

Contains Confidential or Exempt Information	Yes: Appendix 1, pursuant to Part 3 of Sch 12A LGA 72
Title	Westgate House, West Gate, London W5 1YY Broadway Living funding approval
Responsible Officer(s)	Tony Clements, Executive Director, Housing and Regeneration
Author(s)	Rosemary Houseman, Interim Project Director, Broadway Living
Portfolio(s)	Housing, Planning and Transformation – Cllr Peter Mason
For Consideration By	Cabinet
Date to be Considered	16 October 2018
Implementation Date if Not Called In	29 October 2018
Affected Wards	Hanger Hill
Keywords/Index	Westgate House, Broadway Living, Affordable Housing

Purpose of Report:

The existing Westgate House building is being converted and extended from its previous use as office space to provide new residential accommodation for private sale. A Section 106 Agreement requires the provision of affordable housing; 26 homes are to be constructed in a stand-alone block to meet this obligation.

Broadway Living Limited (the Council's wholly-owned housing company) is seeking loan funding from the Council to enable Broadway Living Limited to purchase these 26 affordable housing homes which will then be rented or sold on a shared ownership basis to local residents. These homes will contribute to the Council's target of providing 2,500 genuinely affordable homes.

1. Recommendations

It is recommended that Cabinet:

1.1 Notes and approves the Broadway Living Limited purchase of 26 affordable homes at Westgate House, subject to the finalisation of the purchase contract due diligence and a business case assessment which demonstrates that Broadway Living Limited will sufficiently cover the debt repayment and interest costs for the loan facility.

1.2 Delegates authority to the Executive Director of Housing and Regeneration, following consultation with the Portfolio Holder for Housing, Planning and

Transformation, the Executive Director of Corporate Resources and the Director of Legal and Democratic Services to agree the detailed business case following due diligence on the contractual arrangements with Westgate House Developments Limited (“the Developer”).

1.3 Authorises the Executive Director of Regeneration and Housing, following consultation with the Executive Director of Corporate Resource and the Director of Legal and Democratic Services to provide, if necessary, a guarantee from the Council to the Developer in respect of Broadway Living’s obligations as set out in confidential Appendix 1.

1.4 Notes and approves the associated funding for the Council guarantee to be repurposed from the existing approved Broadway Living funding facility commitment.

1.5 Delegates authority to the Executive Director of Corporate Resources, following consultation with the Portfolio Holder for Finance, the Executive Director for Housing and Regeneration and the Director of Legal and Democratic Services, to negotiate and enter into the necessary funding arrangements with Broadway Living Limited, including a Funding Facility Agreement (loan agreement), to enable Broadway Living to purchase the 26 affordable homes, and other related agreements.

1.6 Notes that the Funding Facility Agreement is factored into the Council’s capital programme and accords with the Council’s Treasury Management Strategy. The interest costs arising from the Council borrowing will be covered by interest payments to the Council by Broadway Living Limited.

1.7 Approves (in the Council’s capacity as shareholder of Broadway Living) a change to the objects of Broadway Living Limited to enable it to sell homes for shared ownership.

2. Reason for Decision and Options Considered

2.1 Westgate House offers an immediate opportunity for the Council to invest in the purchase of affordable housing via Broadway Living, the Council’s wholly-owned housing company. Securing this opportunity will enable the Council/Broadway Living to make 26 newly built homes available to local residents.

2.2 The Westgate House development is being undertaken by Westgate House Developments Limited, which is a joint venture company between Galliard Homes and C J O’Shea and Company. It comprises the refurbishment and extension of Westgate House, an eight storey ex-office block within a five-minute walk of Hanger Lane tube station. The development will provide 311 homes over ten floors, through permitted development and upwards extension of the former office block. In addition, there will be 26 homes in a self-contained new build block in the southwest corner of the main site; this is the block which is offered for affordable housing. The extension of the existing office block, from the original eight floors to ten floors, and the self-contained block, was approved (reference 181010FUL) at planning committee in June 2018, subject to S106 Agreement.

2.3 The construction of the affordable housing block is (subject to conclusion of the S106 Agreement, and the approval of TFL/HS2 to structural engineering proposals) is forecast to commence in late 2018, with completion estimated in October 2020.

3. Key Implications

3.1 It is proposed that Broadway Living Limited contracts with Westgate House Developments Limited for the purchase of the self-contained new build block of 26 homes, and that the Council provides loan funding to Broadway Living to enable it to complete this purchase. Broadway Living's purchase from the Developer is based on the position that 18 of the 26 homes will be let at discounted market rents (set at a level equivalent to London Living Rent levels), and 8 homes will be sold on a shared ownership basis. This position has been approved by the Board of Broadway Living.

3.2 This contractual position in respect of tenure (18 x discounted market rent homes and 8 x shared ownership homes) will also be reflected in the S106 Agreement which is currently being negotiated with the Developer.

3.3 The current London Living Rent levels published by the GLA for the Hanger Hill Ward are £205.05 per week for a one bedroom home, £227.85 for a two bedroom home and £250.64 for a three bedroom home. London Living Rents are set inclusive of service charges, so these figures are the total weekly charge to tenants. These rent levels are lower than the Local Housing Allowance (£222.19; £274.67; and £345.97 respectively). These homes will therefore be a useful contribution to the supply of affordable homes in the Borough.

3.4 As the Council's policy on the provision of genuinely affordable homes develops, Westgate House will be kept under review and the potential to introduce additional funding from other sources, resulting in lower rent levels than those set out above, will be explored.

4. Financial

4.1 Broadway Living has undertaken a financial appraisal for its purchase of these homes, including a financial provision to cover development "on-cost" expenditure incurred in the progression of the project. This provision will meet, for example, professional consultancy fees, valuation, legal and other fees, administration costs and contributions to inter-departmental costs.

4.2 The total estimated expenditure, plus interest charges, and payments of tax for which Broadway Living is liable, will form the loan amount to be provided to Broadway Living Limited by the Council.

4.3 As due diligence on the purchase contract proceeds, the Council will confirm full due diligence on the financial model with confirmation that the position offers sufficient assurance to allow for the Funding Facility Agreement to proceed.

4.4 The financing of Broadway Living Limited has been determined by the Treasury Management strategy and Broadway Living Limited will be required to pay back the loan within a 40-year period.

Financial Risks to the Council

4.5 The repayment mechanism to the Council is based on a projected position and actual trajectory of the delivery depends on various factors unknown at this stage. These include:

- Voids and bad debts are currently modelled at 4% as advised by housing advisors based on current prevailing market data. However, should this percentage increase, it will create further pressures on the profitability of Broadway Living Limited and hence its ability to pay back the principal loaned.
- Any changes in the rental market where the demand for rental property falls would impact on the revenue generated by Broadway Living Limited which, depending on how costs are managed, would further impact on profitability and ability to pay back the principal loaned.
- The current expectation is that Broadway Living Limited will not need to cover lifecycle costs for the initial five-year period following construction and so no provision is made for these costs. However, should there be a need for significant works to the building during this period, this would again impact on profitability.

5. Legal

5.1 Following agreement of the purchase price for the affordable housing block, pre-contract due diligence is being undertaken and the terms of the contract for sale negotiated with the Developer Westgate House Developments Limited.

5.2 As noted above, the Developer is seeking the Council to enter into a guarantee to provide assurance that the contractual payments will be made.

5.3 Once contractual terms are agreed, the terms of the Council's loan to Broadway Living Limited will be negotiated and set out in a Funding Facility Agreement. These terms will be independently reviewed to ensure compliance with State Aid principles.

5.4 The Council can rely upon the general power of competence in s.1 Localism Act 2011 or s.24 Local Government Act to make a loan to Broadway Living Limited for the purpose of delivering private rented sector housing.

6. Value For Money

6.1 The agreed purchase price for the affordable housing block has been independently valued by Savills.

6.2 An external consultant employer's agent has been appointed by Broadway Living Limited to provide assurance that the construction of the block meets statutory and required quality standards.

6.3 The rents and affordability of the affordable homes have been appraised through Broadway Living's financial model and approved by the Board of Broadway Living.

7. Sustainability Impact Appraisal

7.1 The new homes to be constructed at Westgate House will meet high standards of energy efficiency, including thermal insulation. They will be quality homes, comfortable for the residents to live in. Subject to the approval of detailed proposals, the homes will benefit from a centralised energy centre providing heat and hot water.

8. Risk Management

8.1 The key risks are financial; identified above in section 4. Construction risks will be managed through the Council's established processes for managing capital projects, including the appointment of external professional consultants to oversee construction quality and cost monitoring.

9. Community Safety

9.1 There are no specific community safety issues.

10. Links to the 3 Key Priorities for the Borough

10.1 The Westgate House redevelopment supports the Council's priorities for good, genuinely affordable homes, opportunities and living incomes and the promotion of a health and great place by adding a new build stand-alone block of 26 affordable homes to the housing stock in the Borough.

11. Equalities, Human Rights and Community Cohesion

11.1 An Equality Analysis Assessment (EAA) was not necessary. The addition of 26 affordable homes for rent and shared ownership sale to the portfolio of Broadway Living Limited will make a long term positive contribution to the local neighbourhood and the supply of housing in the Borough.

12. Staffing/Workforce and Accommodation implications:

12.1 None.

13. Property and Assets

13.1 There are no property implications, other than the addition of 26 affordable homes to the housing stock of Broadway Living.

14. Any other implications:

14.1 None specific.

15. Consultation

15.1 None specific.

16. Timetable for Implementation

Westgate House affordable housing	
Planning approval, subject to S106 Agreement	June 2018
Broadway Living contracts to purchase affordable housing block from Westgate House Developments Limited	October 2018
Council and Broadway Living enter into funding agreement	October 2018
Construction of affordable housing block commences	October 2018
Construction of affordable housing block completes	October 2020
Broadway Living lets homes to Ealing residents at London Living Rent levels, and sells shared ownership homes	October 2020

17. Appendices

17.1 Confidential Appendix 1.

18. Background Information

18.1 Planning application 181010FUL, resolution to grant June 2018.

Consultation

Name of consultee	Post held	Date sent to consultee	Date response received	Comments appear in paragraph:
Internal				
Tony Clements	Executive Director, Housing and Regeneration	12 Sept 2018	20 Sept 2018	All
Jackie Adams	Head of Legal, Property and Regulatory Director, Legal Services	12 Sept 2018		5 Legal
Catherine Taylor	Head of Legal, Litigation and Contracts Director, Finance	12 Sept 2018	19 Sept 2018	5 Legal
Nish Popat	Head of Accountancy, Housing and Regeneration and Adult Social Care	12 Sept 2018	19 Sept 2018	4 Financial
Lucy Taylor	Executive Director, Broadway Living Limited	12 Sept 2018		All
Cllr Peter Mason	Cabinet Member for Housing, Planning and Transformation	20 Sept 2018		
External				

Report History

Decision type:	Urgency item?
Key decision	No
Report no.:	Report author and contact for queries:
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