

REPORT TO: Cabinet Urgent Business Committee

DATE: 13th January 2011

SUBJECT: Proposed Amendment to the Overarching Development Agreement with Keepmoat Limited.

WARDS AFFECTED: Linacre

REPORT OF: Alan Lunt - Neighbourhoods and Investment Programmes Director

CONTACT OFFICER: Tom Clay, HMR Programme Manager
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EXEMPT/ CONFIDENTIAL: No

PURPOSE/SUMMARY:

To request approval to amend the Overarching Development Agreement (ODA) with Keepmoat Limited to enable a housing scheme to progress.

REASON WHY DECISION REQUIRED:

The Neighbourhoods and Investment Programmes Director does not have delegated authority to make decisions relating to such matters.

RECOMMENDATION(S):

That Cabinet Urgent Business Committee agrees that, in order to progress the scheme, Keepmoat funds the financial gap from its own resources, in exchange from them being able to retain 100% of any overage until the gap of £249,265 has been eliminated, at which point, the overage arrangement will revert to that currently within the ODA, and that the legal agreement in respect to this scheme is altered to permit this.

KEY DECISION: No

FORWARD PLAN: N/A

IMPLEMENTATION DATE: Upon the expiry of the call in period for the minutes of the meeting

ALTERNATIVE OPTIONS:

The Council could decide to delay development until the scheme is financially viable. However, existing funding for the provision of social housing would be lost with no guarantee of its future availability. Alternatively, the Council could fund the 'gap' from its own resources. However, no such resources are identified and the scheme could therefore not progress, leaving an undeveloped site that would detract from the previous significant investment that has taken place in the area.

IMPLICATIONS:

Budget/Policy Framework: None

Financial:

The Council will forego potential overage of up to £249,265, but avoid having to find this sum at the present time. Keepmoat takes the risk that they make a loss on the scheme. If that is the case, no liability will fall upon the Council to meet any financial 'gap' in viability.

No income projection has been included for overage on this scheme. Therefore, any overage secured would be seen as a 'windfall'.

<u>CAPITAL EXPENDITURE</u>	2010/2011 £	2011/ 2012 £	2012/ 2013 £	2013/ 2014 £
Gross Increase in Capital Expenditure	0	0	0	0
Funded by:	0	0	0	0
Sefton Capital Resources	0	0	0	0
Specific Capital Resources	0	0	0	0
<u>REVENUE IMPLICATIONS</u>				
Gross Increase in Revenue Expenditure	0	0	0	0
Funded by:	0	0	0	0
Sefton funded Resources	0	0	0	0
Funded from External Resources	0	0	0	0
Does the External Funding have an expiry date? Y/N	When? N/A			
How will the service be funded post expiry?				

Legal:

These changes will involve a minor adjustment to

Risk Assessment:

the Overarching Development Agreement between the Council and Keepmoat PLC. The risks of no overage will lie with Keepmoat as a result of this proposal.

Asset Management:

N/A

CONSULTATION UNDERTAKEN/VIEWS

Head of Legal Services has been consulted in the preparation of this report. FD 593 - The Interim Head of The Finance & IS has been consulted and has no comments on this report

CORPORATE OBJECTIVE MONITORING:

<u>Corporate Objective</u>		<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		X	
2	Creating Safe Communities	x		
3	Jobs and Prosperity	x		
4	Improving Health and Well-Being	x		
5	Environmental Sustainability	x		
6	Creating Inclusive Communities	x		
7	Improving the Quality of Council Services and Strengthening local Democracy		X	
8	Children and Young People	x		

LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT

October 6th 2005: Adoption of Overarching Development Agreement with Keepmoat PLC in respect of the Bedford / Queens and Worcester Housing Market Renewal Neighbourhood

1.0 **Background**

- 1.1 This scheme is the second phase of new development in the Queens Road area of Bootle on land which was acquired by the Council by Compulsory Purchase. The scheme consists of 84 houses and 4 apartments. Of these, 66 are for sale and 22 for social rent. HCA grant funding of £1.4 million towards the cost of the social rented units has been allocated for commitment in the current financial year. The scheme has full planning consent and can commence on site as soon as a Building Agreement is completed.
- 1.2 If a start is not made on site by 31st March the HCA grant will be lost. There will be no HCA grant for social rented housing after March 31st.2010 as a result of the recent spending review. This is to be replaced by an Affordable Grant regime, where rents are set at 80% of market rents, with a target grant level of £30,000 per unit. This is unlikely to be viable for RSLs in this area, where market rents are close to existing social rents and where the ability to secure additional income to fund investment in new-build is extremely limited.
- 1.3 Because of the current market values, which dropped dramatically during the 'Credit Crunch', and have risen only marginally since, the residual value calculation for the scheme shows a negative value of -£249,265. The funds to cover this negative value through 'gap funding' are not available within the HMR budget.
- 1.4 Under the existing Overarching Development Agreement (ODA), in the event of prices received upon the sale of units being above the values used at financial appraisal stage to demonstrate viability, any additional income is shared equally between Keepmoat and the Council as part of the 'overage' agreement contained in the ODA.
- 1.5 In order to progress the scheme, Keepmoat has proposed to fund the gap from its own resources, in exchange from them being able to retain 100% of any overage until the gap of £249,265 has been eliminated, at which point, the overage arrangement will revert to that currently within the ODA. To achieve this requires a change to the legal agreement in respect to this scheme, for which Cabinet approval is required.
- 1.6 As the alternative of funding this gap is not currently available to the Council, and as there will be no bespoke Housing Market Renewal funding after March 31st 2010, the only other option would be to leave the site undeveloped. It would not be eligible for the new regional growth fund as the above alternative way of developing the scheme is possible. Not to develop the scheme would deprive the Council of future Council Tax income on the homes not built, and of the New Homes Bonus applicable to the scheme.
- 1.7 It is therefore recommended that Cabinet Urgent Business Committee agrees that the ODA be amended in respect to the Bedford Road and Queens Road redevelopment scheme such that the gap in funding for the scheme can be funded by Keepmoat Ltd from its own resources, on the basis that Keepmoat Ltd will then retain any overage which arises on the scheme until the gap in

funding has been eliminated, whereupon the overage arrangement will revert to that currently applicable.