve a capital budget of £4,504,070 in the General Fund (GF) to facilitate the redevelopment of the Farm Lane Site and the Mund Street Site to the planning and procurement stages.
3. Delegates authority to the Strategic Director for the Economy in consultation with the Cabinet Member for the Economy authority to approve any drawdowns of the approved capital budget above £2.5 million.
4. Approve the virement of S106 funding of £3.5m from the redevelopment of Edith Summerskill House to the fund the initial allocation of the above budget.
5. Note that the remaining budget of £2.004m will be funded from a combination of capital receipts and borrowing and delegate final confirmation of funding to the Director of Finance in consultation with the Cabinet Member for the Finance and Commercial Services.
6. That Cabinet resolves that the areas of land shown edged red on the plans at Appendix 2 of the report are no longer required for the purpose for which they are currently held (General Fund purposes).
7. To approve the appropriation of the two areas of land and assets shown edged red on the plans at Appendix 2 from the General Fund to the Housing Revenue Account subject to securing external valuations and approval of the Head of Asset Strategy and Portfolio (Borough Valuer).
8. To delegate authority to the Director of Finance in consultation with the Head of Asset Strategy and Portfolio (Borough Valuer) and the Cabinet Member of Finance and Commercial Services to take the necessary steps, including securing external valuation of the sites in order to facilitate the decision in 6 and consequently, re-assign the development budget and spend to the HRA from the General Fund.

Wards Affected: North End and Fulham Broadway

H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
<ul style="list-style-type: none"> • Building shared prosperity 	<p><i>The proposals will lead to the delivery of much needed affordable housing in the borough. The development itself will use the Council's Social Value strategy to ensure that local businesses and residents benefit from the contracts that are procured.</i></p>
<ul style="list-style-type: none"> • Doing things with local residents, not to them 	<p>All schemes will be subject to extensive engagement and have resident involvement</p>

	built into the process for developing designs as schemes progress from initial feasibility to the development of more detailed designs
<ul style="list-style-type: none"> • Being ruthlessly financially efficient 	<i>The appraisals show that these proposals are financially viable and have the capability of delivering long term returns for the Council.</i>
<ul style="list-style-type: none"> • Taking pride in H&F 	<i>The schemes will deliver quality additions to the borough in terms housing provision. We will encourage inclusion of carbon neutral design proposals and green initiatives where possible.</i>

Financial Impact

Capital budget and funding

A £2,500,000 budget to progress the two sites through to RIBA stage 2 is required and will be added to the general fund capital programme. This will be funded from affordable housing s106 receipts that the council has received from St James Group as part of their affordable housing contribution from their development at 54 Wood Lane, W12 7RQ (AKA 867). This is currently allocated to the budget for the redevelopment of Edith Summerskill House but following more certainty on the cost estimates for that scheme it has been determined that the funding can be released to progress the developments at these sites. The Edith Summerskill House project budget will be reduced in line with the transfer of funding.

Subsequent release of the remaining £2,004,070 budget will be subject to approval by the Strategic Director for the Economy in consultation with the Director of Finance and the Cabinet Member for the Economy and contingent on the Development Board demonstrating viability to both the General Fund and HRA.

This budget will be funded from a combination of capital receipts and borrowing and it is recommended that final confirmation of funding is delegated to the Director of Finance in consultation with the Cabinet Member for Finance and Commercial Services.

Appraisal of the projects

Initial appraisals along with sensitivity analysis have been carried out on the proposed developments and confirm financial viability and a strong financial return for each site. This is detailed in Finance appendix 1. These appraisals will be required to be refreshed with the latest information before either further budget is released or expenditure on RIBA stage 3 commences and before the planning submission is made and ahead of approval of a decision to progress the full scheme by members.

Site appropriation

There is no direct impact as a result of this decision. However, in order to progress the development of each site beyond RIBA stage 2 and to completion, the appropriation of the land from the General Fund to the Housing Revenue Account may be required.

Further work is required to establish the appropriation values of these sites and therefore it is recommended that the decision to appropriate is delegated to the Director of Finance in consultation with the Head of Asset Strategy and Portfolio Management and the Cabinet Member for Finance and Commercial Services and to reassign any budgets and expenditure accordingly. External valuations have been secured, reviewed and approved by the Head of Asset Strategy and Portfolio Management.

In the event the appropriation crystallises the following would happen:

- The assets would be recognised in the HRA rather than the General Fund.
- All budgets and capital spend to date would be moved to HRA.
- Recognition of historic debt equal to the value of the sites would be re-allocated from the General Fund to the HRA.
- The debt reallocation will result in a reduction of debt financing costs for the General Fund and an increase for the HRA. The exact amounts will be subject to establishing appropriate site values for such an appropriation and the cost of finance at the time.
- The HRA operating account will reflect the income and expenditure of developing and operating these assets upon their completion.

Any decision to appropriate the assets will be contingent on a valuation as mentioned above.

Impact on General Fund

The general fund capital budget will increase by as £2,500,000 of this decision. Should the projects prove unviable and abort prior to the planned appropriation to the HRA, the capitalised expenditure incurred to that point will be charged to revenue budgets. However, as the funding can be applied to revenue this does not pose a risk to general fund reserves.

Impact on Housing Revenue Account

There is no direct impact on the HRA as a result of this decision, however the appropriation will mean that the project is completed within the HRA. It is expected that the developed affordable rented homes and associated debt will therefore be held within the HRA. Viability to the HRA is contingent on the appraisal net present value of the sites exceeding the value at which they are appropriated at.

Legal Implications

A general power to appropriate land is conferred on local authorities under section 122 of the Local Government Act 1972 (LGA 1972). A Council may appropriate land:

- Belonging to that Council
- That is no longer required for the purpose for which it is held

- For any other purpose for which it is authorised by statute to acquire land

There is no statutory requirement to advertise or consult on a proposal or decision to appropriate land under this section (unless the appropriation relates to special categories of land such as open space, common or allotment land).

Ownership of the assets does not change; the Council itself owns all the assets regardless of the power under which they are held. It is only the designation of these assets for a particular purpose which will change.

The transfer of the assets from the General Fund to Housing Revenue Account will not constitute a chargeable consideration for SDLT purposes

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Background Papers Used in Preparing This Report

None.

DETAILED ANALYSIS

Background

1. The Cabinet has approved clear strategies for the Council to provide new affordable housing to respond to the needs of the community, to benefit existing and future residents and the environment.
2. In June 2019, Cabinet approved entering into funding agreements with the Greater London Authority (GLA), namely:
 - **The Building Council Homes for Londoners (BCHfL) Grant Agreement** - equating to £15,308,000 of non-repayable capital grant to deliver genuinely affordable housing on identified sites throughout the Borough;
 - **The Homebuilding Capacity Fund (HBCF)** - £230,000 (revenue income to deliver assessment of delivering housing in small sites.
 - **Right to Buy Ring-fencing Agreement** - to secure the Council's use of retained Right to Buy (RtB) receipts for a longer period of time and to use it to help deliver genuinely affordable homes.
3. In July 2019, Cabinet also approved the '**Building Homes and Communities Strategy**' which set out the principles of a self-funding programme of investment in homes and community assets.
4. Through the Building Homes and Communities Strategy, the Council is committed to using its assets to meet its strategic objective of delivering genuinely affordable homes.
5. The Council identified opportunities to deliver up to 1,800 homes over a period of up to ten years and generate long-term income to support the Council's financial challenges. The strategic business case in this strategy sets clear objectives to:
 - Build new, genuinely affordable housing which will help maintain the borough's vibrant social mix;
 - Supports the Council's Business Plan priority of 'Building Shared Prosperity';
 - Renew key community assets, including schools and leisure centres; and
 - Generates income to reinvest in frontline services
6. This decision supported the 2018-2022 Business Plan objectives and aspirations and enabled the council to deliver much needed affordable housing at pace.

These two sites are coming forward as part of this strategy to deliver much needed affordable housing.

Proposals and Options

7. Financial modelling the two sites strongly point to viable and deliverable schemes. The following is an overview of each site:

Farm Lane Site

8. This Site had historically been used as a children's home, a resource centre and most recently as a day centre for Age Concern on the ground floor and supported housing on the upper floors. The building is currently in disrepair having not been formally occupied for several years. It is currently being secured by property guardians.
9. The site was also re-acquired from Capco in December 2019 and, in consultation with Asset Management colleagues, identified for development to provide affordable housing development.
10. Initial feasibility assessments for residential development options have identified that this site can accommodate 30-home development.
11. This proposal comprises; a 15-home (50%) affordable housing provision, of which:
 - 9 (60%) homes will be genuinely affordable rent, and
 - 6 (40%) will be for intermediate rented housing, potentially earmarked for key workers.
12. The other 15 (50%) homes will be for private market sale which will help offset the costs of the overall development.
13. The latest reconciliation of the scheme's financial appraisal with Finance colleagues demonstrate a requirement for a budget of £1,269,947 to cover all associated development 'On-costs' (i.e. professional fees, survey costs, statutory application fees etc) to progress this scheme to planning submission and contractor procurement stages of the development cycle.
14. Access to this budget will initially be restricted to £705,000 with further drawdowns delegated to the Cabinet Member for the Economy on the advice of the Development Board including financial viability of the schemes.
15. Further approval reports to progress the projects will be submitted through the Council's governance processes as appropriate.
16. This site will be subject to extensive consultation as part of the planning process.

Mund Street Site

17. This is the site of the former Gibbs Green School. The site is owned by the Council, and is temporarily being used by Fulham Boys School, while their

new premises is being constructed. They are due to remain on site until September 2020.

18. There is no operational requirement by H&F for a school in this location and the asset will be surplus re-provision is required as the use is defunct and therefore identified by Asset Management colleagues as having development potential for provision of affordable housing development.
19. Initial feasibility assessments for residential development options have identified that this site can accommodate 100-home development comprising; a 50 (50%) affordable housing provision, of which:
 - 30 (60%) homes will be genuinely affordable rent, and
 - 20 (40%) will be for intermediate rented housing, potentially earmarked for key workers.
20. The other 50 (50%) of homes will be for private market sale to help offset the costs of the overall development.
21. The latest reconciliation of the scheme's financial appraisal with Finance colleagues demonstrate a requirement for a budget of £3,234,123 to cover all associated development 'On-costs' (i.e. professional fees, survey costs, statutory application fees etc) to progress this scheme to planning submission and contractor procurement stages of the development cycle.
22. Access to this budget will initially be restricted to £1,795,000 with further drawdowns delegated to the Cabinet Member for the Economy on the advice of the Development Board including financial viability of the schemes.
23. Further approval reports to progress the projects will be submitted through the Council's governance processes as appropriate.
24. This scheme will be subject to extensive engagement and have resident involvement built into the process for developing designs as schemes progress from initial feasibility to the development of more detailed designs. As this site is adjacent to an existing housing estate officers will work with the local residents, representatives and the wider community.

Timetables

Milestone	Date
LBHF Gateway 2 Approval	
Cabinet Approval	July 2020
Stage 2: (Planning)	
RIBA Work Stages 2 & 3	August
Planning Submission	February 2021
Planning Consent	May
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- Stage 3: (Procurement)	
- RIBA Work Stage 4B	June
Prop of Tender Doc's	June
Tender Period	July
- Tender Return and Evaluation	August
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- LBHF Gateway 3 Approval	
- Dev Board	September
SLT	September
Cabinet Approval	October
Stage 4: (On-Site)	
RIBA Work Stage 5	October
Pre-contract meetings	October
Execute Build Control and Site Possession	November
Contractor Mobilisation & Design Detail	November
Start on-site – Site set up and Demolition	January 2022
- Start on-site – Main Construction Works	January
Practical Completion	June 2023

Funding Options

25. **Option 1:** Fund the two projects in the General Fund. This option has been considered and discounted because, currently, there is significant financial pressure on the General Fund. This has been exacerbated by the current Covid-19 crisis which makes the risk of significant abortive development costs within the General Fund unviable.

26. **Option 2 (recommended):** Delegate appropriation of the sites from the General Fund to HRA to the Director of Finance in consultation with the Head of Asset Strategy and Portfolio Management and the Cabinet Member for Finance - and create the necessary budgets within General fund and transfer them to the HRA following appropriation of the sites. Create a development budget envelope of £4,504,070 in the HRA to facilitate delivery of the two sites up to the planning and procurement stages of the development cycle. But limit access to this budget to £3.5m with further drawdowns contingent on

Development Board's approval on the basis of financial viability of the schemes.

27. **Option 3:** Dispose of one of the sites on the open market to generate a capital receipt to be used to fund the other two sites. This option has been considered and discounted because the Council would be foregoing extremely valuable real estate development opportunities in some of the most affluent parts of the borough. This remains a possibility post planning should the Council need to reconsider funding options or identify the need for capital receipts to fund investment in other affordable housing developments.
28. **Option 4:** Dispose of both sites on the open market to generate maximum capital receipts. This option is currently discounted because it would be at odds with the Council's strategy to provide additional affordable housing. Furthermore, the current appraisal indicates that proceeding with the developments will provide the HRA with a long-term financial benefit.

Reasons for Decision

29. The original uses of the sites are surplus to operational requirements. They are currently significantly underutilised and present ideal opportunity for development and delivery of affordable housing.
30. The Council has committed to using its assets and land to deliver genuinely affordable homes. The June 2019 Cabinet report '*Investing in affordable housing*' committed the Council to use internal and external funding to deliver affordable homes.
31. Similarly, the July 2019 Cabinet report 'Building Homes and communities Strategy' enshrined new principles of
- Build new, genuinely affordable housing which will help maintain the borough's vibrant social mix;
 - Supports the Council's Business Plan priority of 'Building Shared Prosperity';
 - Renew key community assets, including schools and leisure centres; and
 - Generates income to reinvest in frontline services
32. A budget is required to deliver these homes and so recommendations enable this to happen. Appropriation may also be required.
33. Delivery of genuinely affordable homes will have significant positive impact on the Council's budgets as it will alleviate pressure on the General Fund's temporary accommodation budgets because a significant proportion of the new homes will be used to house homeless households and those to whom the Council agreed a housing duty.
34. The Council's housing development programme, of which these sites form an integral part, can and will underpin the Covid-19 economic recovery efforts in

the borough through utilisation of local supply chains and on the ground expertise to boost the economy.

Equality Implications

35. The proposals outlined in this report will not adversely impact any groups with protected characteristics, under the Equality Act 2010.
36. *Implications verified by: Fawad Bhatti, Policy & Strategy Officer, tel. 07500 103617.*

Risk Management Implications

37. The successful reacquisition by the Council of sites parcelled together with its own enables it to progress investment in much needed housing. It is doing so at pace and in accordance with the needs and expectations of local residents.
38. Attention is also being given to the issue of local employment which is becoming specifically critical following the impact of the Covid-19 outbreak and what this may have on the construction industry.
39. A suite of risk registers are maintained by the Economy Department in accordance with best practice and a summary of Strategic, Operational and site-specific risks are provided in the accompanying Appendix 1 to this report.
40. *Implications verified by: Michael Sloniowski, Risk Manager, telephone 020 8753 2587*

Consultation

41. External consultations will be undertaken as the projects progress.

List of Appendices:

- Appendix 1 – Financial Appraisal of Proposed Developments (Exempt)
- Appendix 2 – Location Plans