

Report to the Cabinet

Report reference: C-041-2019/20
Date of meeting: 25 March 2020



Portfolio: Leader

Subject: Council Owned Sites – Sale of Assets to Qualis Commercial

Responsible Officer: S Jevans (01992 564229).

Democratic Services: A Hendry (01992 564246).

Recommendations/Decisions Required:

- (1) That Cabinet approve the following recommendations in respect of the sale of assets to support the business case and that asset purchases are made by the 30th April 2020:
 - a) That EFDC sells to Qualis Commercial the identified properties on a ‘best value’ basis based on existing use values. The following assets to be sold:
 - St John’s – £5,400,000
 - Bakers Lane Car Park – £2,348,000
 - Cottis Lane Car Park – £3,737,000
 - Condor Building (Civic Centre) – £3,100, 000
 - Hemnell Street (Epping Sports Centre) – £2,550,000
 - Round Hills - £3,060,000
 - b) That a loan is granted to Qualis Group, to be cascaded to Qualis Commercial to allow these purchases to be made. The loan is to be £22m on a single draw down facility over a 30-year principal and interest basis.
 - c) That a revision clause is put into the sale contract allowing all properties to return to EFDC at the value sold unless they are developed within five years.
- (2) That Cabinet approve the following recommendations in respect of granting a development and construction loan in support of the business case and that the decision on making these loans is dependent upon the satisfactory site business cases by 30th September 2020:
 - a) That EFDC provides to Qualis Group a development loan to be cascaded to Qualis Commercial. The terms of the loan will be a total of £63m with 50% to be drawn down on 30th September 2020 and 50% to be drawn down on 31st March 2021 on a 30-year equal principal and interest basis.
- (3) That Cabinet should specifically note that the recommendation (1) and (2) above are made in respect of:

- a) **That the provision of a leisure centre at St John's although certain requires further specification and agreement reflecting the ownership, capital and ongoing operational arrangements before the development commences.**
- b) **That the re-provision of the Town Council on the St Johns site may require a net subsidy of £1m (after costs less development return) and is still to be approved.**
- c) **The indicative project timelines are set out in section 10 of this report.**
- d) **A separate Community Interest company is established to include elements of the public realm and community benefit assets. A separate Cabinet paper will require decision for this set up.**
- e) **All recommendations are fully in accordance with the values set out and approved in the 2020/21 budget.**

Executive Summary:

The Council has established the new Group of companies including the development company known as Qualis Commercial. This company has been working on the business plan and development appraisals for the sites that are being proposed for asset sale from EFDC into Qualis Commercial. It should be noted that the business case has been put together from the perspective of Qualis Commercial as a development company. At this pre-planning stage the business case returns an indicative target developer return of 15%. The business case has also examined all major risks and sensitivities and under these circumstances the development is still considered financially worthwhile with contingencies being built in to reflect uncertainties.

The Cabinet should also note that whilst any land transaction will be between EFDC and Qualis Commercial to reduce transaction costs, the loans will be between EFDC and Qualis Group who will then cascade these resources as needed to Qualis Commercial. This loan cascade will purposefully allow EFDC to advance funding to Qualis with long term certainty around returns but will also allow individual companies in the Qualis Group to draw and repay monies within the Group (in line with normal commercial practice).

The Qualis Commercial business plan sets out:

1. The purpose and context for Qualis Commercial
2. The business plan objectives
3. Funding arrangements
4. Procurement
5. Development appraisals and sensitivity analysis for the following sites; St John's, Cottis Lane car park, Bakers Lane car park, Epping Leisure Centre – Hemnell Street, land at the Civic Officers – Condor building, and Roundhills Site Waltham Abbey
6. Future Projects – the potential for North Weald Airfield
7. The business plan cashflow
8. Market research

On the 6th February 2020 the Cabinet approved the establishment of the interim Qualis Group Board. Assuming the transfer of sites into Qualis Commercial the Group Board will oversee the detailed work required to develop each site into a full

business case. Following the transfer of the sites to Qualis Commercial the Qualis Group Board will oversee the development of full business cases on a site by site basis as designs are developed during the pre-application process. This will require the appointment of the design team and a commitment to further costs associated with detailed architectural design work required to develop the full business case ready for submission to planning.

Report

1. Qualis Commercial has been established to maximise the potential financial returns and social returns of sites owned by EFDC. The creation of Qualis Commercial and the other Qualis companies ensure that EFDC has the structures and governance in place to undertake property development at appropriate scale to meet the ambition and challenge set by EFDC.

2. Qualis Commercial's purpose will be to deliver profitable property developments by a variety of means including the delivery of private sector development on land owned by EFDC and land which can be acquired from the public and private sector for the purposes of direct development. By developing on land owned by EFDC, Qualis Commercial will avoid the situation where land is sold to the private sector generating only a "one-off" capital receipt to EFDC. The business case for Qualis Commercial is attached as a background paper.

Planning Process

3. The process of pre application planning between Qualis Commercial and EFDC planning authority has commenced. It has been agreed to pursue a two-phase Planning Performance Agreement (PPA) for the five Epping Town Centre sites proposed for allocation in the Local Plan Submission Version. PPA's are a project management framework and timetable, which includes Key Milestones for progressing and delivering development of each site by identifying the level of resources and actions required and ensure that all planning issues are properly considered and resolved at the earliest possible stage. Whilst they are not legally binding contracts, they provide a project management tool facilitating co-operation, trust and effective communication between the developer and the decision maker, with the aim of delivering high quality development and ensure prompt, clear and robust decision making.

4. The first phase PPA seeks to agree a strategic approach for the five town centre sites to ensure that the objectives and balance of uses and housing mix across the whole is understood. This includes developing a site strategy – Design and Quality brief. The full report from the Planning department is attached as a background paper.

Sustainability Objectives

5. The Design and Quality brief will seek to achieve the following sustainability objectives:

- Qualis will seek to design buildings in such a way to minimise material waste and avoid construction activities that have a negative environmental impact.
- Incorporate features which enable buildings to be flexible in use and layout with scope for future enhancement to extend the useful life of a building.

- Qualis will endeavour to eliminate sources and causes of pollution from our designs and promote the use of renewable energy sources and low/zero carbon technologies in place of fossil fuel sources to limit the waste of energy
- Consider solar gain through site layout and building design to assist with daylight and thermal efficiency
- Promote the use of natural ventilation and systems that minimise potential impact on air quality
- Promote water conservation using rainwater harvesting, grey-water systems and low water use appliances
- Buildings will be designed to minimise the embodied energy in their construction method and material, and to reduce the operational energy they subsequently require
- Promote the use of recycled materials and the reuse of existing materials
- Use BREEAM and SAP assessment methods where appropriate
- Where applicable use specialist consultants and contractors to develop building solutions which minimise the impact on the environment
- Give consideration to alternative proposals/designs for the site, where appropriate
- Incorporate crime reducing features into the design where possible
- Promote the implementation of a sustainable travel plan (e.g. safe pedestrian access and movement, provision of on-site cycle facilities and accessibility to public transport)
- Buildings will be designed to make best use of local conditions through microclimate analysis on all sites
- Buildings will be designed to be thermal bridge free and consider air-tight building strategies
- Schemes will be designed with greening and planting to try and achieve a bio-diversity net gain

Design

6. In September 2019 Epping Forest District Council declared a Climate Emergency and pledged to do everything within the Council's power to make Epping Forest District Council area Carbon Neutral by 2030. Sustainability focuses on meeting the needs of the present without compromising the ability of future generations to meet their needs. A sustainability approach for developments needs to be considered holistically, encompassing environmental, social and economic sustainability measures and processes.

7. When responding to development opportunities on the five Epping Town Centre sites (and other sites), consistent with policy, it is necessary to respect the historic environment and designated and non-designated heritage assets. Therefore, all developments need to conserve and enhance the character, appearance and function of heritage assets and their settings and respect the significance of the historic environment. Consistent with the LPSV, sustainable construction is expected to meet the performance set by appropriate standards including, Passivhaus, Home Quality Mark and BREEAM UK New Construction standards. As such Qualis developments should give rise to minimal environmental impact with respect to energy use, water use, waste and transport as well as providing for green infrastructure and healthy environments for all users.

Socio-Economic Sustainability

8. Schemes will be designed to encourage and incorporate positive social value outcomes and encourage relationship networks that will benefit the owners, users and occupiers of any development

- Developments will understand who is affected by or affects the work that is being undertaken on the projects.
- All stakeholders in the community will be encouraged to take stewardship and ownership of any new development and encourage and ensure the local community have a greater influence over policies and decisions affecting their lives.
- Promote individuals and groups to take part in the projects improving the ability, and opportunity for individuals.
- Design to ensure there is the opportunity for developments to have flexibility in use and to have 'meanwhile' use during, and on completion of developments.
- Encourage healthy lifestyles and wellbeing.
- Encourage a sustainable and healthy economy.

Engagement

9. The Design and Quality brief will set out the suggested proposals for how engagement will be undertaken through the different planning stages. The final draft of this document is attached as a background paper.

Timelines

10. The table below shows the indicative timelines for the five Epping Town sites, Roundhills and the work on North Weald. It should be noted that these are guidelines and subject to change as the projects progress.

Project	Description	Stage of Review	Business Case submission date	Start on Site Target	Completion Target
St John's	Mixed Use	PPA	31 st March 2021	31 st March 2021	31 st March 2023
Bakers Lane	MSCP	PPA	31 st March 2020	31 st March 2021	29 th September 2022
Cottis Lane	Residential apartments for Private Market rent	PPA	31 st March 2020	29 th September 2022	29 th September 2024
Condor Building (Civic Centre)	Family Housing and apartments	High Level Review	24 th June 2020	24 th June 2021	24 th June 2022
Hemnell Street	Mixed tenure affordable	High Level Review	24 th June 2020	31 st March 2023	29 th September 2024
Round Hills	Mixed tenure family housing	High level review	24 th June 2020	31 st December 2020	24 th June 2022
North Weald Airfield	Workspace industrial	High Level Review	29 th September 2020	24 th June 2021	Phase 1 31 st December, complete 2027

Reasons for Proposed Decision:

The medium-term financial plan and the 2020/21 budget sets out the aspirations to develop these council owned sites through the development company Qualis Commercial. The transfer of land ownership as set out in the paper creates the opportunity to develop the sites in accordance with the EFDC vision, Asset Management Strategy and Medium-Term Financial strategy.

Other Options for Action:

Failure to transfer the land ownership of the sites set out in this paper will delay the projects and effect the ability to achieve the 2020/21 budget and medium-term financial strategy. The development of these sites is fundamental in achieving long term financial stability for the Council.

Resource Implications:

The total Qualis Group costs (including the Interim Board) are set out within the Council budget 2020/21.

Legal and Governance Implications:

All governance documents will be in place to enable the operational trading of Qualis Group and Qualis Commercial. The appropriate loan agreement and development agreements will be put in place in accordance with the agreed governance documents.

Safer, Cleaner and Greener Implications:

Any construction through the development company will meet standards and requirements of the local plan.

Consultation Undertaken:

All consultation will be undertaken as part of the planning process and is set out in the detailed report from the Local Planning Authority.

Background Papers:

Qualis Commercial Business Plan – Epping Town Sites
Design and Quality Brief
Report from Local Planning Authority

Risk Management:

The Qualis Group Board will establish a framework for risk management across all the companies. A risk and Audit committee will be set up which will scrutinise the full site business case in detail to ensure they meet the financial return assumptions as set out in the EFDC budget.

The risk and sensitivity analysis for each site is included in the Qualis Commercial business case and is attached as background papers.