

<b>Report of:</b>	Kevin Parkes, Executive Director for Growth and Place. Councillor Ashley Waters, Executive Member for Regeneration.
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<b>Submitted to:</b>	Executive, 20 <sup>th</sup> December 2019
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<b>Subject:</b>	Housing Delivery Vehicle – New Direction
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**Summary**

<b>Proposed decision(s)</b>
<p>It is recommended that Executive approves:</p> <ul style="list-style-type: none"> <li>a) the development of a new business plan for MHomeS to reflect emerging priorities; and,</li> <li>b) the use of up to £3.5m of funding currently allocated to MHomeS for the redevelopment of land at Rievaulx Drive, known locally as Tollesby Shops (subject to further sign off from the Council’s Section 151 Officer).</li> </ul>

<b>Report for:</b>	<b>Key decision:</b>	<b>Confidential:</b>	<b>Is the report urgent?<sup>1</sup></b>
Decision	Yes	N/A	Non urgent

<b>Contribution to delivery of the 2018-22 Strategic Plan</b>		
<b>Business Imperatives</b>	<b>Physical Regeneration</b>	<b>Social Regeneration</b>
Ensuring that the Council operates efficiently and effectively so that physical and social regeneration outcomes are maximised, with the potential to generate additional resources for the Council.	Investing in Middlesbrough to provide new opportunities which act to increase the town’s reputation, create social and economic opportunity and improve the Council’s finances.	Assist in delivering the Council’s Social Regeneration agenda, ensuring a steady supply of affordable housing to meet the needs of its emerging and aspiring population.

<b>Ward(s) affected</b>
Activities undertaken by MHomeS could occur in any wards, but the first proposed project is in Acklam Ward.

<sup>1</sup> Remove for non-Executive reports

## **What is the purpose of this report?**

1. To seek Executive approval for MHome (Middlesbrough) Limited to revise its business plan to reflect a change in direction, and to utilise allocated funding to undertake the redevelopment of land at Rievaulx Drive, known as Tollesby Shops.

## **Why does this report require a Member decision?**

2. The proposal is concerned with the use of over £150,000.

## **Report Background**

3. In June 2018, Executive took the decision to directly intervene in the housing market in order to exert greater control over the pace and quality of housing development across the town. A Shadow Board was established and an option appraisal undertaken to identify a preferred delivery model.
4. On the 18<sup>th</sup> December 2018, Executive approved: the creation of a Housing Delivery Vehicle (HDV) in the form of a Wholly Owned Company (by Middlesbrough Council) Limited by Shares; the associated Business Plan; and, a funding package of up to £10m. Subsequently, on the 22<sup>nd</sup> February 2019, MHome (Middlesbrough) Limited was registered at Companies House and commenced trading.

## Change in Strategic Direction

5. Following the local elections in May 2019, the newly Elected Mayor of Middlesbrough stated his ambition to attract an additional four thousand people to live in the town centre in the next ten years. The establishment of a viable and vibrant city centre living concept will give confidence to occupiers, developers and investors that the town centre is a safe, comfortable and well managed place in which to enjoy living, learning/working and leisure time and is key to diversifying the town centre economy.
6. The shift in strategic priority towards facilitating urban living, has required the Council to rethink how it intervenes in the wider housing market. MHome has therefore considered its current ambitions and how its future priorities can reflect the new objectives the Council requires.

## Approved Role of MHome

7. The objectives of MHome were to:
  - a) deliver homes to buy or rent, that meet the needs of our aspiring population;
  - b) accelerate delivery of the housing required to support population and economic growth;
  - c) create quality places to live that act as a catalyst for further regeneration and investment; and,
  - d) increase long-term income streams that support the Council's Medium Term Financial Plan (MTFP).
8. Accordingly, the MHome Business Plan proposed the development of three Council owned sites, Gresham (Phase 1), Beechwood and Hemlington North. The schemes

were to deliver 100 units over two years, including 37 units for low cost affordable rent, 35 units for market sale and 28 mixed tenure units respectively.

9. The sites were all Council owned and were to be bought by MHome, following the granting of planning consent and procurement of a building contractor. Formal approval to sell the sites was to be sought from the Council's Executive Sub-Committee for Property.

### Recent Developments

10. Development in the town centre is perceived to be commercially challenging with high build costs and lower sales values. In these circumstances, it was considered that the Council could most effectively kick-start the urban living market by working with partners who have both the track record and resources to develop new homes.
11. To this end, on the 27<sup>th</sup> August 2019, Executive approved the creation of a Strategic Partnership with Thirteen Housing Group and North Star Housing Group, which would enable the Council to identify sites in its ownership, primarily in urban locations, to drive the Mayor's urban living agenda.
12. Subsequently, on the 26<sup>th</sup> September 2019, Executive approved the disposal of the Gresham housing site to Thirteen Housing Group on a 999 year lease. Thirteen has identified that there is demand for high quality affordable homes close to the amenities in the town centre and are to develop 179 homes to create a modern housing offer for the community. Thirteen will be able to develop the whole of the Gresham site and not just the limited plot that MHome were looking to bring forward.
13. The Council has also now been contacted by developers who have expressed an interest in the Beechwood and Hemlington North sites.
14. The shift in strategic priority towards facilitating urban living, coupled with the establishment of the Strategic Housing Partnership and the commercial interest in the Beechwood and Hemlington Grange sites, means there is no longer a requirement for MHome to directly build homes on those sites, as was originally envisaged. As a consequence, the approved Business Plan needs to be significantly revised.

### New Projects

15. Whilst the three sites named above were identified specifically in the approved business plan for MHome, a number of other potential projects have emerged since, that would represent core activity for MHome. Taking these projects on would necessitate a revised business plan to be developed that is specific enough to enable a clear direction to be set, whilst being responsive enough to accommodate other new projects as they arise. The term being used to describe this is a 'framework' business plan, as it will set out a framework within which new projects can be slotted in.
16. Each project taken on by MHome would also be subject to a full business case being approved by the MHome board, prior to it being included within the business plan.
17. It is intended that a new business plan for MHome would be presented to Executive early in 2020.

## Land at Rievaulx Drive (Also known as Tollesby Shops)

18. One of the projects that has emerged since the previous MHomes business plan was approved, is the redevelopment of an area at Rievaulx Drive that is currently home to a parade of shops known locally as Tollesby Shops. A plan is included as Appendix I.
19. The Council has been aware for some time that the vacant properties at Rievaulx Drive have been causing significant problems for the local community, and were seen as 'blighting' the area. A petition was received from local residents in March, and the Council subsequently committed to finding a solution that would address the concerns of the community.
20. Discussions have been ongoing between the Council, MHomes and the owner of the site since that time to identify the best way for the site to be redeveloped. A scheme has already been proposed for that area by the owner, and planning permission secured on that basis. The scheme does not however stack up commercially for the owner at the current time, and they are not prepared to take it forward. As the redundant buildings on the site have long been identified as a problem by the local community, and the redevelopment was seen as the only solution that would resolve the current blight.
21. The conclusion of these discussions has therefore been that MHomes is best placed to take the redevelopment forward, and provide a solution that addresses the concerns of the local community.
22. The proposed route to MHomes undertaking the scheme is currently that MHomes, would buy the site, and implement the existing approved scheme, and either retain the properties for rental, or sell the completed scheme at an appropriate time. The nature of the final agreement would however be dependent upon the completion of the detailed business case currently being worked up for the MHomes board.
23. The detailed business case would consider the optimal way to invest in the scheme, and the most effective way of securing an acceptable return. Although the exact nature of the final deal, and the costs and returns arising from it would be a matter solely for the MHomes board, the Council would need to ensure that MHomes was funded sufficiently to be able to agree the optimal solution.
24. It is therefore proposed that some of the funding previously allocated to MHomes for the previous portfolio of sites be made available to conclude the arrangements. The details of this would then be reflected in the new business plan put before Executive early in 2020. It is estimated that delivery of the scheme by MHomes would cost up to £3.5m, which is well within the £10m allocation previously made by the Executive.
25. As the funding allocated to MHomes was originally made up from a mixture of Section 106 money (for affordable housing only) and the Council's own capital funding, the call on those two separate pots would need to reflect the nature of the final agreement for the scheme i.e. the use of Section 106 resources for example will come with certain constraints. MHomes would also potentially be able to access support from Homes England to assist in the delivery of the scheme – either directly, or through a partnering arrangement with a third party.
26. The current proposals would provide 21 units of residential accommodation, and two commercial units. The current assumption is that the residential units would be provided as affordable housing. A design review would be undertaken by MHomes to

understand whether any revisions to the scheme would result in a stronger end product.

27. Although the financial arrangements of the final deal would be a matter for the MHomes board rather than the Council, the Council's Section 151 officer would need to be satisfied that the funding is being used appropriately in line with the Company's objectives - in lieu of having the full business plan approved by Executive in the future, and that it represents an appropriate use of the Council's resources. This would be done in consultation with the appropriate Executive Member(s).

### **What decision(s) are being asked for?**

28. It is recommended that Executive approves:

- a) the development of a new business plan for MHomes to reflect emerging priorities; and,
- b) the use of up to £3.5m of funding currently allocated to MHomes for the redevelopment of land at Rievaulx Drive, known as Tollesby Shops (subject to further sign off from the Council's Section 151 Officer).

### **Why is this being recommended?**

29. The Elected Mayor of Middlesbrough has an ambition to attract an additional four thousand people to live in the town centre in the next ten years. The establishment of a viable and vibrant city centre living concept will give confidence to occupiers, developers and investors that the town centre is a safe, comfortable and well managed place in which to enjoy living, learning/working and leisure time and is key to diversifying the town centre economy. The shift in strategic priority towards facilitating urban living has required the Council to rethink how it intervenes in the housing market, and how it uses MHomes to facilitate future development in general.
30. The opportunity to progress the redevelopment of Tollesby Shops needs to be taken, before business planning on the full range of future schemes can be undertaken. This therefore needs a specific, separate approval.
31. The specific objectives that the Council are seeking to achieve with the use of these resources is as follows:
- a) enable MHomes to meet its objectives of delivering homes to buy or rent, that meet the needs of our aspiring population, and creating quality places to live that act as a catalyst for further regeneration and investment;
  - b) resolve the long term future of the area around Rievaulx Drive;
  - c) support local residents, who have campaigned for the removal of a significant blight on the area; and,
  - d) secure the income that would be received from the Council Tax and Business Rates secured by the scheme.

### **Other potential decisions and why these have not been recommended**

32. Before arriving at the recommendations of this report, consideration was given as to whether the Mayor's urban living agenda, and the redevelopment of Tollesby Shops could be achieved by MHomes implementing its approved Business Plan.

33. Although the Mayor retains the ability (as the shareholder) to vary the business plan, it was felt that the changes required were significant enough to justify further consideration by Executive.

### **Impact(s) of recommended decision(s)**

#### ***Legal***

34. The Council can rely upon the general power of competence within the Localism Act 2011 for its own purpose, for a commercial purpose and/or for the benefit of others i.e. this includes the role of Middlesbrough Development Company Limited.
35. The proposed Council led interventions involve carrying out a commercial activity and must therefore be done through a Company.

#### ***Financial***

36. The funding package for MHomes of up to £10m is funded through £5m equity provided by Section 106 affordable housing funds, which are received from developers to facilitate the delivery of affordable homes, and a loan of up to £5m with an interest rate, which is compliant with State Aid law.
37. The equity and loan enables MHomes to trade. Trading includes the funding of project costs, business administration and loan interest and repayments. The business cashflow may also be supported by income from sales and rents as well as third party funding such as Homes England grants, (sourced via the Council).
38. Although the proposed 'framework' business plan would set out the wider range of proposed projects, and their likely financial requirements, full business planning is still required for each scheme for consideration by the MHomes board.
39. At this stage, Executive are only being asked to consider the use of up to £3.5m of this funding for Tollesby Shops. Once the full details for the redevelopment are identified, a full business case would be put before the MHomes board for approval to progress. The implications of this business case on the company, and the emerging 'framework' business plan would be considered carefully.
40. The Council would ultimately benefit from the redevelopment of Tollesby Shops, through the Council Tax paid for the proposed 21 units of residential accommodation, and the business rates paid for the two commercial units.

#### ***Policy Framework***

41. The decision will not amend the Council's policy framework. The decision is aligned with the Mayor's vision to attract an additional four thousand people to live in the town centre in the next ten years.
42. The decision is also aligned to the Medium Term Financial Plan as the proposed housing development will generate income from Council Tax.

#### ***Equality and Diversity***

43. The attached IA, attached as Appendix 2, has concluded that the decisions would not have any disproportionately negative impacts.

## **Risk**

44. The following high level risks identified in the Strategic and Directorate Risk Registers, will be reduced as a consequence of the market intervention enabled by the recommended decisions:

O1-005 - If poor economic growth occurs, then this will reduce public and private sector investment in the town, including town centre retail, housing development and business.

O1-045 - If delivery of the new housing programme does not meet the projected targets then this can have a negative impact on the assumptions within the MTFP.

45. At this stage, the key risk to the Council is the use of up to £3.5m for the redevelopment of Tollesby Shops. This risk is minimised through the development of a full business case, and appropriate due dilligence that would be assessed by the MHome Board as an formal investment proposition, and by the Council's Section 151 Officer to ensure it represents an appropriate use of the Council's resources.

### **Actions to be taken to implement the decision(s)**

46. Subject to Executive approval, work will commence on the development of individual projects, for inclusion in the emerging business plan.

47. Work would commence on developing the detailed business case for redeveloping Tollesby Shops, prior to presenting this to the MHome board for approval to proceed.

48. The Council's Section 151 Officer would be asked to sign off whether the use of the funding required for Tollesby Shops represents an appropriate use of the Council's resources (rather than the terms of the deal itself – which is a matter for the MHome board to assess).

## **Appendices**

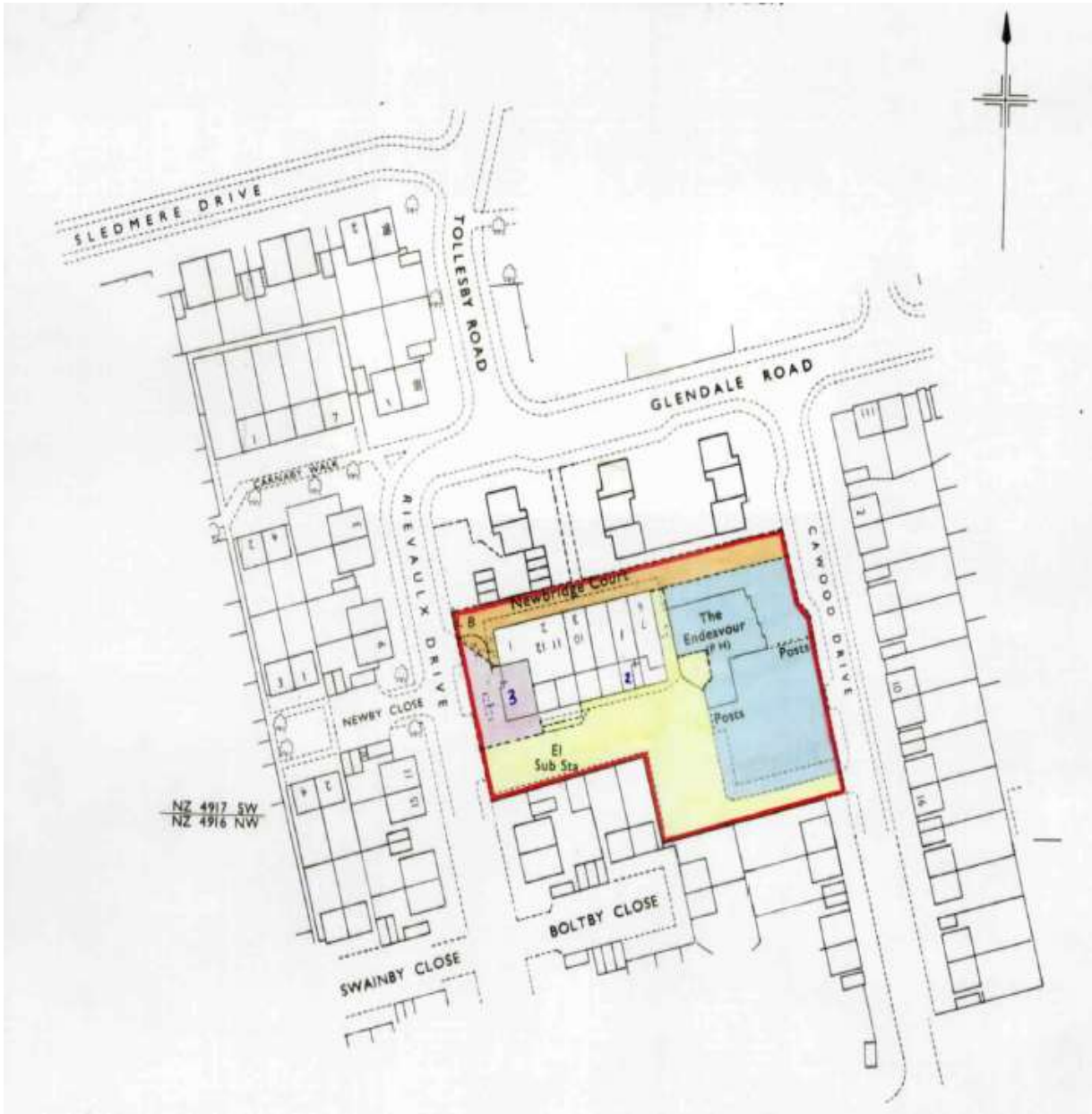
Appendix I: Plan of Land at Rievaulx Drive, known local as Tollesby Shops

Appendix II: Impact Assessment.

## **Background papers**

<b>Body</b>	<b>Report title</b>	<b>Date</b>
Executive	Housing Delivery Vehicle (HDV) – Preferred Delivery Model	18 December 2018

Appendix I – Land at Rievaulx Drive, Middlesbrough





**Appendix II - Impact Assessment Level 1: Initial screening assessment**

<b>Subject of assessment:</b>	HDV New Direction - Executive Report			
<b>Coverage:</b>	Overarching/crosscutting relating to the proposal to develop a new business plan for MHome to reflect emerging priorities for the company.			
<b>This is a decision relating to:</b>	<input type="checkbox"/> Strategy	<input type="checkbox"/> Policy	<input type="checkbox"/> Service	<input type="checkbox"/> Function
	<input type="checkbox"/> Process/procedure	<input type="checkbox"/> Programme	<input checked="" type="checkbox"/> Project	<input type="checkbox"/> Review
	<input type="checkbox"/> Organisational change	<input type="checkbox"/> Other (please state)		
<b>It is a:</b>	<b>New approach:</b>	<input type="checkbox"/>	<b>Revision of an existing approach:</b>	<input checked="" type="checkbox"/>
<b>It is driven by:</b>	<b>Legislation:</b>	<input type="checkbox"/>	<b>Local or corporate requirements:</b>	<input checked="" type="checkbox"/>
<b>Description:</b>	<p><b>Key aims, objectives and activities</b> To seek approval to establish a Housing Delivery Vehicle in the form of a Wholly Owned Company Limited by Shares develop new housing across the town.</p> <p><b>Statutory drivers</b> The Localism Act 2011 and the 2012 Housing Revenue Account (HRA) self-financing reforms have afforded local authorities the opportunity to adopt a number of delivery models to develop new housing.</p> <p><b>Differences from any previous approach</b> There is no longer a requirement for MHome to directly develop homes at Gresham, Beechwood and Hemlington North so the business plan will be amended to reflect emerging priorities, including the redevelopment of Tollesby Shops.</p> <p><b>Key stakeholders and intended beneficiaries (internal and external as appropriate)</b> The key stakeholders are the current and future residents of Middlesbrough.</p> <p><b>Intended outcomes.</b> To attract an additional four thousand people to live in the town centre in the next ten years. The establishment of a viable and vibrant city centre living concept will give confidence to occupiers, developers and investors that the town centre is a safe, comfortable and well managed place in which to enjoy living, learning/working and leisure time and is key to diversifying the town centre economy.</p>			
<b>Live date:</b>	The Executive will consider the proposal on the 20 <sup>th</sup> December 2019.			
<b>Lifespan:</b>	It is proposed that MHome (Middlesbrough) Limited will continue to trade in perpetuity.			
<b>Date of next review:</b>	TBC.			

Screening questions	Response			Evidence
	No	Yes	Uncertain	
<b>Human Rights</b> Could the decision impact negatively on individual Human Rights as enshrined in UK legislation?*	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	The decision to amend the business plan will not have a negative impact on Human Rights.  The decision will lead to the development of high quality, affordable homes for sale and rent and will create a place for all.
<b>Equality</b> Could the decision result in adverse differential impacts on groups or individuals with characteristics protected in UK equality law? Could the decision impact differently on other commonly disadvantaged groups?*	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	The decision to amend the business plan will not result in adverse or differential impacts on groups or individuals. The Company will improve the quality and choice of housing in Middlesbrough.
<b>Community cohesion</b> Could the decision impact negatively on relationships between different groups, communities of interest or neighbourhoods within the town?*	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	The decision to amend the business plan will not impact negatively on relationships between different groups. The decision would assist the Council's Social Regeneration agenda, ensuring a steady supply of housing to meet the needs of its emerging and aspiring population.
<b>Middlesbrough 2025 – The Vision for Middlesbrough</b> Could the decision impact negatively on the achievement of the vision for a Fairer, Safer Stronger Middlesbrough?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	The decision is aligned to the Mayor's vision to attract an additional four thousand people to live in the town centre in the next ten years.
<b>Organisational management / Change Programme</b> Could the decision impact negatively on organisational management or the transformation of the Council's services as set out in its Change Programme?*	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	The decision would not have any negative implications for the Council's transformation programme.

\* Consult the Impact Assessment further guidance appendix for details on the issues covered by each of these broad questions prior to completion.

Screening questions	Response	Evidence
<p><b>Next steps:</b></p> <ul style="list-style-type: none"> <li>➡ If the answer to all of the above screening questions is No then the process is completed.</li> <li>➡ If the answer of any of the questions is Yes or Uncertain, then a Level 2 Full Impact Assessment must be completed.</li> </ul>		

<b>Assessment completed by:</b>	Andrew Carr	<b>Head of Service:</b>	Steve Fletcher
<b>Date:</b>	6.11.19	<b>Date:</b>	6.11.19