

London Borough of Hammersmith & Fulham

Report to: Cabinet

Date: 02/11/2020

Subject: Investment in Affordable Housing and Appropriation of Lillie Road Site

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

Responsible Director: Tony Clements, 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 the Lillie Road Site, from General Fund to the Housing Revenue Account, and approval for the capital budget needed to progress the site up to the planning application submission and procurement of contractor stages in the development cycle.

Recommendations:

1. To note that Appendix 1 is not for publication on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that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. To approve a capital budget of £1,802,000 in the General Fund (GF) to facilitate the redevelopment of the Lillie Road Site, to the planning and procurement stages.
3. To delegate 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 £1,000,000.
4. To note that the remaining budget of £802,000 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.
5. To resolve that the area of land shown edged red on the plan at Appendix 2 of the report are no longer required for the purpose for which it is currently held (General Fund purposes).
6. To approve the appropriation of the Lillie Road site 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).
7. 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 site 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

H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
• Building shared prosperity	<i>The proposals will lead to the delivery of much needed affordable housing in the</i>

	<i>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>
<ul style="list-style-type: none"> • Doing things with local residents, not to them 	All schemes 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
<ul style="list-style-type: none"> • Being ruthlessly financially efficient 	<i>The appraisals show that the 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 £1,802,000 budget to progress this site through to RIBA stage 2 is required and will be added to the Councils capital programme and funded from borrowing. The full development will be funded from a combination of borrowing, GLA affordable housing grant and the proceeds of sales receipts. This is set out in the appendix 1. Once the appropriation of the site into the HRA is confirmed the expenditure to date and remaining budgets will move into HRA capital programme. Whether the HRA or general fund pays for any non-residential parts of the development will be confirmed depending on its intended use on completion.

£1,000,000 will initially be made available and subsequent release of the remaining £802,000 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.

Should the projects prove unviable and not proceed, the capitalised expenditure incurred to that point will be charged to revenue budgets.

There will be regular monitoring and updates to the appraisal as costs and sales values firm up.

Appraisal of the project

The initial appraisal along with sensitivity analysis have been carried out on the proposed development and confirm financial viability and a strong financial return for the 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. An appropriation of the land from the General Fund to the Housing Revenue Account will be required as any council provision of affordable housing must be accounted for in the HRA.

Further work is required to establish the appropriation values of the site 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 site 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.

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.
7. The Lillie Road Site is coming forward as part of this strategy to deliver much needed affordable housing.

Proposals and Options

8. Financial modelling of both scheme options strongly point to viable and deliverable schemes. The following is an overview of each site with detailed breakdowns of each scheme included in the appendices

Lillie Road Site

9. This site had historically been used as a nursery however has been vacant for some time. There is a meanwhile use occupying the grounds of the site in the form of a community garden on fixed-term licence.
10. Following re-acquisition of the site from Capco in December 2019, and in consultation with Asset Strategy team, this has been identified as a development opportunity for the provision of new affordable housing to support the Council's aspirations.
11. Feasibility assessments for the site have been undertaken and have identified two potential schemes, Option A: proposes to redevelop the former Nursery site on its own. Initial outline assessments indicate that this option can accommodate 33 new homes comprising; 17(50%) affordable homes and 16 private market sale.
12. However, a second option - Option B - has been modelled to include redevelopment of the adjacent community hall site. This option proposes a 45-home scheme comprising; 23 (50%) affordable homes, of which;
 - 14 (60%) homes will be genuinely affordable rented homes,
 - 9 (40%) will be intermediate rented homes, potential earmarked for key workers, and
 - An all-new, fit -or-purpose, modern community hall.
13. The remaining 22 (50%) homes will be marketed for private sale which will help offset the costs of the whole project.
14. While both schemes are financially viable, officers are currently progressing Option B because it delivers a higher quantum of affordable housing and enhanced community benefit through the redevelopment of the community hall. However, Option A will be retained as the fall-back option should proposed Option B encounter unforeseen challenges.
15. The latest reconciliation of the scheme's appraisal with finance colleagues suggest that an overall budget of £1,802,264 is required at this stage for 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.
16. Access to this budget will initially be restricted to £1,000,000 with further drawdowns delegated to the Cabinet Member for the Economy on the advice of the Development Board including financial viability of the schemes.

17. Further approval reports to progress the projects will be submitted through the Council's governance processes as appropriate.
18. 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 involves a community hall this is particularly relevant, and officers will work with the local residents, representatives and the wider community.

Timetable

Milestone	Date
LBHF Gateway 2 Approval	
Cabinet Approval	November 2020
Stage 2: (Planning)	
RIBA Work Stages 2 & 3	
Planning Submission	September 2021
Planning Consent	April 2022
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-	
Stage 3: (Procurement)	
- RIBA Work Stage 4B	May
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	December 2022
- Start on-site – Main Construction Works	
Practical Completion	December 2024

Funding Options

19. **Option 1:** Fund the project 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. The scheme is intended to deliver affordable housing which must be held in the Housing Revenue Account.
20. **Option 2 (recommended):** Delegate appropriation of the site 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 Commercial Services - and create the necessary budgets within General fund and transfer them to the HRA following appropriation of the site. Create a development budget envelope of £1.8m in the HRA to facilitate delivery of the Lillie Road site up to the planning and procurement stages of the development cycle. But limit access to this budget to £1m with further drawdowns contingent on Development Board's approval on the basis of financial viability of the scheme.
21. **Option 3:** Dispose of the site on the open market to generate a capital receipt. This option has been considered and discounted because the Council would be foregoing extremely valuable real estate development opportunity in one the most affluent parts of the borough. Furthermore, the current appraisal indicates that proceeding with the developments will provide the HRA with a long-term financial benefit. 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.

Reasons for Decision

22. The original uses of the Lillie Road site are surplus to operational requirements. They are currently significantly underutilised and present ideal opportunity for development and delivery of affordable housing.
23. 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.
24. 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

25. A budget is required to deliver these homes and so recommendations enable this to happen. Appropriation may also be required.
26. 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.
27. The Council's housing development programme, of which this site forms 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

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

Risk Management Implications

30. The successful reacquisition by the Council of site 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.
31. 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.
32. 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.
33. *Implications verified by: Michael Sloniowski, Risk Manager, telephone 020 8753 2587*

Consultation

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

List of Appendices:

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

Appendix 2 – Location Plan

Lillie Road site

