

AGENDA ITEM

REPORT TO CABINET

18 JULY 2019

**REPORT OF SENIOR
MANAGEMENT TEAM**

CABINET DECISION

Regeneration and Housing – Lead Cabinet Member – Councillor Nigel Cooke

VICTORIA ESTATE REDEVELOPMENT UPDATE

SUMMARY

In September 2018 Cabinet granted approval to appoint Keepmoat Homes Limited as the Councils Joint Venture Partner to successfully bring forward a contemporary and exciting new housing on the Victoria estate, a development which would provide both inclusive and adaptable homes in a quality, green, landscaped environment. Since this time (and as detailed within the body of the report) significant progress has been made in processing both the development and the formal legal arrangements. During these discussions both parties have agreed that an alternative legal arrangement, a Collaboration Agreement, would provide a more cost-effective structure than the establishment of a Joint Venture Company.

REASONS FOR RECOMMENDATION(S)/DECISION(S)

Approval is sought to vary the legal structure previously approved by Cabinet for the delivery of new housing on the Victoria site.

RECOMMENDATIONS

Cabinet are asked to:

1. Approve the proposed new legal arrangements as detailed in paragraph 9 of this report.

Subject to the above:

2. Delegate authority to the Directors of HR, Legal and Communications, Economic Growth and Development and Finance and Business in consultation with the Cabinet Member for Regeneration and Housing to determine the terms of the new legal arrangements, enter into the Collaboration Agreement and all new legal documentation required to deliver the partnership and redevelopment scheme and finalise the terms of the land sale.

DETAIL

Background

1. As noted above, in September 2018 approval was granted following an extensive procurement process, to appoint Keepmoat Homes Limited as the Council's Joint Venture Partner and establish a Joint Venture Company limited by shares to specifically bring forward the redevelopment of the Victoria estate (decision record D180071). Since this time both parties have worked closely to bring the development forward in a timely manner as detailed below.

Planning Application

2. To inform a planning application, significant preparatory works have continued on site. These extensive investigations have been undertaken to reduce 'unknown risks' therefore minimising as much as possible the impact these risks could have on the developments financial appraisal. In addition, a joint technical group was established, this group has met monthly and has considered issues such as Open Space and Landscaping, Sustainable Drainage, Energy Efficiency, Car parking and Affordable housing amongst others.
3. Prior to a formal planning application being submitted a pre-planning consultation event was held on 20th February 2019. The aim of this event was to seek the views of the proposed development from surrounding residents (both residential and local businesses). Following this event and after undertaking significant consultation with Council officers, Keepmoat submitted a planning application for the Victoria site on 29th March 2019, approval of which is anticipated by Mid July 2019.
4. **Appendix 1** provides the plan submitted for planning approval by Keepmoat, Members will note the proposal is to deliver 143 new homes which will include a range of 2, 3 and 4 bedroom houses and 2 bedroom bungalows for sale and affordable rent. The affordable homes (identified by a red dot in **Appendix 1**) will be constructed simultaneously with the open market housing and be tenure blind. Affordable units will be delivered in different phases of the site (as specified by the Council in the partner procurement exercise) and Keepmoat have committed to delivering these units (to Thirteen, the Councils affordable housing partner) in accordance with Homes England funding timescales.

Elm House

5. Members may recall that the Council lead on the demolition of the building (on behalf of Thirteen), demolition concluded in March 2019 as planned.
6. The Elm House site provides an opportunity to both enhance public realm and bring forward a future development phase which will complement the main Victoria development. Thirteen are currently carrying out site investigations to inform their masterplan for the site and will work with the Council before submitting a planning application

Connectivity

7. The close proximity of Victoria to the heart of the Town Centre provides an ideal opportunity to ensure that the physical connection is seamless where practical. As highlighted in earlier reports, the sites connectivity with Norton Road (as a key gateway into the Borough) is significant and work is ongoing to ensure the Victoria site redevelopment complements ongoing town centre regeneration and improvement activity (i.e. Townscape Heritage). By way of example, work is ongoing to look at the rear elevations of the buildings on Norton Road which back onto the redevelopment and other buildings that are in close proximity to the site.

Legal Structure

8. As noted previously, in September 2018 Cabinet granted approval to appoint Keepmoat Homes as the Councils Joint Venture Partner. Subsequently Cabinet endorsed the establishment of a Joint Venture Company (limited by shares). At this time Cabinet also supported funding of up to £1.6m to fund a loan to the Joint Venture Company to support the cash flow of the scheme (with Keepmoat funding the remaining 50% of the schemes cash flow requirements on the same basis.
9. Over recent months Council representatives have met with Keepmoat to progress the legal structure and during these discussions an alternative legal arrangement has been highlighted - a Collaboration Agreement. The Collaboration Agreement proposed is a simplified legal

structure which would not require the expense incurred in setting up a new company however it would still ensure that the Councils stated objectives are achieved. Details of the proposed new legal structure are detailed below:

- Under the terms of the Collaboration Agreement, Keepmoat and the Council agree that it is in the mutual interest of both parties to carry out the development of the Victoria estate.
- Under the terms of the JV the Council would have sold the site to the JV company, under the revised arrangement the Council retains an interest in the land until all new homes are built.
- The Council and Keepmoat previously agreed to loan to the JV Company up to £1.6m over the life of the project. This will still be required to support the cash flow of the development. However, monies will not be loaned to the Joint Venture Company, rather they will now either be loaned to Keepmoat on behalf of the development project or invested in the project by way of meeting 50% of the development costs, capped at £1.6m. The loan or investment will be underpinned by legal documentation including a Collaboration Agreement and will be on a cash flow basis. Each party will continue to attract a commercial rate of return on their investment.
- In working up the project to date substantial joint working has been undertaken between the Council and Keepmoats financial leads. Keepmoat have demonstrated they are committed to a strong and transparent partnership which will deliver an open book approach.
- As per the Joint Venture Company proposal a Project Board will retain overall responsibility for the development. The Project Board will have equal SBC and Keepmoat representation (2 senior officers from each organisation).
- In the original procurement exercise, the Council sought a suitably experienced commercial house builder with a track record of delivering market housing. In the Collaboration Agreement, Keepmoat would continue to take this role, as they would take the role of 'lead developer' and continue to provide the marketing and sales service on behalf of both partners. However as noted above, Keepmoat will only be able to carry out the project in accordance to the Project Plan agreed by the Project Board.

Next steps

10. Subject to securing necessary Planning and approvals detailed within this report, the table below provides an indicative site development timeline:

Secure planning consent	Mid July 2019
Collaboration Agreement and all supported legal documents signed	End July 2019
Site preparatory works / building works commence	Early October 2019
Sales Centre opens	March 2020
First legal completions	May 2020
Overall scheme completion	Jun 2023

COMMUNITY IMPACT IMPLICATIONS

11. The Councils regeneration vision for this central Stockton location is clearly documented (in previous Cabinet reports) and the delivery of housing on this site was also detailed in the consultation process undertaken as part of the Councils emerging Local Plan. Development of the site is subject to securing a planning approval and as part of this process, as noted previously consultation has taken place with surrounding residents and local businesses.
12. The successful regeneration of the Victoria site will both enhance the housing offer available in this town centre location providing accommodation for a range of potential residents. The redevelopment of the site will also support the ongoing transformation of Stockton town centre.

CORPORATE PARENTING IMPLICATIONS

13. None.

FINANCIAL IMPLICATIONS

14. As noted within the September Cabinet report the total cost of the redevelopment (as per the Keepmoat financial appraisal) is estimated at £18.7m. Based on estimated sales values Keepmoat Homes Limited have expressed confidence that the site will be commercially viable and will provide both parties with a return on their investment. Members may recall that under the proposed terms of the JV Company the Council would receive 30.64% of any profit, following payment of Keepmoats 69.36% preferred profit share. Cabinet are asked to note that the Collaboration Agreement will document the detail of how project income will be distributed which will remain unchanged from when the Company was envisaged. This will include repayment of the Council's investment of £1.6m plus 6% interest per annum (calculated pro-rata in respect of any period of investment less than one year) and a profit share payment capped at £721,094.93 to the Council (30.64% of the projected profit). The Council will receive 50% of any further profit above the projected profit level.
15. Changes in the legal approach mean there are different VAT issues relating to jointly developing the project. The Council and Keepmoat are obtaining professional advice to ensure these issues are addressed appropriately.

Phased sale of the Victoria site

16. As reported in the previous Cabinet report the site will be disposed of at market value. However, as the Joint Venture Company will no longer be established, Cabinet are asked to support the phased sale of the site (as previously detailed in paragraph 9) to Keepmoat or future purchasers of the houses.

LEGAL IMPLICATIONS

17. The Council has the power to sell its land pursuant to section 123 Local Government Act 1972 subject to such conditions as it sees fit, including subject to an agreement with a developer/purchaser as to how the land will be developed, with the developer having been procured in accordance with the requisite procurement legislation. In exercising this power, the Council is still subject to its general duties, such as its fiduciary duty, and must exercise the power for a proper purpose.
18. Under Sections 1 and 12 of the Local Government Act 2003 the Council may borrow or invest for any purpose relevant to its functions or for the prudent management of its financial affairs. It is proposed that the investment in the redevelopment of the Victoria Estate will be structured on market terms and rates and so would not constitute State Aid.
19. Under section 123(1), Local Government Act 1972, the Council cannot dispose of its land for consideration less than the best that can be reasonably obtained in the market, except with the

express consent of the Secretary of State. There is no requirement that the best price payable be an upfront payment, consequently the approach to how the 'best price' is paid may vary and can include a deferred return, so long as it is valued and captured in legally enforceable documentation. The proposed transaction in this instance taken as a whole, has been determined through officer professional advice, as being the best that can reasonably be obtained.

RISK ASSESSMENT

20. As with all development projects of this size and scale there are a number of potential risks and these were highlighted in the September 2018 Cabinet report.
21. The project risk assessment scored as high, before mitigation. Robust risk mitigation to address known risks has commenced and will be ongoing both pre and during the sites development. Risk management will be reported and analysed by both the Council and joint Council/Keepmoat Project Board.
22. The proposed revisions detailed within this report to the legal arrangements would have neither a positive nor negative impact on the risk assessment of this project.

WARDS AFFECTED AND CONSULTATION WITH WARD/COUNCILLORS

23. Consultation briefings have taken place with the Cabinet Member for Regeneration and Housing and the Stockton Town Centre Ward Councillors, Councillor Kirton and Councillor Beall.

BACKGROUND PAPERS

- Victoria Estate Redevelopment: Appointment of Joint Venture Partner / Establishment of a Joint Venture Company. Report to Cabinet 27.9.2018
- Victoria Site: Update on the Revised Scheme Redevelopment Proposal
- Victoria Estate Regeneration – Revised Scheme Proposal. Report to Cabinet 16.11.2017
- Victoria Estate Regeneration – Urban Village Living. Report to Cabinet 16.3.2017
- Victoria Estate Regeneration – Urban Village Living. Report to Cabinet 14.1.2016
- Victoria Estate Regeneration Proposal. Report to Cabinet 6.11.14
- Housing Regeneration Scheme Update – Victoria Estate. Report to Cabinet June 2012.
- Housing Regeneration Scheme Update – Parkfield/Mill Lane (Phase 2) and Victoria Estate. Report to Cabinet 9.2.12
- Housing Futures: Transfer of Housing Stock to Tristar Homes. Report to Cabinet 18.11.00

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