

<b>Title:</b> Approval of Head Lease and Loan for Shared Ownership Properties at Challingsworth House (formerly Crown House), Linton Road, Barking	
<b>Report of the Strategic Director, Finance and Investment</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> Northbury	<b>Key Decision:</b> Yes
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<b>Accountable Strategic Leadership Director:</b> Philip Gregory, Strategic Director, Finance and Investment	
<b>Summary</b>	
<p>By Minutes 26 (21 July 2015) and 25 (19 July 2016), the Cabinet approved proposals relating to the comprehensive redevelopment of the Crown House site, Linton Road, Barking. The approvals under Minute 25 (19 July 2016) included:</p> <p>25(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.</p> <p>25(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.</p> <p>Since that time, various reports on the project have been considered at the Investment Panel, the officer group set up to oversee and advise on the implementation of projects within the Council’s Investment and Acquisition Strategy and Be First Business Plans. Investment Panel approved the awarding of the construction contract and the development finance required in January 2020. The development is now known as Challingsworth House and comprises two separate blocks - Block A which comprises of 113 submarket rented homes and Block B of 56 Shared Ownership homes. Both blocks completed earlier this year and are now ready for occupation. A site plan is attached at Appendix 1a and Challingsworth House is shown edged in red in that plan.</p> <p>This report seeks approval to dispose Block B, Challingsworth House to Barking and Dagenham Homes Ltd, by way of a long lease and also provide a loan to Barking and Dagenham Homes Ltd to enable that disposal.</p> <p>There has been strong interest in the Shared Ownership homes in Challingsworth House and the first set of sales can be progressed as soon as the block has been disposed to Barking and Dagenham Homes Ltd.</p>	

## **Recommendation(s)**

The Chief Executive, acting on behalf of the Cabinet in accordance with the Urgent Action provisions of Part 2, Chapter 16, paragraph 4 of the Council Constitution, is recommended to:

- (i) Approve the disposal by way of long lease of Block B, Challingsworth House, comprising 56 Shared Ownership homes, to Barking and Dagenham Homes Ltd (part of the Reside Structure) on the terms set out in the report;
- (ii) Approve a loan of £18,582,399 to Barking and Dagenham Homes Ltd to enable the acquisition on the terms set out in the report;
- (iii) Authorise the Chief Legal Officer to execute all the legal agreements, contracts, and other documents on behalf of the Council in order to implement the arrangements; and
- (iv) Authorise the Strategic Director, Finance and Investment, in consultation with the Chief Legal Officer, to finalise the terms of the loan and any other associated financial documents.

## **Reason(s)**

The decisions are required to enable the disposal of Block B, Challingsworth House to Barking and Dagenham Homes Ltd. Barking and Dagenham Homes Ltd will then sell individual homes in the block as Shared Ownership properties, helping to meet the Council's aim to increase the supply of affordable housing options for residents.

## **1. Introduction and Background**

- 1.1 Challingsworth House is a new build comprising 169 affordable homes. It has been built on the former Linton Road car park and is the first phase of the wider Crown House redevelopment. The Crown House scheme is included within the Be First Business Plan approved by Cabinet, most recently in March 2022.
- 1.2 Challingsworth House comprises two blocks – one block of 113 submarket rented homes (Block A) and one block of 56 Shared Ownership homes (Block B). This report seeks specific approvals relating to Block B.

## **2. Proposal and Issues**

- 2.1 This report seeks approval for disposal of Block B to Barking and Dagenham Homes Ltd, a wholly-owned subsidiary of the Council. The disposal would be by way of a 255-year headlease and a £18,582,399 loan facility Agreement between the Council and Barking and Dagenham Homes Ltd. The Council will retain ownership of the freehold of the site.
- 2.2 The loan terms will reflect the Investment Panel agreed terms for loans relating to Shared Ownership properties, unless a variation to these terms is agreed by the Strategic Director, Finance and Investment on the advice of the Investment Panel.

The proposed loan terms are set out in more detail in the Financial Implications section of this report.

2.3 Other legal agreements will also be put in place for the management of the homes, including a Property Management Agreement between Barking and Dagenham Homes Ltd and the Council.

2.4 The marketing of the Shared Ownership homes started earlier this year, and a first set of units have been reserved by interested buyers. The first sales can be progressed as soon as the head lease is approved and executed.

### **3. Options Appraisal**

3.1 The proposals in the report relate to the implementation of elements of the Council's Investment and Acquisition Strategy, which was most recently presented to Cabinet in November 2022. In particular, the November 2022 report set out that new homes at London Affordable Rents (for households on the Council's housing register) are cross subsidised by Shared Ownership within the Investment and Acquisition Strategy financial model. Barking and Dagenham Homes Ltd is the wholly-owned company which will hold both LAR homes and Shared Ownership homes in order to achieve this. As a consequence, an options appraisal is not relevant to the decisions required.

### **4. Consultation**

4.1 Investment Panel has considered a number of papers relating to Crown House since the development was initially approved. The proposals in this paper follow Investment Panel decisions relating to the financial arrangements for Shared Ownership properties.

### **5. Financial Implications**

Implications completed by: David Dickinson, Investment Fund Manager

5.1 This report seeks approval to enter into an agreement between the Council and its wholly owned subsidiary Barking and Dagenham Homes Ltd, including:

- a Head Lease of Crown House (Challingsworth House Linton Road), for a term of 255 years at a £18,582,399 premium;
- a Property Management Agreement relating to these properties; and
- a £18,582,399 loan facility Agreement between the Council and Barking and Dagenham Homes Ltd relating to the 56 shared ownership homes and associated communal areas at Challingsworth House.

5.2 Currently the loan details agreed by Investment Panel are for a loan of 52 years based on the loan value at completion of the sale, i.e. this is net of grant and of the first tranche sales. Of the £18,582,399, £2,128,000 is at 0%, repayable as a bullet repayment when the conditions are met (that is the GLA grant can be transfer from the Council to BDHL).

5.3 The Balance of £16,454,399 will be allocated to individual properties as set out in a schedule to be included in the loan agreement. Per property, interest will be at 0% interest until the sale of the first shared ownership tranche completes, after which a

rate of 3.0% will need to be paid on the remaining balance. As any further payments are made, the outstanding balance will reduce when the payment is transferred to the Council and the interest rate will be at 3.0% on the remaining balance. The movements will be totalled each quarter and the interest due to be paid will be agreed and paid at the end of each quarter.

- 5.4 A subsidy control clause will be included to enable the interest rate to be varied by the Council every three years noting that any variation of interest rates must enable Barking and Dagenham Homes to remain viable.
- 5.5 If a reduced interest rate is required then this will need to be endorsed by Investment Panel and justification for this change will need to be included. Currently the rate being forecast for Shared Ownership is 3.0%.

### **Headlease**

- 5.6 The proposed term of the head lease is 255 years. This is longer than the head leases typically used for leases related to rented units to Reside vehicles. This is because the longer head lease term will allow Barking and Dagenham Homes Ltd to grant longer subleases (of 250 years) to shared owners buying the properties. This increases both the value and the attractiveness of the shared ownership properties to potential buyers.

## **6. Legal Implications**

Implications completed by: Jonathan Boyle, Legal Services

- 6.1 The former site of Crown House and the Linton Road car park site on which Challingsworth House now stands was appropriated for planning purposes under s122 of the Local Government Act 1972 at the cabinet meeting of 17 February 2020. This allows the Council to use s203 of the Housing and Planning Act 2016 to override private third-party rights so as to enable development to proceed without being delayed. Holders of such private rights are still entitled to compensation on a CPO basis rather than by obtaining injunctive relief.
- 6.2 Section 233 of the Town and Country Planning Act 1990 states that the Council needs the Secretary of State's consent to dispose of land which has been appropriated for planning purposes unless the best consideration reasonably obtainable has been achieved. The financial model which has been used on this site to set the loan and premium at £18,582,399 was determined by using the advice of previous external advisors K & L Gates specifically to ensure that the best consideration requirement was met.
- 6.3 Any decision on this proposed disposal will be subject to the Council's overarching best value and fiduciary duties concerning the proper and prudent stewardship of Council assets.
- 6.4 The Council's Constitution (August 2022), Part 4, Chapter 4 sets out the Land Acquisition and Disposal Rules. In accordance with paragraphs 2.1 to 2.2, all strategic decisions about the use, acquisition and disposal of land and property assets are within the remit of the Cabinet and must be approved by it.

**Public Background Papers Used in the Preparation of the Report:**

Treasury Management 2022/23 Mid-Year Review, November 2022 Cabinet report  
(<https://modgov.lbbd.gov.uk/Internet/ieListDocuments.aspx?CId=180&MId=12608&Ver=4>)

**List of appendices:**

**Appendix 1a:** Site Plan