



**Corporate Policy and
Resources Committee**

6th February 2018

Subject: Residential development at Japan Road Gainsborough

Report by:	Eve Fawcett-Moralee – Director of Commercial and Economic Growth
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Purpose / Summary:	To deliver a mix of high quality new social housing and homes for sale on brownfield land in the downtown area of Gainsborough to fulfil the obligations of our Housing Zone designation and our Housing Unlocking grant

RECOMMENDATION(S):

- 1) That Members agree to enter into a Joint Venture Company (JVCo) with Acis Housing to deliver circa 140 new homes in line with the principles of Heads of Terms set out in this report.**
- 2) That Members agree that approval of the JVCo agreement and master plan for the site development be delegated to the Director of Resources to approve in consultation with the Chair and Vice Chair of Corporate Policy and Resources**
- 3) That a further report be presented to the April Committee detailing the proposed Business Plan of the JVCo and the financial investment implications for West Lindsey District Council.**

IMPLICATIONS

Legal:

The Council intends to enter into a Joint Venture Company (limited by shares) with ACIS.

The purpose of the Joint Venture Company is to:

- (i) allow the shareholders of the Joint Venture Company to create a coherent and more viable development sites;
- (ii) bring forward the development of circa 140 new homes (up to 40% for social rent and 60% market for sale);
- (iii) maximise the use of social grant through ACIS and section 106 funding from WLDC to enable viability;
- (iv) Re-coup development costs and share sale receipts on an equitable basis proportional to land holdings and grant/section 106 funds contributed by each partner.

The Council has the power to regenerate through the development of new housing at Japan Road/Wilson Street pursuant to section 1 of the Localism Act 2011. In developing the homes, the Council will act for a commercial purpose, as the Joint Venture Company will receive a financial return, so this power must be exercised through a company pursuant to section 4(2) of the Localism Act 2011. The Council therefore has the power to enter into a joint venture company, a Shareholder Loan Agreement and the Joint Venture Agreement.

The Council is not procuring works or services from the joint venture company and therefore the Public Contracts Regulations 2015 do not apply to the setting up of a joint venture company with a third party. The Council has the power to do anything an individual may do (including acting for a commercial purpose through a company) and enter into a joint venture company with ACIS without conducting a formal procurement.

The Council intends to enter into a joint venture company with ACIS because ACIS:

- (a) own the adjacent land required to deliver a viable development site;
- (b) intend to match the Council's equity share investment via landholdings and social housing grant;
- (c) is a Registered Social Housing Provider and owns and manages the Council's former housing stock, with a track record of delivering successful housing development in West Lindsey;
- (d) will enable the Council to deliver housing and key regeneration objectives as well as generating a potential commercial return to the Council.

The Joint Venture Agreement and Articles of Association will be drafted to satisfy the market economy investor principle (MEIP). This means that the Council can invest in the same manner as a reasonable private sector investor, and on this basis, it is regarded as a commercial transaction rather than State aid.

The shareholder loan is being offered on commercial terms (i.e. the terms on which a market investor would make such a loan) and therefore can be made without breach of State Aid rules. There are no other payments being made to the Joint Venture Company that would amount to an unlawful state aid.

The Council shall appoint two officers as directors to sit on the board of the Joint Venture Company, and the day-to day operation of the Joint Venture Company will be controlled by its directors. Whilst appointed to the board of the joint venture company by the Council, the directors will as a matter of law be required to act in the best interests of the Joint Venture Company.

Financial : FIN/145/18/TJB

This Committee previously approved the Capital Budget for the acquisition of land at Japan Road, totalling £158k funded from S106 contributions towards affordable housing.

The cost of setting up the Joint Venture Company will be met 50/50 by WLDC/Acis Group, with the WLDC element being funded from the Investment for Growth revenue budget.

A further report will be presented to the April committee detailing the Business Plan of the JVCo and the proposed Capital investment required from WLDC to support this project.

Staffing : None as a result of this report

Equality and Diversity including Human Rights :

This project is an integral part of the Gainsborough Housing Zone and is a key project within the Gainsborough regeneration programme. The overall objective is the creation of a self-sustainable and affluent town and constituent community. The Place Based Regeneration programme for the South West and North Wards will assist in addressing the multiple indices of deprivation. This project will provide up to 40% social housing to rent.

Risk Assessment :

The appropriate legal advice has been taken to set up this JVCo. The Council has experience in setting up and operating such companies.

Given the commercial nature of this JVCo the Council will have joint exposure to usual commercial risks associated with the construction and sale of new market houses. This is mitigated by Acis's experience in housing development and management.

Climate Related Risks and Opportunities :

The Western side of Gainsborough and some of the key housing sites are located within Flood Zone 3, benefitting from flood defence.

Title and Location of any Background Papers used in the preparation of this report:

None.

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

1 Introduction

- 1.1 The site at Japan Road forms part of the larger strategic Riverside North site within the Greater Gainsborough Housing Zone. It is located to the north west of the town centre, located to the north of the existing Riverside Approach residential area and runs along the riverside towards Mercers Wood.
- 1.2 The Greater Gainsborough Housing Zone designation requires a minimum of 750 new homes to be delivered on brownfield sites acting as a catalyst for the regeneration of the town. In order to meet the requirements of the designation there are targets which WLDC are expected to meet for both starts on site and completions of dwellings. These are currently behind schedule.
- 1.3 West Lindsey District Council (WLDC) is in receipt of a £4m Housing Unlocking fund from the Greater Lincolnshire Local Enterprise Partnership (GLLEP). A detailed business plan (Gainsborough Growth Project) is being drawn up in tandem with the procurement of a development partner. WLDC's development partnership will deliver a suite of projects to support the town centre regeneration which will in turn enable the delivery of much needed new housing. This site will contribute towards this by delivering circa 140 new dwellings.
- 1.4 This report outlines how delivering a mix of high quality new social housing and homes for sale on this land by means of a JVCo with Acis Group will contribute towards meeting our obligations of the Housing Zone designation and will contribute towards the outputs of the Housing Unlocking Grant. In addition it will contribute towards the housing growth targets set within the Central Lincs Local Plan 2012. It also outlines why delivering housing with Acis Group in this innovative way will not only negate the construction and sales risk for the council but will demonstrate the commitment and desire of Acis to work in partnership with WLDC and deliver housing in West Lindsey. (see section 4)

2 Background

- 2.1 The site is currently in the ownership of 3 land owners namely Thonock and Somerby Estates, Acis Group and West Lindsey District Council. An ownership plan demonstrating the extent of each land holding is attached at appendix 1. Demolition of properties on the WLDC and Acis land took place in the early 2000's and the land has remained undeveloped since.
- 2.2 Interest from a regional developer aiming to assemble the land and deliver a low value scheme of market housing attributed a land value of £23,000 to the WLDC owned land. Proceeding with this option would have resulted in a market housing scheme of low values with the probability of attracting buy to let landlords. Whilst not providing a good financial return for WLDC's land the proposal had little prospect of attracting the diverse demographic concordant with WLDC's growth aspirations for the town nor would it have delivered the policy requirement of 20% affordable housing due to viability constraints.

- 2.3 In order to achieve the best outputs for West Lindsey District Council in terms of meeting housing need, achieving Value For Money and starts on site and ultimately completions officers entered into discussion with Acis Group and the Thonock and Somerby Estate with a view to assembling the land and delivering a more qualitative mixed tenure housing scheme by means of a development agreement.
- 2.4 The delivery of new homes on Japan Road will make a significant contribution to the overall growth programme for Gainsborough, and is critical to meeting our outputs in respect of the Greater Lincolnshire Local Enterprise partnership (GLLEP) funding. The proposals are entirely complementary to WLDC's strategy for the regeneration of its town centre sites via its Development Partner.
- 2.5 The Development Partnership will focus on the delivery of new leisure and commercial schemes, alongside a smaller quantum of high quality housing for private sale or rent. Enhanced public realm and pedestrian connectivity will also be promoted through this programme. Most significantly this will include the completion of the Riverside Walk, providing a direct connection between the town centre and Japan Road, via these new development sites. It is expected that WLDC will select a preferred Developer by April 2018, with contracts in place by June 2018. Thereafter, site proposals will be advanced through the design and planning process, with delivery commencing on site during 2019/20.
- 2.6 Collectively this suite of development proposals will expand the commercial and residential 'offer', regenerate prominent brownfield sites and enhance the appeal of Gainsborough as a lifestyle destination. This is considered critical to building investor confidence in the area, improving values and viability going forward.

3 Acquisition of land

- 3.1 To facilitate this aim officers have pursued the acquisition of the Thonock and Somerby Land. The ongoing relationship between WLDC and Thonock and Somerby Estate (TSE) has led to an acquisition price of £158,000 being agreed. Comprehensive due diligence has been carried on the acquisition and a valuation of the land on behalf of WLDC delivered a land value of £500,000.
- 3.2 As the final development will deliver a quantum of affordable housing in excess of both an open market development restricted by viability, and indeed of the Central Lincs Local Plan (CLLP) policy requirement of 20%, confirmation from the Developer Contributions Officer supported the intention to acquire the land using existing s106 contributions.
- 3.3 Following consultation with the Economic and Commercial Growth Director and the Leader of WLDC, the Director of Resources used his delegated approval to acquire the land. This delegation is contained in part IV of the West Lindsey District Council constitution in the scheme of delegation under section 14 "Land Transactions". Contracts on the acquisition have now been signed. The process which officers have followed for the acquisition including reporting the acquisition to this

committee is compliant with the financial procedure rules which deals with acquisitions of land under section 5.

4 Principles of the Joint Venture Agreement (JVCo) with Acis

- 4.1 The Acis Board and Chief Executive Officer are committed to the delivery of a mixed tenure housing development in the district. It is acknowledged that historically WLDC may not have seen the level of commitment it would have liked to have seen from its Registered Social Landlord (RSL) partner however this proposed development, with the Acis adjacent land holding, will give both organisations the opportunity to deliver a scheme of high quality, spacious housing providing a wider choice and meeting housing need for residents of West Lindsey.
- 4.2 Entering into a JVCo with Acis shows innovation in housing delivery whilst minimising WLDC from construction and sales risk and maximising social housing grant and use of S106 funds. It will also allow officers to market test this approach to housing delivery and to evaluate the need and advantages of such as an option for a local authority housing company.
- 4.3 The JVCo will also allow WLDC to have maximum input on the mix and tenure of the proposed affordable housing to ensure that local housing need is met. A bespoke nominations and lettings process specifically for this development will be agreed to ensure tenants are given every opportunity to sustain their tenancies.
- 4.4 In relation to housing management, officers have witnessed in recent months a significant improvement and have a renewed confidence in working with Acis. A lot of positive work has been carried out following the audit of Choice Based Lettings (CBL). In 2017 WLDC's Prosperous Communities Committee and Corporate Policy and Resources Committee approved the proposal to exit the Lincs Homefinder CBL Partnership. On exiting the partnership the two organisations agreed the following position statement; 'Strategic commitment has been provided by both West Lindsey DC and Acis Group in respect of partnership working and strengthening relationships as both partners strive to meet their aspirations and development plans'.
- 4.5 As part of the launch of the new housing register system WLDC will enter into a formal protocol with Acis which provides further opportunity to formally address and mitigate any concerns around future working practices.
- 4.6 Working in partnership with Acis in this manner will also enable maximum exposure to funding opportunities. Social housing grant will be available through the Shared Ownership and Affordable Homes Programme (2016 -2021) and Acis will aim to maximise housing grant aiming for up to £45,000 per dwelling for the affordable housing element on the site. WLDC also will aim to maximise its contributions through existing s106 monies. Circa £450,000 is currently available which can be allocated to the delivery of affordable housing in Gainsborough. Furthermore as a member of the Blue Skies consortium Acis will be well

placed to bid for any additional funding rounds released by the newly branded Homes England (formerly Homes and Communities Agency HCA) whose ongoing remit is to work with partners to move forward to deliver housing at pace.

4.7 The aim therefore of entering into a JVCo with Acis and benefit to WLDC, in addition to minimising the sales and construction risk, can be summarised by the following objectives;

- Fast track delivery – to this end a phasing plan and long stop date will be agreed
- Deliver in excess of 20% affordable housing with typologies to meet both need and aspiration
- Deliver high quality development and street scene to place make
- Attract a new demographic across all tenures in the scheme
- Bespoke nominations, lettings and management arrangements
- Cost recovery to WLDC on site acquisition and associated costs

4.8 The Heads of Terms for the JVCo will be agreed between the two organisations. They are intended to set out the best way in which the development of the land can proceed. The role of the two organisations will be specified and development management fees substantiated. WLDC requirements are as follows;

- WLDC require a percentage of the development costs for our contract management
- Valuation of the site once planning permission is granted to set out "equalisation" principles accounting for Acis taking ownership of the affordable units and profit share and overage
- Open book accounting principles and eligible costs - to be agreed
- WLDC would transfer land and affordable housing units to Acis on a phased basis subject to satisfactory completion of phase conditions – to be agreed - this may also require a viability test
- Best endeavours on both parties to secure grant and treatment of this in respect to viability and profit share

5 Timescales

- JVCo negotiated and Business Plan reported to CP&R - April 2018
- Planning pre application discussions – February to May 2018
- Planning submitted – June 2018
- Planning granted – August 2018
- Start on site – early 2019
- First completions – early 2020

6 Appendices

Appendix 1 Plan of land ownership/location

Appendix 2 Indicative layout