

CABINET

19 July 2016

Title: Barking Town Centre Housing Zone: Crown House	
Report of the Cabinet Member for Finance, Growth and Investment	
Open Report with Exempt Appendices	For Decision
Wards Affected: Abbey	Key Decision: Yes
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Accountable Director: Jeremy Grint, Commissioning Director, Growth, Homes & Regeneration	
Accountable Strategic Director: John East, Strategic Director for Growth and Homes	
Summary <p>In July 2015 Cabinet agreed to enter into a funding agreement with the Greater London Authority (GLA) to establish a Housing Zone for Barking Town Centre. This identified a range of sites where the Council would intervene to unlock housing delivery benefitting from GLA funding. One of the key sites was Crown House and Cabinet agreed to the principle of a comprehensive redevelopment of the site and agreed that should negotiations with the leaseholder not progress, the use of compulsory purchase order powers should be authorised.</p> <p>Cabinet also agreed to seek a development partner for the site with a further report to Cabinet to approve the details of any development agreement and any associated intervention agreement with the GLA. This report sets out the progress made and the recommended way forward to deliver the outputs set out in the Housing Zone funding agreement as well as delivering a wider range of the Council's objectives including long term income generation.</p> <p>Appendix 1, which is in the exempt section of the agenda in accordance with paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended) as it identifies sites which could impact on the financial and business affairs of the Council, shows the land owned by the Council and the leaseholder interest held by Lightquote Ltd (with LBDD freehold). Whilst both the Council and Lightquote share the objective of comprehensive redevelopment and indeed have worked together on a design and capacity study for the site, there were significant procurement issues in relation to delivery. The proposed way forward is that the Council and Lightquote work together on (and jointly fund) a planning application covering the whole site but that delivery is split with the Council funding and procuring a contractor to deliver homes for affordable rent and shared ownership through Reside with the ground floor potentially used for artists/creative industries on its part of the site and Lightquote funding and delivering homes on its land.</p> <p>Subject to tax advice it is proposed that the Council would provide Lightquote with a</p>	

building licence and a new lease of at least 150 years. In preference to a one off capital receipt for the new lease (and approval for redevelopment) the Council would negotiate with Lightquote for long term income from residential units as set out in this report.

This site forms a key element of the Council's emerging Investment programme utilising Council land and capital borrowing to deliver homes which generate a long term rental income. This would mean the Council would fund the capital costs for construction of the building on its land likely to be c.£35m. The final figure and whether this is European Investment Bank, Public Works Loan Board or other borrowing sources will be considered as part of the detailed business case should the principle be agreed.

A Borough Intervention Agreement (BIA) for the site between the Council and GLA would be required to secure the Housing Zone funding. It is proposed to focus funding on the road realignment/removal of roundabout (set out in paragraph 2.5) to create a larger development plot and the purchase of the Baptist Church car park and community hall (with any necessary re-provision within the development scheme). Housing Zone Loan funding (interest free) could contribute towards demolition and clearance costs helping with development cash flow. Any GLA funding would be subject to a development appraisal.

Recommendation(s)

Cabinet is recommended to:

- (i) Approve the proposed delivery route as set out in paragraph 3.2 of the report;
- (ii) Authorise the Strategic Director of Growth and Homes, in consultation with the Strategic Director of Finance and Investment, the Director of Law and Governance and the Cabinet Member for Finance, Growth and Investment, to finalise terms with Lightquote for a memorandum of understanding, an agreement for lease, building licence/ new lease or other tax efficient alternative under the principles set out in this report;
- (iii) Agree to enter into the Borough Intervention Agreement (BIA) for the Crown House site with the Greater London Authority;
- (iv) Agree to the principle of loan funding being used for the capital costs of construction of the development on Council land with repayment through rental income;
- (v) Delegate authority to the Strategic Director of Finance and Investment, in consultation with the Cabinet Member for Finance, Growth and Investment, to determine the amount of borrowing required to support the project and to enter into the necessary arrangements to acquire the funding;
- (vi) Agree to the purchase of the Baptist Church car park and community hall required to deliver the scheme plus, subject to viability, other land shown hatched on the plan at Appendix 1, and delegate authority to the Strategic Director of Finance and Investment, in consultation with the Cabinet Member for Finance, Growth and Investment and the Strategic Director of Growth and Homes, to negotiate terms and enter into any necessary agreements;

- (vii) Agree to commit funding for 50% of the costs associated with submitting a planning application for the site; and
- (viii) Agree to Roycroft House car park being used as the market traders' car park on market days as well as some space within London Road multi-storey car park in order to unlock the development site.

1. Introduction and Background

- 1.1 The Council has entered into an Overarching Borough Agreement with the Greater London Authority (GLA) setting up a Housing Zone in Barking Town Centre providing grant and/or loan funding for a number of schemes in order to unlock housing delivery. One of the Housing Zone schemes is Crown House. In July 2015 Cabinet agreed to the principle of a comprehensive redevelopment of the site (shown in Appendix 1) and agreed that should negotiations with the leaseholder not progress, the use of compulsory purchase order powers is authorised. Cabinet also agreed to seek a development partner for the site with a further report to Cabinet to approve the details of any development agreement and any associated intervention agreement with the GLA.
- 1.2 This report sets out the progress made with negotiations with the leaseholder and proposes a recommended way forward to deliver the outputs set out in the Housing Zone funding agreement as well as delivering additional Council's objectives such as income generation.

2. Proposal and Issues

- 2.1 Crown House is an under-utilised office block which appears to no longer meet the needs of modern office users reflected by the high vacancy rate. The Council owns the freehold of the site with the leaseholder (Lightquote Ltd) having around 52 years remaining. Lightquote Ltd requested that the Council extend the lease or sell the freehold to enable them to convert the block to residential. With adjacent Council owned land there is potential for a redevelopment of the wider site rather than a conversion of Crown House which may not result in the quality of accommodation the Council wants in the Housing Zone. In July 2015 Cabinet approved the principle of comprehensive redevelopment of the site utilising Housing Zone grant funding. There is potential to utilise up to £2m Housing Zone grant funding and £1m recoverable grant (ie loan) subject to signing a Borough Intervention Agreement (BIA) with the GLA. Cabinet gave approval to back up negotiations with the ability to use compulsory purchase order powers if agreement cannot be reached with the leaseholders to progress with a viable comprehensive development.
- 2.2 The Council and Lightquote Ltd have agreed a shared objective of comprehensive redevelopment and agreed that a capacity study to determine what could be delivered on site was a critical first step. Both parties jointly selected architects (CJCT) to produce a scheme (although Lightquote funded it). CJCT produced a draft scheme (Appendix 2, in the exempt section of the agenda) which is broadly acceptable in planning policy and massing terms and includes 323 units. This is above the 270 units included in the Housing Zone bid but gives scope for flexibility

during the detailed design stages. The site includes Lightquote's and the Council's interests but also the Baptist Church's car park and community hall. The Council is about to start negotiations with the church which may require a replacement community hall to be provided in the new development.

- 2.3 LBBB appointed GVA/Bilfinger to provide valuation advice and support negotiations (Lightquote are using Montagu Evans). GVA's report values the Council's freehold interest, Lightquote's leasehold interest and the value of merged interests. Their report also sets out options for the Council to realise this value through long term income as opposed to a one off receipt.
- 2.4 The adjacent Cambridge House site to the south presents a very poor appearance and ideally would be included within a wider redevelopment. Initial negotiations have taken place with the owner and it is looking increasingly likely that compulsory purchase order may be needed to ensure its inclusion in any future redevelopment.
- 2.5 There is scope to reconfigure the public highway land around the site including the removal of the existing roundabout on Cambridge Road which is not required. A reconfiguration of the highway land has been designed which has been approved by London buses and emergency services and would result in a larger LBBB development plot. This could be funded by GLA Housing Zone grant.
- 2.6 The existing Linton Road car park would form part of the redevelopment site. This is currently used on market days as parking for market trader vans. Alternative market trader parking could be provided at Roycroft House car park and with some lower height market vehicles utilising London Road multi-storey. The income generated by the car park outside of market trader days should be mostly retained through people parking at the nearby multi-storey car park instead. The loss of Linton Road car park is not seen as adversely impacting on provision for shoppers and other town centre users given the proximity of the multi-storey/Roycroft House car park. The development scheme would cover any costs associated with the new provision.
- 2.7 GLA Housing Zone funding is reliant on Due Diligence work and scheme financial appraisals. The GLA have announced a review of Housing Zones in the light of the new Mayor's focus on affordable housing - this may impact on scheme viability.
- 2.8 The next stage in progressing the scheme would be to further develop the designs and associated costings which would enable financial modelling to take place to define the extent of borrowing required and estimates of potential rental income. However neither party wishes to incur further expenditure without a clear agreement on the way forward. This report therefore sets out the proposed way forward for approval with delegation to Strategic Directors in consultation with Cabinet members to finalise the financial details.
- 2.9 The negotiations with Lightquote need to agree:
 - The mechanism for jointly clienting the working up and submission of a planning application for the site.
 - The terms by which the Council would provide an agreement for lease, a building licence or alternative tax efficient arrangement to redevelop the site and following practical completion, the terms by which a surrender of their

existing lease and grant of a long lease. Options are set out in paragraph 2.10 below. The building licence is the best mechanism to encourage development by Lightquote to the timescales sought as they would not gain the full lease until works are completed.

- How affordable housing is addressed. Potentially the Council could provide discounted market rent (at 80%) and shared ownership with its element of the development but this would need to be reflected financially in the arrangements with Lightquote (ie if we are taking responsibility and therefore costs off of them). This area of negotiation is complicated by uncertainty over emerging GLA policies whereby the expectation is that on public land a sizeable affordable housing contribution will be made. The GLA would have a role in terms of both Mayoral Planning referrals and in relation to the Housing Zone funding.

2.10 GVA/Bilfinger have provided the Council with a report setting out options in relation to alternatives to a capital receipt for the surrender and regrant of long lease to Lightquote. These include:

- Ground rent from each residential unit. This option is positive in that it is a very secure form of income although there is a risk of enfranchisement where occupiers could remove the ground rent obligation.
- Commercial rent income from a proportion of the ground floor commercial space.
- Ownership of individual apartments. Likely to be a low number so management could be problematic however there is potential to negotiate with Lightquote to include within their management for the development and just provide rental income from the units to the Council minus management costs.

2.11 The Council's negotiation focus will be on the latter point as the best source of long term income.

3. Options Appraisal

3.1 Neither the Council or Lightquote wish to sell their interests to each other and the case for the Council to compulsory purchase Lightquote is likely to be weak given they are keen to work with us on a redevelopment proposal. Lightquote would be willing to put in the full capital costs of construction however they are aware the Council is keen to generate a long term rental income and is willing to invest in schemes which deliver this. There are public procurement complications with the Council entering into joint ventures hence the proposed way forward set out below is seen as the most effective way of delivering the Council's objectives and bringing forward development quicker.

3.2 The proposed way forward:

- LBBD and Lightquote Ltd jointly client and fund a planning application covering the whole site which provides the ability to take forward delivery.
- On its part of the site, the Council funds and procures a contractor to deliver approximately 150 homes for affordable rent and shared ownership through Reside with the ground floor potentially used for artists/creative industries and/or re-provision of Baptist Church community facilities if required.

- The Council provides a building licence for Lightquote to deliver approximately 175 homes and commercial space on its leasehold land and following completion grant a new lease of at least 150 years.
- Rather than a capital receipt for providing the building licence and new lease to Lightquote the Council would require a long term rental income from a number of residential units in the development.

Option	Advantages	Disadvantages
Do Nothing	No financial risk or resource implication	Failure of deliver new homes, new income source and town centre regeneration. Reputational issue with GLA.
Proposed way forward	Likely to be the quickest solution and giving each party the control it wants of delivery. No long procurement processes.	Delivery by two different organisations (mitigated by single planning application and some landlord control by LBBD over Lightquote)
CPO of Lightquote's interest	Cabinet approval already secured. Greater control and greater number of LBBD rental units.	Timescale. CPO justification limited by the fact Lightquote are willing to work with Council on comprehensive scheme. Additional acquisition and construction cost.
Selling Council's interest to Lightquote	Capital receipt.	No opportunity for additional investment in delivering housing for rental income. Loss of control.
Joint Venture with Lightquote	Single scheme taken forward. Potential construction cost savings.	Likely protracted negotiations and public procurement issues. Set up costs.

4. Ambition 2020/Growth Commission implications

- 4.1 This scheme is relevant to the Growth Commission's focus on Barking Town Centre delivering 'well-designed, compact, high-quality housing with a distinct sense of place. Similarly in relation to Ambition 2020 this scheme is completely in line with the programme's aspirations involving the Council proactively investing in regeneration to deliver long term income to the Council from utilising its land, development skills and borrowing capacity.

5. Consultation

- 5.1 There has been no specific consultation on the Crown House scheme. Prior to any planning application there would be a public consultation exercise.

6. Financial Implications

Implications completed by Katherine Heffernan, Group Manager – Service Finance

- 6.1 This report sets out the next steps in the proposed redevelopment of the Crown House site. At this stage there is still a number of areas of uncertainty and a further detailed business case will need to be carried out before final approval. This will form the subject of a subsequent report to Cabinet.
- 6.2 The report seeks agreement to entering into a Borough Intervention Agreement with the GLA. This is necessary in order to access Housing Zone funding. The Housing Zone fund can provide up to £1m recoverable grant (ie loan funding) and £2m non recoverable grant. This will provide funding for the initial stages of the scheme.
- 6.3 Approval is also sought for the purchase of Baptist Church car park and community hall required to deliver the scheme plus subject to viability, other land. It is proposed that this will be funding from the Housing Zone monies subject to validation by the GLA. It is also proposed that the Council should fund half the costs of the planning application. This will also be funded from the Housing Zone monies or from existing Council resources.
- 6.4 The Crown House Development will involve the loss of Linton Road car park which is currently used by market stallholders four days per week and available for public use the other three days. With the loss of this car park there is a need to assess whether the current users can be displaced into London Road car park and adjacent pay and display parking areas without impacting on the overall level of parking income received in the Town Centre.
- 6.5 The report also sets out a delivery route and seeks delegated authority for officers to negotiate terms of the arrangements with Lightquote. The Council has already commissioned a valuation and a report into the options for alternatives to a capital receipt and this will inform the negotiations. The terms of the final arrangement and the consequent financial flows will be considered in the detailed business case. In addition the tax implications of the different options including VAT and stamp duty should also be fully considered before terms are finalised.
- 6.6 Following successful conclusion of the preliminaries the Council intends to develop the site as part of its investment programme. Given the Council's existing land ownership and the availability of Housing Zone fund, the Crown House site is seen as a key initial project to utilise borrowing to generate an income from renting homes through Reside. The details of the amount of borrowing, the source of borrowing and the repayment arrangements will all form part of a detailed business plan once more definitive costs are available. This will be subject of the subsequent report.
- 6.7 As with any new housing development, the Authority currently receives a New Homes Bonus of £7,500 for every net new home built and will also be able to charge a Community Infrastructure Levy. A scheme of approximately 270 units would generate a New Homes Bonus of in excess of £2.0m.

- 6.8 There will also be an increase in the Council Tax base as a result of the additional dwellings, however, the increased number of residents will also place additional demands on local services such as waste collection, street cleansing and School places. The units will be mostly one and two bedroom apartments.

7. Legal Implications

Implications completed by Angela Willis, Major Projects Solicitor and Evonne Obasuyi, Senior Property Lawyer

- 7.1 It is proposed that a joint planning application is made with Lightquote. However Lightquote will fund and develop their leasehold site to deliver residential and commercial units. A building licence / lease will be granted to Lightquote to facilitate the development. Upon practical completion they will surrender existing lease and a new lease granted for a term of at least 150 years and a long term rental income. The Council will fund and procure the development of housing units on its part of the site.
- 7.2 The grant of lease to Lightquote will amount to a disposal. The Council's disposal powers are contained in section 123 of the Local Government Act 1972 and Section 1 of the Localism Act 2011 which also provides local authorities with a general power of competence. Furthermore section 111 of the Local Government Act 1972 enables the Council to do anything which is calculated to facilitate, or is conducive to or incidental to, the discharge of any of its functions, whether or not involving expenditure, borrowing or lending money, or the acquisition or disposal of any rights or property. The report indicates that independent valuation of the various interests have been carried out to ensure proposed transaction is in compliance with legislation and Council's land and acquisition rules.
- 7.3 The Council's interests in taking the proposal forward would need to be protected by a memorandum of understanding, detailing the responsibilities and expectations of each party, but without being contractually binding.
- 7.4 The Council will need to enter into an intervention agreement with the GLA, setting out the detailed terms and conditions on which Housing Zone funding will be advanced to the Council.
- 7.5 The proposal that the Council and Lightquote each develop their part of the site in accordance with a joint planning application removes potential procurement issues arising from a joint development led by Lightquote.
- 7.6 EU procurement regulations (if applicable) and the Council's contract rules will need to be complied with in relation to the proposed development works and where management services for the new housing units will be outsourced.
- 7.7 Legal Services will be available to advise and assist officers as required.

8. Other Issues

- 8.1 **Risk Management** - A detailed project risk assessment would form part of the project should agreement be given to the proposed way forward. Key high level risks are identified in the Options appraisal above.

- 8.2 **Contractual Issues** - Legal services have been engaged in the project and would lead on contractual issues.
- 8.3 **Staffing Issues** – The proposed way forward can be resourced within existing staffing arrangements with Regeneration and Economic Development division.
- 8.4 **Corporate Policy and Customer Impact** – These are set out in section 4.
- 8.5 **Safeguarding Children** - These issues would be considered as part of the detailed planning proposals for the site.
- 8.6 **Health Issues** - These issues would be considered as part of the detailed planning proposals for the site.
- 8.7 **Crime and Disorder Issues** – These issues would be considered as part of the detailed planning proposals for the site.
- 8.8 **Property / Asset Issues** – This proposal includes significant property/asset issues as set out in the report.

Public Background Papers Used in the Preparation of the Report: None

List of appendices:

- Appendix 1: Site plan showing ownerships (exempt document)
- Appendix 2: Indicative scheme design (exempt document)