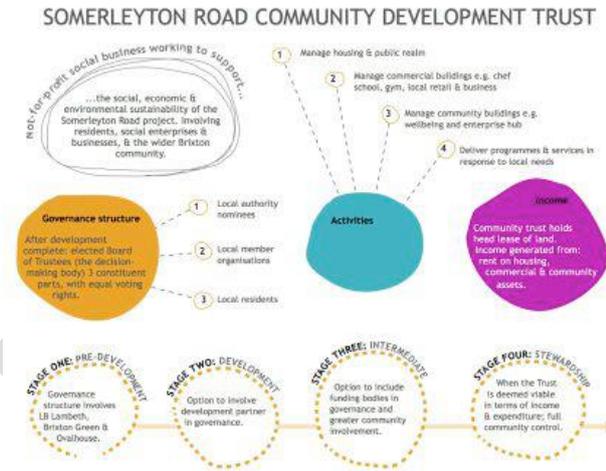


September 2017

The Summary Proposal – Outline Business Case stage for delivering citizen-power through the Somerleyton Trust for the development of Somerleyton Road

Building on workshop outputs from action planning in April 2013:	
'I agree, and....'	Final proposal
 <ul style="list-style-type: none"> ■ Want to know community will continue to have a voice, from this point onwards ■ Needs to be an inclusive project: all ages, all backgrounds, residents & businesses ■ Need more information about how ideas, spaces and uses fit together ■ Have questions about feasibility and viability ■ Safeguards: need to balance community and commercial interests ■ Would like more detail about the Community Development Trust ■ Needs very careful management ■ I feel local economy, jobs and training should be the priority ■ Affordable housing should be maximised, but not at expenses of good, social design ■ Lambeth should retain the freehold <p>..Having sufficient control and sufficient income from assets to be financially independent and financially sustainable</p>	<p>SOMERLEYTON ROAD COMMUNITY DEVELOPMENT TRUST</p>  <p>..Having sufficient control and sufficient income from assets to be financially independent and financially sustainable</p>

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Summary Proposal

The scheme for Somerleyton Road is proposed for plots C, D and F of the comprehensive proposals in the planning application 15-05282.

The proposal

Somerleyton Road has been identified as a key redevelopment site in the Local Plan and the Brixton Supplementary Planning Document. Its location at the edge of central Brixton, within close proximity to major transport links and amenities make this a good site for the provision of new homes and some non residential uses. The proposed provision of new community and amenity facilities will help to regenerate and revitalise this part of Brixton.

Lambeth Council is the major landowner of the application site and they will retain the freehold of their land - no homes will be sold but all will be available for rent, in a mixture of affordable and market levels of rent.

This proposal relates only to land in Lambeth Council's ownership, and within the context of the permitted scheme, the proposals assumes the lease for the land is disposed of with planning permission.

Brixton Green, who were established in 2008, and have been working in co-production with Lambeth Council since 2013 on this proposal, recognised the opportunity in redeveloping Somerleyton Road as a way to bring together the communities on either side of the railway, providing homes which can be genuinely afforded by local people, jobs and improved quality of life, as well as giving greater control over decision-making about their homes and their neighbourhood to the residents and local people.

In early 2017, based on this co-production, Brixton Green led the incorporation of the Somerleyton Trust, the body intended to be the stewardship body on behalf of the local community, tenants and Lambeth Council. Stewardship means following common principles: (1)The community is integrally involved throughout the process in key decisions – for example: what is provided, where, and for who; (2) There is a presumption that the community group will have a legally established long term formal role in the ownership, and management of the homes; (3) The benefits of the scheme to the local area are clearly defined and legally protected in perpetuity. Briefly, citizens have the power to make key decisions, and responsibility regarding their own neighbourhood and homes. The objects for the Somerleyton Trust are set out in its Articles of Association, and its mission and operating principles are set out in the Business Plan.

The proposals include:

- 234 new homes designed, built, and managed for 100% rental in 3 new buildings along Somerleyton Road. This includes 65 new homes for over 55s, which will be home to both existing residents of Fitch Court, a nearby sheltered housing facility, and provide approximately 35 new homes for other people over 55.
- Onsite dedicated housing management and citizen power support

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- New community facilities, in a dedicated health & wellbeing centre
- A new shop facing onto Somerleyton Passage in Block F.
- New training and workspace provided through a chef's school, delivered by Westminster Kingsway
- Public realm and street gym.

The LUL sub-station will remain in place and operational, and continue to be owned by TFL. The other buildings on the site will be demolished.

Details of the new homes

The new homes will all be for rent, none will be sold. The long term freehold ownership of the project will remain with Lambeth Council.

The Somerleyton Trust will acquire a long lease (250 years), to ensure the community and residents are at the heart of long term management and stewardship.

The new homes will be split 50/50 between market rent and 'affordable housing', with potential for this split to be increased in favour of providing a greater number of affordable homes if viable over time. The affordable rented homes will not fall into the trap of using the word 'affordable' for a rent which many people could never possibly afford to pay on their current incomes, they will be genuinely affordable. The apportionment of flats to income groups will be maintained at a fixed percentage. However, which flat is rented at what rent can vary to suit the needs of the residents, as long as the overall percentages of flats in each income group remain the same. In 10 to 15 years' time it is anticipated that the proportion of flats rented at market rents will be able to drop to only 25%. This will allow the number of flats at social rents and rents which can be afforded linked to income, to be increase. The starting mix is set out in Table 1 below:

TABLE 1	flats	% of total	% of total
Social rents:			
income 1 (under £15,000)	39	17%	
income 2 (between £15,000 – £25,000)	26	11%	
Social rent – sub-total	65	28%	28%
LHA over 55	17	7%	
income 3 (between £25-35k)	11	5%	
income 4 (between £35-45k)	12	5%	
Less than LHA affordable rent – sub-total			45%
• Rents at maximum of 30% of household income			
income 5 (between £45-55k)	9	4%	
income 6 (between £55-70k)	**3	1%	
Genuinely affordable income related rent – sub-total	117		50%

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• Rents no more than 40% of each households' income* see notes in Assumptions document			
income 6 (**1B and 2B, currently market rents less than income related rent for these sizes. Rents to be no more than market rent or income related rent, whichever is the lower)	**9	4%	
market	108	46%	
Market rents	117		50%
total	234		

Unit size	1B2	2B3	2B4	3B5 & 3B4	3B6	4B6	Total units
Total units	76	28	74	31	15	10	234
Dwelling type as percentage of total homes	32%	15%	32%	14%	6%	4%	

The new homes will:

- Meet current housing standards, in particular the London Housing Design Guide and Lifetime Homes.
- Provide for 10% (by unit number) per block of wheelchair adaptable accommodation, across a range of types and locations. These will be suitable for adaptation into wheelchair homes in the future.
- All have private amenity space in the form of a balcony, terrace or garden and most will also have access to some form of communal amenity, gardens or roof terraces.
- Meet Code for Sustainable Homes level 4.

The landscape and open space proposals

The landscaping strategy has been developed to make the most of a long, narrow site by creating pockets of open space between buildings along the length of the street. A variety of uses are included, such as the street gym, a community growing garden, and a new multi-purpose yard space between plot C and the railway. These are in addition to communal amenity provision such as roof terraces, residents' gardens, and balconies. The Somerleyton Trust, as part of its remit for actively encouraging community participation, will set up and seed-corn fund community gardening clubs and productive growing opportunities for local people.

The public realm aspects in the planning permission are included in the proposal, including footway alterations and parking provision.

Delivery Strategy summary

The strategy in this proposal covers the financing structures and legal arrangements for land and buildings and security for each investor. It sets out why the strategy works financially, legally and operationally at all the delivery stages from where we are now – RIBA work stage 3/ Outline Business Case – through Final Business Case, contracts, ‘Construction’ (stage 5) to ‘In Use’ (stage 7). It sets out the basis upon which potential investors will invest.

In summary, Lambeth Council will retain the freehold of their land, plots C, D and F. See diagram below with plot numbers annotated in white letters on black background.

Lease

The Somerleyton Trust will acquire a long lease for the land. The terms of the lease will dictate all aspects of step-in rights, and the ability for Lambeth to “take management control of the scheme” should the delivery or operation fail. Long-stop dates will be included for each phase to ensure that timely delivery is achieved by the Somerleyton Trust, and avoid delay in establishing full occupancy once blocks are completed. The value of the lease will be calculated having regard to the lease terms, e.g. 100% rented scheme, 50% affordable housing. To assist with cash-flow, the lease will be acquired on a deferred payment basis. This lease value will be established to comply with the requirement for Lambeth to (a) apply their “general power of competence”, under the Localism Act 2011, defined as “the power to do anything that individuals generally may do” and which expressly includes the power to do something for the benefit of the authority, its area or persons resident or present in its area, and (b) under the Local Government Act 1972, Section 123, secure the best consideration that can reasonably be obtained when disposing of land.



Further discussion is required at the next iteration of negotiations to draw up detailed heads of terms for the lease and the Framework Agreement.

The Somerleyton Trust is currently in the process of registering with the Charity Commission. It is already ‘charitable in nature’ as its objects include urban regeneration and

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housing requirements. As a charity, SDLT will be zero, and the Trust will reduce its tax on future surpluses.

Framework Agreement

The Framework Agreement, which sits alongside the lease, is there to tie all the parties together, and set out their respective roles, responsibilities and liabilities, which will change over time. The agreement will provide Lambeth with additional security regarding actions which may not impact on the lease agreement between it and the Somerleyton Trust, but over which it would want security and assurance.

Development Phase roles – Delivery Agent & Development Management Agreement

During the development phase, this Outline Business Case proposes that Places for People (PfP) act as delivery agents for the Somerleyton Trust. This proposal is subject to the Full Business Case, and subject to PfP Board approval of the full business case and funding strategy, which will be developed at the next iteration.

There would be a Development Management Agreement between PfP and the Somerleyton Trust. PfP would procure and take delivery risk, on the basis of an appropriate development margin, with investors providing development finance to PfP.

Operational phase roles

The Somerleyton Trust will be the landlord for the new flats and the non-residential uses. At completion of each phase (by plot), the Somerleyton Trust will draw down long-term investor loan funding, through a Forward-funding agreement. This will be a fixed sum. The long-term loan will 're-finance' the development phase.

Long-stop dates will be included in the lease for each phase to be fully occupied, to ensure that timely delivery is achieved by the Somerleyton Trust, and avoid delay in establishing full occupancy once blocks are completed.

Risk mitigation during development phase

If there is a contractor problem, such as a contractor going into administration, it is anticipated that the senior debt provider would usually allow the developer, whether that is the Somerleyton Trust or PfP, to remedy the situation. If the site stalled for other reasons, the Framework Agreement will include terms for a security cascade in favour of Lambeth, so that Lambeth could step in if the Senior Lender does not exercise their step in, stating that Lambeth Council will give [xx] days written notice of its intention to enforce its security and then when the notice period expires Lambeth can step-in and the site reverts to it as the freeholder.

Risk mitigation during operational phase

If there is a default by the Somerleyton Trust during the operational phase, Lambeth Council will recover the dwellings through the lease, step-in and be able to find an alternative housing provider, who will continue to rent the homes at the agreed rent levels. The investors would require Lambeth to take this role, and this seems to mirror Lambeth's

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'security' criteria item 5(II) for step-in such that "the Council would take management control of the scheme and effectively its assets and liabilities" for the operational phase. The investor will require that the long term loan interest repayments are continued for the term of the loan. With an appropriate Framework Agreement, PfP might be willing to pre-agree to become the RP which would be brought in, should the Somerleyton Trust default.

Profit share – turnover percentage

Any future 'surpluses' will be shared between Lambeth and the Somerleyton Trust. It is anticipated that these surpluses will arise from rental receipts in excess of operation and financing costs.

Such surpluses would go towards any shortfall carried forward from a previous year and then in order of priority:

- i. Additional provision for repairs, replacement and cyclical works
- ii. Additional sinking fund for large single replacement item (e.g. energy centre)
- iii. Additional community works within its objects
- iv. The balance to be remitted to Lambeth Council or to be spent at the direction of the Council.

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Development finance, and Long term finance

There are different arrangements proposed for funding the development phase and the operational phase. These are set out in Table 3 below.

Table 3 – summary of funding and legal structures through Development and Operations

	State Aid Compliance &/or Tax considerations	Development Structure	Development Finance & Step in	Operational Funding Structure	Operational Step in
<p>PfP acts as delivery agent to the ST</p> <p>**see note</p>	<p>ST acquire the lease interest from LBL</p> <p>NB. ST is 'charitable in nature' and will be registered as a charity by Dec 2017. SDLT is therefore zero.</p> <p>PfP is a Registered Provider</p> <p>It is also a contracting authority for EU purposes.</p>	<p>PfP appointed via a Development Management Agreement to procure and take delivery risk.</p> <p>GLA grant can be factored in through the structure / RtB receipts, if available, can be transferred as not an LBL controlled body / RCG might be available from PfP resources</p>	<p>Investor providing development finance to PfP. Would require security on the site and/or a guarantee to complete from LBL in the event of PfP default under the DMA or step in rights.</p>	<p>Long term finance in place from investor –</p> <ul style="list-style-type: none"> • Fixed interest • 200 basis points over gilts. • Senior debt based on loan to value. • Junior debt on remainder, if required after grant. <p>OR variant:</p> <p>Lease and leaseback in place with ST with a major ethical UK Pension Fund –</p> <ul style="list-style-type: none"> • ST would deal with first lets and then it would be transferred into a major ethical UK Pension Fund • A 40 year lease with full reversionary interest granted to ST • 3.25% - 3.8%. 	<p>Investor would require LBL to contractually step in to the lease, and for LBL to find a replacement housing manager</p>

**Outline Business case stage option. This option would be subject to the Places for People Board approval of final business case and funding strategy.

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Pre-construction and Construction phasing

A decision to proceed with tender procurement in December 2017, will result in tenders being received and a 'pre-contract services agreement' PCSA being signed in March 2018.

Allowing 7 months for the PCSA Main Contractors Design (RIBA stage 3 – Design Technical) and Supply Chain Procurement (demolition & enabling works; main works – substructure, super structure, services and façade), a fixed price tender will be ready to be entered into in October 2018. Contracts to be signed in October 2018.

Construction will commence in November 2018. Construction is proposed in two phases, with Plots C and D in the first phase, and for plot F to follow.

Handovers at practical completion would be on a whole building basis.

Phase 1 -

Block C Handover – SEPTEMBER 2020

Block D Handover – MARCH 2020

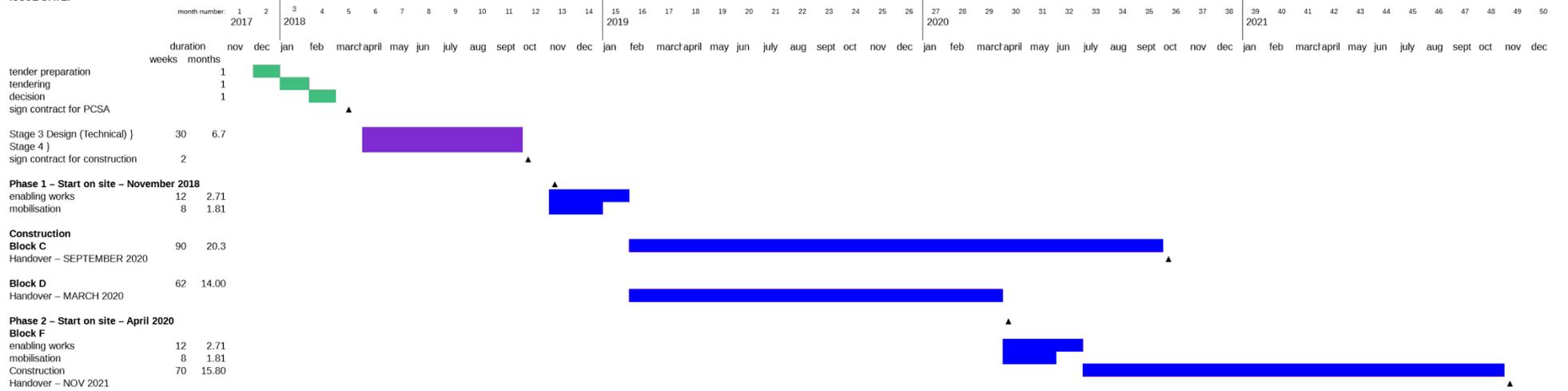
Phase 2 – Start on site – April 2020

Block F Handover – NOV 2021

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SOMERLEYTON ROAD – FINAL DRAFT DEVELOPMENT PROGRAMME

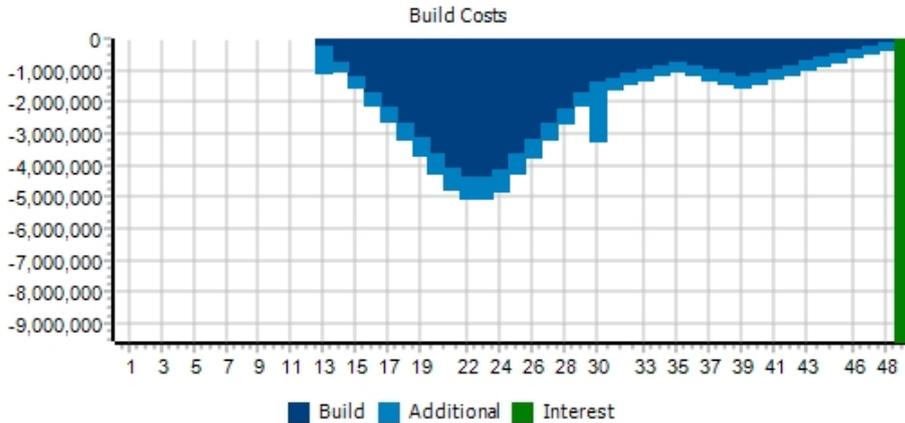
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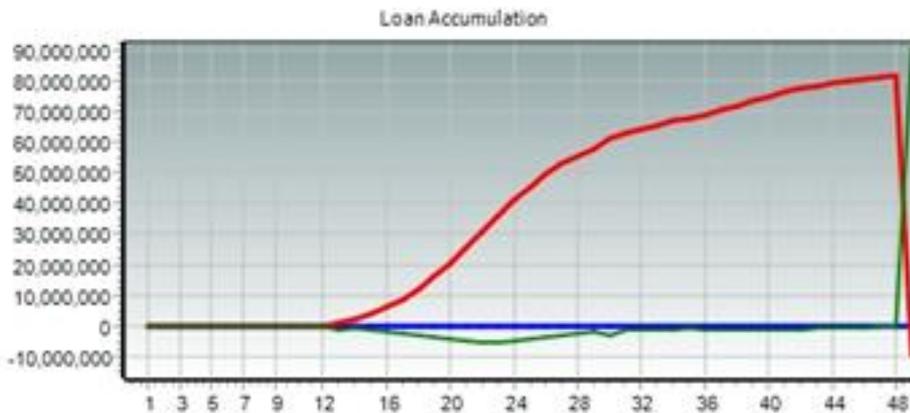
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Build cost spend profile



NB. Months are shown on the bottom axis, starting with month 1 as October 2017.

The spike in the monthly spend in month 30, is accounted for by the budget for external works expenditure, which will be directed by the new tenants, once they move in.



The development finance loan accumulates over the build phase. Although there is a delay between the occupation of plots C and D and the completion of plot F, and there will be up to 18 months of rental income in this period, the peak debt is almost equivalent to the total scheme cost of £92m.

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Operations strategy

Management arrangements and legal/ governance structures are set out in detail the business plan “Somerleyton Trust business plan for the Operational Stages” and described for the prospective tenants in the work in progress document titled “[Living @ Somerleyton Road - A Guide for Prospective Tenants](#)”. The business plan includes the transitional arrangements for the Somerleyton Trust in the set-up phase until tenants have moved in.

There is a potential gap of about £10.5m, an operating/working capital gap between the rental income from the starting mix and the loan required for the total scheme costs for up to 10 years. This could be dealt with by:

- a) Injecting a grant of £10.5m in year 1 of construction
- b) Injecting a loan at a lower interest rate for SGEI – the affordable housing, which accounts for 50% of the total scheme.
- c) Increasing the loan amount to account to the capital and interest payments, rolled up, but this could affect the loan to value adversely
- d) Applying a 5 year ‘holiday’ on depreciation to the accounting cash-flow
- e) Reducing construction costs, site wide costs and overheads, by £8m.
 - Potential for self-finishing, as a part of a strategy for helping tenants to move in more quickly and to customise their own home, could reduce construction costs by up to £6,000 per flat (£1.4M)
- f) Increasing phasing of build-out (but this is not favoured by anyone wanting a new home, and would probably increase the construction costs, so very little net gain)
- g) Adjusting the starting mix to increase the number of higher rents in the affordable rent bands (this is not a preferred strategy as it would not be acceptable to the local community and it may not be acceptable to the planners).

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Rents

The available rent envelope is calculated from the gross rents from which is deducted all the operating costs, plus an allowance for contingencies.

The available rent envelope is £3,100,000 per annum in the first full year of occupation, which is expected to rise in accordance with CPI inflation. The gross rents are £4,013,460. Interest cover on the 'available rent envelope' is therefore 129%.

An assumption regarding market rents annual increases has been made conservatively, that it will be CPI (consumer price index), plus 2%.

The model does not assume any rise in individual household's incomes for bands 3, 4, 5 and 6 to mitigate for the risk of continuing stagnation in wages in London. There is a link between the employment support strategies for the residents and wider community facilitated by the Somerleyton Trust and the tenants' potential for increasing their incomes. This will be monitored as an outcome, and reported annually.

Whole life value

At the next stage of modelling, input is required from the development managers to identify items for whole life costing and value. Detailed design decisions will be needed to balance capital expenditure with maintenance costs. This will allow a much more nuanced operational model, which can plan for specific peaks in repairs/replacement, for example the replacement of the energy centre (current capital cost £1.8m) will be needed in 10-15 years time.

Sensitivities

Modelling of the rent envelope taking account of sensitivities for a drop in market rent, a rise in income-related rents, increases and decreases in operating costs, or an increase in inflation, and the mitigation strategies will be included in the next iteration of the strategy, once a full set of sensitivities required has been provided by Lambeth and the investors.

Outputs for IRR, NPV and surpluses will be modelled for the Somerleyton Trust and the returns to Lambeth Council for the lease.

Annex 1 – options which all meet Lambeth’s criteria and could provide the level of citizen power which has been a key part of the Somerleyton Road project since 2009.

KEY: LBL = Lambeth ST = Somerleyton Trust PfP = Place for People		State Aid Compliance &/or Tax considerations	Development Structure	Development Finance & Step in	Operational Funding Structure	Operational Step in
Option 1 variants	LBL partner Somerleyton Trust	<p>ST would be acquiring the lease interest – as a charity, ST will not be subject to SDLT</p> <p>PfP has EU compliant hub structure that the DM could be appointed through</p> <p>On-lending would be at commercial rates therefore EU compliant</p>	<p>(a) LBL deliver through a Dev Co or direct procurement <i>OR</i></p> <p>(b) LBL appoint PfP as Development Manager to procure and deliver the works on their behalf, <i>OR</i></p> <p>(c) LBL on-lends PWLB to ST to deliver</p>	<p>LBL to fund via PWLB,</p> <p>(a) 100%, at commercial rates, <i>OR</i></p> <p>(b) for 50% - affordable housing as SGEI and, Investor providing development finance for 50% - for market rent housing</p> <p>'Intercreditor agreement' between funders sets out senior/junior arrangements</p>	Phased leases for buildings purchased by ST	LBL step into lease if ST defaults
Option 3 (variant A)	PfP acts as delivery agent to ST	<p>ST would be acquiring the lease interest – as a charity, ST will not be subject to SDLT</p> <p>PfP is a Registered Provider</p>	PfP appointed via a Development Management Agreement to procure and take delivery risk. GLA grant can be factored in through the structure	Investor providing development finance. Would require security on the site and/or a guarantee to complete from LBL in the event of PfP default under the DMA or step in rights	i. Long term finance in place from investor ii. Lease back arrangement with ST	Investor would almost certainly require LBL to contractually step in to the lease

KEY: LBL = Lambeth Trust ST = Somerleyton Trust PfP = Place for People		State Aid Compliance &/or Tax considerations	Development Structure	Development Finance & Step in	Operational Funding Structure	Operational Step in
		It is also a contracting authority for EU purposes.				
Option 4 (new)	PfP Develop & Fund	LBL disposing to a Registered Provider (with grant) therefore SDLT exempt PfP is a Registered Provider It is also a contracting authority for EU purposes. All construction etc would be procured in an EU compliant way	LBL grant lease to PfP and/or through a Development Agreement setting out obligations	PfP drawdown the GLA grant PfP finance development phase and has security on site. LBL step in if default in DA Or If 3 rd party funding, senior debt to have security/first step in to complete build, but other DA obligations remain	(i) PfP retains the asset within its group and grants an operating lease to ST (ii) ST acquires the lease at build completion with re-finance using investor funding (iii) Investor acquires the head lease at build completion and puts a leaseback in place with ST	PfP has first step in to operate the homes in the event of default Investor would almost certainly require LBL to contractually step in to the lease

Table = analysis of funding and legal structures by Places for People ©

Having demonstrated that there are willing investors, who can provide market-comparable interest rates, it might be appropriate to revisit option 1 and look at the variants with 50:50 funding, as this was not explored by the legal advice given to Lambeth in 2016.