

Cabinet

24 February 2021



Title	Transfer of properties from Spelthorne Borough Council to Knowle Green Estates Ltd.
Purpose of the report	To make a decision
Report Author	Nick Cummings Property and Development Manager
Cabinet Member	Cllr Jim McIlroy
Confidential	No but appendices are.
Corporate Priority	Housing
Recommendations	<p>Cabinet is asked to:</p> <ol style="list-style-type: none">1. Note the advice on State Aid which has been provided by Counsel, as part of original reports provided to Cabinet January 2020 (Confidential Appendix A)2. Subject to receiving up to date valuation advice prior to transfer, to delegate authority to the Chief Executive in Consultation with the Leader, Portfolio Holder for Finance (or the Deputy Leader if he is not available) and Chief Finance Officer, to transfer the following Council properties into the ownership of Knowle Green Estates Ltd (KGE) for nil cash consideration:<ol style="list-style-type: none">a. Ceaser Court Phase 1b. Knowle Green West Wing3. To note that any funding requirement will be provided under the Loan and Drawdown Agreement approved by Cabinet on 11 May 2017.4. To approve the extension of this Loan and Drawdown Agreement (dated 29 March 2019) from £10m to £30m.5. To delegate to the Group Head of Corporate Governance to enter into all documentation required to give effect to these transfers and loans
Reason for Recommendation	This recommendation is made in order to comply with the policies of the Council that all residential assets should be owned by KGE Ltd, as specified in the KGE Ltd Business plan.

1. Key issues

- 1.1 As previously undertaken at the time of practical completion for Churchill Way and Bugle House, this approval will facilitate the timely occupation of these residential developments.
- 1.2 The strategy and policies of the Council require these actions to be taken, as specified in the KGE Ltd Business Plan, Corporate Plan and the Capital Strategy.
- 1.3 Cabinet has previously approved the policy of transferring freeholds and long leaseholds from Spelthorne Borough Council (SBC) to KGE Ltd.

2. Options analysis and proposal

Option 1 (recommended) - Approve the transfer of the freehold of Ceaser Court phase 1 and long leasehold Knowle Green West Wing. Approve the extension of the loan between SBC and KGE Ltd, in line with previous Cabinet approvals for these projects and loans summary of both projects can be found in Confidential Appendix B.

- 2.1 Ceaser Court Phase 1 is approaching practical completion and is about to be launched for private rental tenants and for affordable tenants from the Council's housing register. Prior to any occupations it is important that this freehold transfer of the building is made. The transfer is being made on the basis that the remaining Ceaser Court site is retained by the Council in order to implement the construction of Ceaser Court Phase 2.
- 2.2 It is proposed that the West Wing at the Council Offices is transferred on a 999 year lease which allows the Council to impose maintenance and repair covenants on KGE Ltd or any successors. The West Wing is surrounded by and adjoins the Councils owned offices and car parking. Therefore this gives the Council greater control and provides for more effective estate management.
- 2.3 The purpose of a loan extension from the Council to KGE Ltd is to ensure that KGE Ltd has sufficient funds available to effect the transfer. KGE Ltd will repay the loan to the Council in line with the loan agreement between the 2 parties as per the original Cabinet decision in May 2017. The loan agreement will reflect appropriate levels of interest in respect of both private rental and affordable tenants.

Option 2 – Do not transfer

- 2.4 This would contravene all relevant policies and strategies as laid down by in the KGE Ltd Business Plan as agreed by Cabinet on 29 January 2020.

3. Financial implications

- 3.1 The intention of providing a loan to KGE Ltd is to ensure that KGE Ltd has sufficient funds to pay for the transfer of the above properties. It is important to ensure that KGE Ltd is a viable subsidiary for accounting purposes.
- 3.2 The loan rate in respect of the affordable element will be at a lower rate than the Private Rented Sector (PRS) rate.
- 3.3 Under an approval granted by Cabinet on the 11 May 2017 a loan and drawdown agreement was put in place between the Council and KGE Ltd.

The loan facility totalled £10m and with the transfer of Ceaser Court and the West Wing at Knowle Green this loan level will be exceeded. It is proposed that the Chief Financial Officer is delegated to provide the most efficient loan extension refer to recommendation 4 above.

- 3.4 Valuations for the transfer of these properties are in hand. Under the delegated authority as set out in recommendation 2 of this report, it is proposed that on the basis of these valuations the Chief Finance Officer in consultation with the Leader, Portfolio holder for Finance (or Deputy Leader if he is not available) and Chief Executive, loans to KGE Ltd (if necessary) the funds to enable the 100% Council owned company to purchase the properties at full market value.

4. Other considerations

- 4.1 The procurement process for the contractor for Ceaser Court Phase 1 and Knowle Green West Wing has been in accordance with the Public Contracts Regulations 2015 and contract standing orders
- 4.2 Equality and diversity considerations haven been taken into account as required as part of the design and planning process.
- 4.3 A paper will be presented to the KGE Ltd board in February seeking approval to receive these transfers.

5. Sustainability/Climate Change Implications

- 5.1 Whilst our philosophy for sustainability prioritises a “fabric first” approach ensuring that energy demand is reduced before services are provided, both buildings in this instance are conversions of 1980’s office buildings where the thermal envelope already exists. Therefore this presents limitations to this approach. Where services are provided there is consideration of the whole life cost of a building, taking into account both the economic and environmental impact. With design life of perhaps more than 60 years, it is recognised that the cost of ownership and operation exceeds the cost of construction. The approach to construction should therefore be to maximise the efficiency of the building fabric in order to conserve resources during operation. Given the limitations at Ceaser Court Phase 1 and Knowle Green West Wing, key enhancements to the fabric have included, thermally efficient glazing and improved insulation.

The Energy Strategy identified for Ceaser Court several specific aims -

- to meet national and local energy, carbon and environmental performance standards
- to meet or exceed the comfort and operational requirements of the building occupants
- to provide an example of good to best practice in environmentally considerate design and construction
- to develop a successful building design solution which was economic to operate

The solutions proposed include optimised building envelope specifications (in terms of U-values, design air permeability, g-values of glazing and thermal bridging coefficients), high efficiency building services (including apartment

heating and hot water generation via centralised combined heat and power plant. This has future proofed to support Phase 2 too. The scheme will meet and slightly exceed all relevant policies of SBC on energy from renewable sources (ie - minimum 10% renewables – Policy CC1 of the Council's Developer Guidance Note).

6. Timetable for implementation

- 6.1 Transfers and loan agreement to be implemented immediately upon Cabinet approval.

Background papers:

Appendices:

- A – Confidential - May 2017 Cabinet Appendix regarding state Aid
- B – Confidential - Cabinet Briefing update