

12 January 2022		ITEM: 13
		Decision: 110597
Cabinet		
Thurrock Regeneration Ltd – Proposed Development of Culver Centre and Field, South Ockendon		
Wards and communities affected: All	Key Decision: Key	
Report of: Councillor Mark Coxshall, Cabinet Member for Regeneration, Strategic Planning and External Relationships		
Accountable Assistant Director: Keith Rumsey, Interim Assistant Director – Regeneration and Place Delivery		
Accountable Director: Sean Clark, Corporate Director of Resources & Place Delivery		
This report is Public.		

Executive Summary

The Culver Centre and Field in South Ockendon is a cleared site which has been earmarked by the Council for development. Following preparation of a proposed scheme a planning application was submitted and determined on 23rd September 2021. The route to development now needs to be determined.

Thurrock Regeneration Ltd, the Council's housing development company, is seen as the most appropriate developer for this scheme and it is proposed that this site should be offered to the company for development. TRL has informally indicated its willingness to purchase the land for development, subject to legal and financial due diligence and the final approval of the Board.

It is proposed that delegated authority be given to the, Corporate Director of Resources and Place Delivery, in consultation with the Portfolio Holder for Finance and the Cabinet Member for Regeneration, Strategic Planning and External Relationship – subject to an independent assessment of the valuation of the land - to finalise the terms of transfer to TRL including the approval and transfer of scheme funding to TRL and reflect this funding in the Council's financial records. This delegated authority will be subject to the scheme meeting key financial parameters and is, at present, conceptual.

1. Recommendations

That Cabinet:

- 1.1 Agrees that Thurrock Regeneration Ltd develop the Culver Centre and Field, South Ockendon site in accordance with the consented planning application.**
- 1.2 Agrees that authority be delegated to the Corporate Director of Resources and Place Delivery, in consultation with the Portfolio Holder for Finance, and the Cabinet Member for Regeneration, Strategic Planning and External Relationships, to agree the transfer value of the land, final funding to TRL, and to enter into legal agreements, including appropriation of land, as required to enable this development, subject to the financial parameters as set out in the report.**

2. Introduction and Background

2.1 Scheme details

- 2.2** The site is positioned between Daiglen Drive and Broxburn Drive, South Ockendon and bounded by Shaw Primary Academy to the North and Danbury Crescent to the south. Surrounding properties and residential developments are mainly from the mid-20th century including terraced, semi-detached and 1950s Council Housing.
- 2.3** The site is 4.53 ha (11.197acres) with a flat topography. The Culver Centre has been demolished and there is open space to the east of the site.
- 2.4** The consented scheme includes 173 new homes including 62 affordable homes comprising a mix of one and two bedroom apartments and two and three bedroom houses alongside the re-provision of public open space with associated landscaping and public realm, private and communal amenity space, car and cycle parking provision and access improvements
- 2.5** The proposed tenure mix is planning policy compliant with 35% affordable housing, a mix of affordable rented (43 or 25%) and shared ownership (19 or 11%) with the remaining housing being for the private market.
- 2.6** Tender documentation and drawings are currently being prepared and will be submitted to the market shortly, subject to the final governance and approval of the TRL Board.
- 2.7** The Council is currently preparing the site for transfer including ensuring a clean title, this includes the appropriation of land for planning purposes.
- 2.8** Should Cabinet approve this report the next step following independent valuation will be that Land Transfer, Management and Funding Agreements between the Council and TRL are entered into and TRL completes its' procurement and enters into a construction contract.

3. Issues, Options and Analysis of Options

3.1 The development scheme received planning permission on 23rd September 2021. The alternative options for the Council to consider are to sell off the land with planning permission to a private developer, or the possibility of the HRA investing in or building out the site.

Summary of key risks and opportunities;

Option	Opportunities	Risks
Transfer the land to TRL to develop	<ul style="list-style-type: none"> • Articulating the vision • Control of design and place making • Long term investment • Generation of returns / pursuit of mutual objectives • Revenue receipts • Dividend at the end of the development • Cross subsidy for affordable housing • Certainty in the delivery of homes • Potential opportunity for Council to own affordable units 	<ul style="list-style-type: none"> • Market uncertainty • Competing demands (company vs corporate)
Disposal to a private developer	<ul style="list-style-type: none"> • Up front capital receipt 	<ul style="list-style-type: none"> • Risk of different scheme coming forward due to viability • Uncertainty of delivery • Less control over the development
HRA	<ul style="list-style-type: none"> • Increased Council housing units 	<ul style="list-style-type: none"> • Consented scheme includes market sale units and capital receipt for land together with return to general fund from borrowing on TRL behalf will be financially advantageous for the Council • Inappropriate for HRA to take risk of market sale

- 3.2 Agreement to the recommended option for TRL to gain the funding and land transfer would provide the Council with a revenue stream via the repayment of interest on the loan over several years as well as a dividend at the end of the business term.
- 3.3 The consented scheme includes market sale property which it is not appropriate to develop through the HRA as the HRA should not be taking sales risk.
- 3.4 A number of joint venture options with partners outside the Council would be feasible, however the Council does not currently have the partners or infrastructure to make this effective. In isolation such partnerships will not be more financially advantageous than the preferred route.

Risk Assessment

- 3.5 The key risk at this stage is the volatility in construction costs. The position with regard to this will be determined by the market tendering exercise and is a matter for TRL. In compiling their due diligence the costs of building will be taken into account.
- 3.6 Sales risk on market sale is always present. However market indications are that there is healthy demand for new build properties in Thurrock and this is expected to continue.
- 3.7 Subsidy Control (formerly state aid) regulations are complex and intrinsically related to the financial viability. Legal due diligence will be undertaken by the Council and TRL to ensure the scheme will not proceed unless the scheme is subsidy control compliant. It is unlikely that this will be an issue.

Financial Implications

- 3.8 TRL's financial advisers have developed a financial model to assess whether TRL and its developments can be established on a viable basis. This model considers the cash flow, tax and accounting implications of TRL's proposed developments and also considers the cash flow and accounting entries impacting the General Fund. It can be used for each scheme on a stand-alone basis to examine whether the viability tests are met.
- 3.9 This model will be rerun by TRL as part of its due diligence to assure that this scheme is viable and deliverable.
- 3.10 The inputs and assumptions for Culver will be continuously reviewed. This will include:
- Monitoring of overall development costs for the scheme in light of price increases in the construction sector referred to above.

- Scenarios with regards to sales and market rent will be tested to ensure the most financially viable option. Prudent assumptions throughout the modelling will be used.
- Borrowing costs and interest rate projections will be monitored.

3.11 A narrative summary of the current position is set out below:

Input	Commentary
Tenure Mix	65% of the development will be for the private market. 35% will be affordable housing a mix of affordable rent and shared ownership.
Construction Programme	To be determined
Land Cost	Independent valuation prior to land transfer.
Construction Costs	Based on advisers latest cost estimates and include planning and design costs. At this stage it is considered that the scheme is still viable to TRL.
Sales Values & Overall Sales Income	Sales values are based on recent market information and will be uplifted by house price inflation to the sale date.
Rental Income	Rents are based on recent market information. Affordable rents, are set at up to 80% of current market rents and are in all cases within current Local Housing Allowance figures.
Operating Costs	Management and operating costs reflect the cost of the services provided by the Council to TRL on a full commercial basis. Therefore this arrangement should lead to a small net income within the General Fund resulting from the margin charged on top of direct costs to TRL. Maintenance and lifecycle costs reflect industry norms.
Bad Debts & Void Losses	This reflects a prudent allowance and is informed by the Council's experience of managing its own stock and experience of other providers.
Central running costs	An annual sum is included to cover accounting, insurance, IT and other central support costs which will be payable to third parties.
Inflation	Factors general inflation (CPI) and other inflation factors including house price inflation assumptions are based on relevant independent data.

Interest Rates	The interest rate which the Council is assumed to pay on its borrowing reflects the rate that the Council will be borrowing at. Funds on-lent to TRL will attract a margin which is based on current prescribed margins for subsidy control compliancy.

Financial Parameters

3.12 The following underlying principles and parameters were agreed in relation to TRL:

- **Impact on General Fund.** Interest payable in the General Fund, as a result of the PWLB loans taken out to provide loans and equity finance to TRL, should be covered by interest receivable from the loans to TRL.
- **Council equity return.** From a commercial perspective the Council needs to be satisfied that best value is generated by investing cash and land within TRL and that the return reflects a position that does not involve the provision of unlawful subsidy.
- **TRL financial viability.** TRL will be consolidated into the Council's group accounts and, therefore, the Council must be satisfied of TRL's overall financial position and ability to repay its loans.

3.13 At this position, the financial implications are as follows, taking each parameter in turn:

- The financial model shows that the interest payable by the Council, in respect of loans taken out to fund TRL, will be met from interest payable by TRL to the Council. In summary, this parameter is met.
- The returns which the Culver Centre site can be expected to generate are at the lower end of the acceptable range, reflecting the high cost of developing given the market conditions. However, this is not out of line with market trends. The current development estimates, with an element of contingency included, does meet this parameter. When TRL receives the final tender for the scheme the projected return must meet subsidy control requirements and this will be a key parameter in relation to approval to proceed.
- The latest projections confirm TRL's financial viability and also that it will be able to operate as a going concern and repay its loan from the Council based on current known information and assumptions utilised within the model. The final parameter is therefore met.

3.14 In summary, when the final financial position is known following valuation of the land and receipt of the construction tender, the above three parameters

will be re-assessed and all three will need to be satisfied for the scheme to proceed.

4. Reasons for Recommendations

4.1 Development of the Culver Centre site will provide quality housing to meet housing needs and improve the lives of Thurrock residents. The development will also contribute to place making and enhancing South Ockendon regeneration. Therefore contributing to the Council's objectives of:

- Place - a heritage-rich borough which is ambitious for its future with roads, houses and public spaces that connect people and places and clean environments that everyone has reason to take pride in

The recommendation in this report is designed to allow there to be minimal delay to the scheme start.

4.2 It is proposed that Council give delegated authority to the Corporate Director of Resources and Place Delivery, in consultation with the Portfolio Holder for Finance, and the Cabinet Member for Regeneration, Strategic Planning and External Relationships, to agree the final financial position when valuation is received and the construction tender is submitted but subject to meeting the financial parameters set out in this report.

4.3 The estimated cost of construction and thus the level of borrowing that the Council will have to undertake will be re-analysed and the final figures will be shared with decision makers for the delegated authority process for approval.

4.4 TRL will provide an income return to the Council which can support regeneration projects which can meet the aspirations and desires of local people.

5. Consultation

5.1 This paper provides opportunity for Members of this Committee to comment on the proposal.

6. Impact on corporate policies, priorities, performance and community impact

6.1 TRL will support the Council's place shaping agenda and will help deliver a range of housing tenures and other projects. By enabling TRL to develop quality housing on land that it owns the Council will provide an alternative route to private sector led regeneration which may otherwise be constrained by market conditions. Such housing will contribute to improving, and creating great places where community pride, good health and wellbeing and economic prosperity will thrive.

7. Implications

7.1 **Financial**

Implications verified by: **Jonathan Wilson**
Assistant Director, Finance

The financial implications are set out in the main body of the report. Within the Council's medium term financial strategy, an assumption of £1.5m of net income, generated through the lending mechanism between the general fund and TRL, has been included.

The Council will receive a capital receipt for the land which will be determined by independent valuation. Modelling to date has been carried out on an assumption of £2million

7.2 **Legal**

Implications verified by: **Courage Emovon**
Principal Lawyer / Manager – Contracts Team

Delegation of Authority as proposed in Sec 1.2 of this report are within the Council's powers. The Council will need to comply fully with the provisions of the Public Contracts Regulations 2015 and the Council's Contract Procedure rules in relation to any proposed development of the site. Legal Services will be on hand to advise on any issues arising from the Council's proposals and this report and where external legal support is sought, Legal services will co-ordinate this support.

7.3 **Diversity and Equality**

Implications verified by: **Roxanne Scanlon**
Community Engagement and Project Monitoring Officer

Development of this site will have a positive impact on the locality in terms of tenure mix. TRL's developments will follow Council policies in relation to diversity and equality and, in particular, will ensure that contractors bidding for work from the Company will follow the Council's Equality Codes of Practice on Procurement.

Contractors and developer partners will be required to have relevant policies on equal opportunities, be able to demonstrate commitment to equality and diversity and to supporting local labour initiatives that achieve additional social value.

7.4 **Other implications** (where significant) – i.e. Staff, Health Inequalities, Sustainability, Crime and Disorder, and Impact on Looked After Children

None

8. Background papers used in preparing the report

Thurrock Regeneration Ltd – Proposed Development of Culver Centre and Field, South Ockendon - Housing Overview and Scrutiny Committee, 11th January 2022

9. Appendices to this report

None

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