CABINET

Report subject	**Carters Quay Housing and Regeneration Scheme Poole**
Meeting date	1 September 2021
Status	Public with confidential Appendix A
Executive summary	This report presents the opportunity to acquire a Build to Rent (BTR) residential scheme in Carters Quay Poole. The acquisition of the scheme by the Council will provide 161 new homes and ancillary ground floor residential amenity and commercial space. This scheme will support the delivery of the Council's housing targets and deliver on the ambition to move the regeneration of the Holes Bay site forward, both of which are cornerstones of the Council's "Big Plan". The proposed acquisition has been considered by the Council's newly formed Urban Regeneration Company (URC). which has carried out a design review. A number of their recommended design improvements will be made to the scheme within the agreed budget. The confidential appendix to this report considers the detailed purchase terms and the financial business case for proceeding. It concludes that, subject to the delivery and operational risks (including the treasury management risk), it will deliver an overall positive return for the Council. It is proposed that the purchase is funded using prudential borrowing and will be within the recently increased parameters of the Council's prudential indicators as proposed to Council on the 14 September 2021. The revisions to the Councils prudential indicators were in accordance with the financial strategy adopted to support the Councils future ambitions and were endorsed by the Audit & Governance Committee at its meeting on 29 July 2021. The BTR scheme will be operated via the Council's wholly owned company, Seascape Homes and Property Limited and supports the ambitions of this company to increase its operational exposure within the BTR market across the BCP area. This scheme will support the Council's Corporate Plan objective to 'create Dynamic Places through strategic regeneration or redevelopment opportunities' and will also deliver significant socio-economic benefits.

Recommendations	**It is RECOMMENDED that Cabinet:** **(a) Approves the acquisition of the land and buildings known as Carters Quay outlined in red on the attached plan marked Appendix B, which will include the consented Build to Rent residential housing scheme as described in para 1 of this report;** **(b) Approves the payment of the purchase price for Carters Quay as set out in the confidential Appendix A;** **(c) Authorises the Corporate Property Officer in consultation with the Leader of the Council, the Council's Section 151 and Monitoring Officer to agree the detailed provisions of all legal structure and documentation and enter into the relevant contract/(s);** **(d) approves the intention to grant up to 50-year lease to Seascape Homes and Property Limited subject to their board approval on terms to be agreed by the Corporate Property Officer, in consultation with the Monitoring Officer; and** **That Cabinet recommends to Council that:** **(a) the Capital Investment Programme be amended to include provision for this acquisition to be funded by prudential borrowing, as detailed in the confidential part of this report, and authorises the Section 151 Officer, in consultation with the Portfolio Holder for Finance, to determine the detailed funding arrangements for the forward purchase of the BTR scheme**
Reason for recommendations	To kick start the regeneration of the wider Holes Bay, Poole area through the delivery of this new high quality residential led development. To contribute to the Council's Corporate vision, specifically helping to create dynamic places, investing in the homes our communities need, revitalising and re-inventing our high streets and local centres in line with the vision set out in the Big Plan. The proposals are in accordance with the Capital Investment Strategy (Non-Treasury) 2020-2025 (CIS) objectives and the criteria adopted by Cabinet on 18 March 2020. They are also consistent with the HM Treasury consultation response to the document: 'Public Works Loan Board: Future lending terms' which came into effect on 26 November 2020.

Portfolio Holder(s):	Councillor Philip Broadhead, Portfolio Holder for Regeneration, Economy and Strategic Planning.
Director	Dave Anderson, Interim Director of Delivery
Report Authors	Sarah Longthorpe, Strategic Projects & Investment Manager
Wards	Hamworthy
Classification	For Decision

Background

1. The Council has the opportunity to acquire Phases 4,5,6 Carters Quay, located on the waterfront at Hamworthy, Poole. The developer obtained planning permission in November 2018 for a mixed-use scheme consisting of 161 homes, ancillary residential amenity and commercial space.
2. It is important to note that this scheme is strategically important to the Council to enable it to meet its Housing Targets and to support the wider regeneration of Poole.
3. This BTR development is immediately adjacent to the Council owned Holes Bay site and its acquisition would provide an opportunity to accelerate the regeneration of this area whilst enabling the Council to retain control of the quality and place-making integration.
4. The Council acquired Holes Bay, the largest brownfield regeneration site in the South West in September 2020 following a successful £5m Local Growth fund investment from the Dorset Local Enterprise Partnership (LEP). This 40-acre site has been vacant following the demolition of the former Holes Bay power station in 1994 and has been designated as an important area for future regeneration and investment by the Council. It has been identified as a key priority site for the Council's newly formed Urban Regeneration Company (URC).
5. As a result, the URC officers have reviewed the consented scheme at Carters Quay and are considering design enhancements that could be made to ensure it complements the wider regeneration aspirations for Holes Bay. It is proposed that any cost neutral variations to the consented scheme will be negotiated and included in the development agreement, within the existing budget.
6. The BTR scheme is designed across four blocks of accommodation consisting of a mix of 1,2 and 3 bed homes. The proposed mix of accommodation is 62 x 1 bed, 96 x 2 bed and 3 x 3 bed apartments. The range of accommodation is aimed at young professionals but can accommodate differing needs and it is proposed that all the homes in the scheme will be offered for rent at market rates.

7. The completed development will also include 846m2 of commercial space, of which 368m2 is proposed to be let on commercial terms and the balance utilised for ancillary residential uses linked to the flats above.
8. The development incorporates 168 car parking spaces, predominately in an undercroft, and cycle storage for 161 bicycles.
9. Subject to satisfying pre-commencement conditions the developer anticipates starting on site in Spring 2022 with a two-year build programme with completion anticipated in Summer 2024.
10. The Council is proposing to purchase the entire completed development from the developer. The purchase will be funded using prudential borrowing from the Public Works Loan Board (PWLB). It will be managed as a BTR scheme.
11. The Council will be required to enter into an Agreement for Sale for the purchase of the land and completed buildings. The agreement will detail the contractual obligations and a deferred payment schedule setting out how the funds will be drawn down during the build period. It is proposed that finalisation of the heads of terms for these contracts is delegated to the Corporate Property Officer (Chief Executive) and Monitoring Officer (Director of Law and Governance) in consultation with the Leader of the Council.
12. Since the Council is not able to grant Assured Shorthold Tenancies, it is proposed the homes will be managed and operated by the Council's wholly owned housing management company, Seascape Homes and Property Limited (SHP), on a long lease of up to 50 years which is already set up to provide such services and is successfully managing 46 BTR homes at Treetops, St Stephens Road and 81 other properties.
13. SHP board approval will be required to add these properties into the company's portfolio as and when they are completed and to agree the terms of the lease.
14. Increasing the Council's BTR offer is a fundamental objective of SHP's business plan and the acquisition of these additional homes will support company growth.
15. Investing in more BTR homes will improve tenant choice in the local marketplace and will ensure access to high quality, professionally managed, private-rented homes. It is anticipated that, combined with low entry and exit costs for tenants, the homes will appeal to an increasingly mobile, professional workforce.
16. The scheme was considered by the Council's Investment Panel against the criteria of the Capital Investment Strategy (Non-Treasury) 2020-25 (CIS) and in the context of the Council's existing investment portfolio asset base and sector exposure. The panel collectively determined that it was appropriate for the Council to focus its interests on this residential scheme as it provides 161 new homes and is strategically fundamental to the delivery of the regeneration of the Holes Bay area.
17. The ward members for Hamworthy have been consulted and are supportive of the Council pursuing this opportunity.
18. The medium-term impact of COVID-19 on the residential BTR market sector is unknown at this stage. The Royal Institute of Chartered Surveyors (RICS)

have issued guidance to its valuers highlighting that less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value.

19. Indeed, the current response to COVID-19 means that it is faced with an unprecedented set of circumstances on which to base a judgement. Consequently, less certainty and a higher degree of caution will be attached to valuations than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, RICS has recommend that valuations are kept under frequent review.

20. Officers have procured an independent RICS market valuation report from Gerald Eve on the scheme being acquired. The findings of this report are summarised in the confidential appendix to this report.

21. There is substantial anecdotal evidence of the movement of people from larger cities to seaside resorts and more rural areas following lockdown and the acceleration of remote working patterns. This may increase demand for these properties boosting sales prices and rents.

Options Appraisal

22. Do nothing/Not to purchase the investment asset. The developer would progress the development once they had sourced finance/third party operator. We have also considered alternative options for this scheme, including using income-strips to support the funding and re-designing the scheme. Income strip sometimes referred to as a lease wrap is where the Council uses its covenant strength to provide a guaranteed return to the funder and is responsible for all operational income and expenditure. However recent CIPFA/PWLB guidance would suggest such products are poor value for money and an imprudent use of public funding and therefore strongly discouraged.

Summary of financial implications

23. The confidential financial report in Appendix A considers the detailed terms for the acquisition and the financial business case for proceeding.

24. The impact on the Council's budget for 22/23 and Medium-Term Financial Plan (MTFP) will be within the range as detailed below:-

Year	Annual impact on MTFP	Prevailing PWLB Model (2.05%)	Low Risk Invest to Save Low Risk Model (3%)
		£	£
2022/23	Preconstruction costs	125,789	125,789
2023/24	Preconstruction costs	273,441	273,441
2024/25	Net (surplus) pressure	157,828	463,449

2025/26	Net (surplus) pressure	(156,814)	148,807
2026/27	Net (surplus) pressure	(258,668)	46,953
	5-year (surplus) pressure total	**141,533**	**1,058,396**

25. Based on the two alternative models presented over the 5 years of the Council's MTFP the impact would be in the range of a £0.141 million or £1.058 million financial pressure. However, over the 50-year asset life period both models present a positive financial impact of £41.312 million (prevailing PWLB) and £26.031 million (Invest to Save). Breakeven is achieved in the prevailing PWLB model in year 4 but not until year 26 in the low risk 3% model. Clearly the Council retains the ability to disinvest in the asset at any time and benefit from any capital growth. At the end of this period, the Council will own the asset with no outstanding loans.

26. Historically the Council would make a judgement on whether to invest based on the invest to save low risk option (3%) and then set out the potential further gain that may arise if the Council was able to secure the debt at the prevailing PWLB rate. The business case attached (appendix A) has been prepared based on an assessment on whether to invest using the prevailing PWLB rate and recognises how this position might change (worsen) if the low-risk option (3%) was adopted. This is a reversal of the historical method of presentation.

27. Clearly both models will carry a treasury management risk that the interest rate will increase and could exceed the level assumed until the debt is secured. The model has been prepared on the basis that in isolation the Council would obtain short-term borrowing for the construction period and then secure longer-term loan to finance the asset over its 50-year asset life. However, the council manages its Treasury Management function, as a whole, so the any actual decision to borrow will be based on its overall financial position at the time. In this case it might be that no additional borrowing, or less than the full purchase price, is needed to be borrowed at the appropriate time.

28. A key assumption within the financial model is the amount of Stamp Duty Land Tax (SDLT) payable. The report is premised on the following understanding that SDLT will be payable based on current SDLT rates for non-residential and mixed land and property. Any increase in the overall cost of the scheme due to an adverse change in this assumption would bring into question the scheme's overall value for money. There are ongoing conversations, with our internal and external tax advisors, to explore and clarify the validity of the current assumption. The intention is to conclude and resolve the Council's position before the Council's Overview and Scrutiny meeting on the 23 August 2021 and the final outcome will be reported verbally and updated at the Cabinet meeting.

29. In considering undertaking the purchase of Carters Quay members should reflect on the risks associated with the scheme in the context of their responsibility to both current and future taxpayers. Once operational the scheme is anticipated to generate annual income and expenses of around £2m. The scheme will have a short term impact on the Medium Term Financial Plan (MTFP) with an additional annual pressures of £0.1m and £0.3m during the two year construction phase and a £0.2m pressure in the first full year of

operation. Thereafter, based on the PWLB rate model, the scheme is predicted to generate annual surpluses starting at £0.2m with break-even reached in the fourth year of operation.

30. Members should also acknowledge that the annual deficit/(surpluses) will need to be included in the October five year update of the MTFP. In the context of the current two year MTFP this will represent an additional pressure and financial commitment for 2022/23 and 2023/24 and, all things being equal, the council will need to undertake an additional level of activity to ensure balanced budgets for those years are deliverable.

31. This scheme accords with the Councils "Big Plan" and the utilisation of the flexibility offered by borrowing from the public works loan board to secure investment in regeneration and housing.

32. In addition, the wider economic benefits of the proposals include:

    a. delivers 161 homes against the housing target set by Central Government.

    b. projected £26m-£41m surplus over the 50-year term.

    c. there will be no debt (outstanding loans) associated with the assets at the end of its economic life. Therefore, any capital growth over this period will be a direct benefit to the Council.

    d. the estimated value of the asset at the end of its economic life, assuming this value increases by the standard rate of inflation and the asset is maintained in a consistent condition.

    e. the option going forward of selling all or some of the assets at any point to realise a capital receipt to recoup the original investment.

    f. protecting the Councils purchase price, as this is fixed with the risk of cost overruns covered by the developer.

    g. in respect of Seascape Homes and Property Limited, any profits arising from the management of the BTR scheme may be returned to the Council by way of dividend payments via Seascape Group Limited.

33. Once purchased, the performance of this asset will be closely monitored to ensure that it continues to meet income and expenditure projections, with necessary corrective action taken as necessary.

34. In addition to the detailed financial risks set out in Appendix A the Council has also considered the changing regulatory framework for the Council undertaking borrowing/prudential borrowing this was articulated in consultation from HM Treasury, CIPFA and more recently MHCLG. This guidance clearly discourages the Council from undertaking commercial for yield activity but permits the Council to use its borrowing flexibilities to support regeneration and the delivery of additional local housing.

35. Subsidy Control (previously State Aid) implications have also been considered as part of this report.

Summary of legal implications

36. The Council is empowered to borrow (pursuant to section 1 of the Local Government Act 2003) and to invest (pursuant to section 12 of the Local Government Act 2003) for any purpose relevant to its functions or for the prudent management of its financial affairs. It must however have regard to guidance issued by both the Secretary of State and CIPFA.
37. In exercising any power or duty, the Council must act for proper purposes, in good faith and must exercise its powers properly. It must also act for proper motives, take into account all relevant considerations, act rationally and balance any risk against the potential reward.
38. The Localism Act 2011 grants local authorities far-reaching powers to act commercially. The purchase of these assets for investment purposes is entirely in accordance with these powers.
39. More generally, the Council has the power to acquire and dispose of land pursuant to sections 120 and 123 of the Local Government Act 1972 provided it complies with section 123 (i.e., for a consideration representing the best that can reasonably be obtained unless consent is sought per paragraph 72 above).
40. In considering how best to structure the proposed acquisition, the Council must have regard to its obligations as a contracting authority pursuant to the Public Contracts Regulations 2015 and further legal advice will be sought to ensure that the transaction can be structured in manner consistent with those obligations.

Summary of human resources implications

41. There are no direct implications for human resources.

Summary of sustainability impact

42. The Council has signed up to the climate change emergency and as such it is critical that decision makers consider the sustainability impact of their decision.
43. A Decision Impact Assessment has been completed for this project which identifies both positive and minor impacts. A copy of this assessment is attached at Appendix C.
44. A key objective of the Corporate Plan is to reduce the town centre's carbon footprint, whilst improving its competitiveness. The scheme presents many opportunities to do this by having more people living in the town centre thereby giving them better access to town centre amenities. This reduces the need for a private car. The location of the scheme within Poole town centre has easy access to key retail and leisure attractions, Poole Station and Bus terminal and regular bus routes make this a very sustainable location.
45. The evolution of the construction industry demands that buildings are delivered more economically, within shorter time frames, more cost-effectively and with reduced impact on the environment.

Summary of equality implications

46. An Equality Impact Needs Screening Tool has been completed. This shows that the decision to purchase this investment asset has no impact in terms of equalities.

Summary of risk assessment

47. The key risks are outlined in this report.
48. Members should ensure they have considered matters relating to the risk, security, liquidity and proportionality associated with the proposal. They should also satisfy themselves that the potential returns are consistent with the level of risk.
49. Financial Risk: including the risk that the development does not generate the projected income levels. External market advice has been sought on rent levels and an allowance made for voids. The commercial elements have not been pre-let at this stage, however costs have been built into the scheme to assist securing of tenants through rent free incentives.
50. It should always be borne in mind that the council is required to repay principal and interest on any loans before it can determine the resources available annually to support services. The business case for the Carter's Quay development is premised on £1.465m of annual principal and interest payments.
51. Construction Risk: including supply chain and labour disruption, inflation, late completion and cost overruns. The Council will enter into a fixed price lump sum contract with the developer to mitigate the effects of such risk, placing the risk with the developer.
52. Planning Risk – the current consent expires in November 2021. This risk sits with the developer and will be mitigated by the developer satisfying pre commencement conditions.
53. Prudential Borrowing Risk – as identified Item 28, it is likely that prior to the drawdown of funds CIPFA will have completed their review of the prudential borrowing code on Local Authority Investments. The outcome of this review may restrict the funding options available to the Council. However, this investment alongside the financial benefits identified will contribute to the Council's Corporate vision, specifically helping to create dynamic places, investing in the homes our communities need and revitalising and re-inventing our high streets and local centres. It is therefore our understanding that suitable Prudential funding will be available to the Council. The consultation outcomes will be reviewed when available to ensure our understanding remains correct. The current view of HM Treasury (as outlined in para 1.36 and 1.37 of the above-mentioned consultation document) is that the government fully supports Councils using commercial structures to advance core objectives of service delivery, housing and regeneration and is merely aiming to address the relatively narrow subset of capital spending of Councils who have been using PWLB loans to buy investment assets primarily for yield.

Background papers

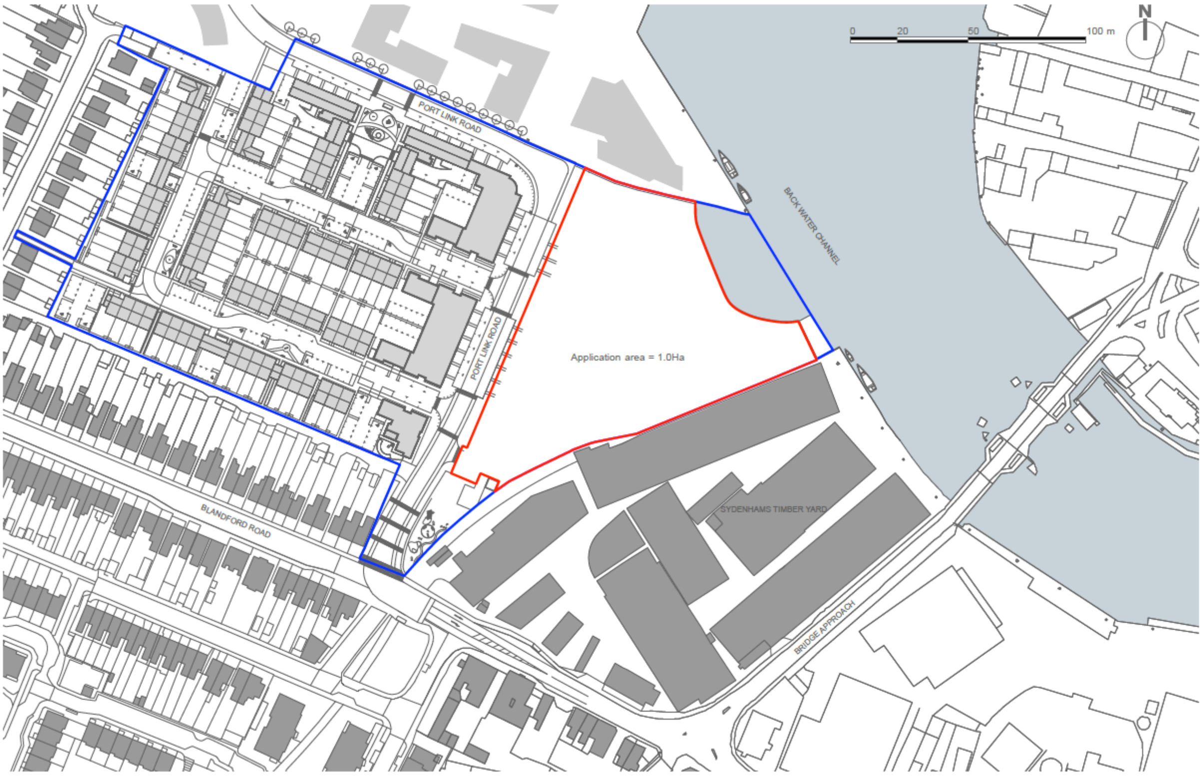
Appendices

Appendix A - Confidential Financial Report

Appendix B - Location Plan

Appendix C - Decision Impact Assessment

Appendix B



Appendix C