

<b>Report of:</b>	Richard Horniman, Director of Regeneration and Culture Ian Wright, Director of Finance Councillor Ashley Waters, Executive Member for Regeneration Councillor Chris Hobson, Executive Member for Finance and Governance
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<b>Submitted to:</b>	Executive, 1 September 2020
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<b>Subject:</b>	Middlesbrough Development Company: Strategic Plan, CSI site and Boho Village [Part A]
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**Summary**

Proposed decision(s)
<p>It is recommended that Executive approves:</p> <ul style="list-style-type: none"> <li>a) the new Middlesbrough Development Company Limited (MDC) Strategic Plan, attached as Appendix 1 to this report;</li> <li>b) the surrender of an existing option, and subsequent disposal of land at Middlehaven on mirror terms to MDC in order to facilitate the delivery of the Boho Village development, with the Director of Finance granted delegated authority to authorise any variation from the existing option terms, if required; and,</li> <li>c) capital borrowing of up to £24m to fund the construction of an apartment development on the former CSI site in the town centre and the Boho Village development at Middlehaven (subject to further sign off from the Council’s Section 151 Officer).</li> </ul>

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

Contribution to delivery of the 2020-23 Strategic Plan		
People	Place	Business
The development of housing,	Investing in Middlesbrough	The proposal will support

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

will contribute towards Middlesbrough's Housing Growth Programme and increase the quality and quantity of homes available to residents.	to provide new housing on a key site, which will support the regeneration of the town centre and help create an attractive place to live, work and visit.	the Mayor's urban living agenda and help underpin the Medium Term Financial Plan, by generating Council Tax.
<b>Ward(s) affected</b>		
Projects undertaken by MDC could occur in any ward but the former CSI and Boho Village sites are in Central Ward.		

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

1. To seek Executive approval for:
  - a) the new Middlesbrough Development Company Limited (MDC) Strategic Plan, attached as Appendix 1 to this report; and,
  - b) the surrender of an existing option, and subsequent disposal of land at Middlehaven on mirror terms to MDC in order to facilitate the delivery of the Boho Village development, with the Director of Finance granted delegated authority to authorise any variation from the existing option terms, if required; and,
  - c) capital borrowing of up to £24m to fund the construction of an apartment development on the former CSI site in the town centre and the Boho Village development at Middlehaven (subject to further sign off from the Council's Section 151 Officer).

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

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

### **Report Background**

3. In December 2019, Executive approved the development of a new business plan for MHome to reflect the ambition of the Elected Mayor to attract an additional four thousand people to live in the town centre in the next ten years.
4. The Executive were advised that the establishment of a viable and vibrant city centre living concept would 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 had required the Council to rethink how it intervenes in the housing market, and how it used MHome to facilitate future development in general.
5. The Executive were advised that a number of potential projects were emerging that 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. Each project would be subject to a full business case being approved by the MHome board, prior to it being included within the business plan.

6. Subsequently, at the MHome's Board Meeting on the 18<sup>th</sup> December 2019, the Board took the decision that MHome's would be re-named Middlesbrough Development Company Limited to reflect the company's change in strategic direction. The new company name has now been registered at Companies House.

### MDC – Strategic Plan

7. The overarching aim of MDC is to stimulate the property and development market in Middlesbrough. This will be achieved through the following objectives:
  - a) Accelerate and facilitate the delivery of new homes and commercial premises to buy or rent that meet the needs of our aspiring population and business community.
  - b) Help create quality places to live and work that act as a catalyst for further regeneration and growth.
  - c) Attract inward investment into Middlesbrough and work closely with developers and investors.
  - d) Promote the Council's urban living aspirations.
8. To achieve these objectives, MDC needs a business plan that sets the strategic direction of the company but is flexible enough to accommodate new projects and opportunities as they arise. The MDC Board has agreed that this can best be achieved by adopting a Strategic Plan, which states the company's objectives, details how new projects are approved, and, sets out its administration, governance and funding.
9. The administration, management and governance sections of the Strategic Plan have not materially changed from those set out in the MHome's Business Plan, which was approved by Executive in December 2018, and have therefore not been considered at length in this report. The new Strategic Plan is attached as Appendix 1 of this report.
10. When individual projects are proposed to become part of the Company's workload, the detailed delivery of each project will be covered by a Project Plan, which will be approved by the Board of Directors and, if required, the Council as shareholder.
11. A Project Plan is effectively a business plan generated to detail the scope, activities and desired outcomes of an individual project and will typically include the following.
  - a) Objective of the project.
  - b) Background and work to date.
  - c) Description of scheme.
  - d) Delivery options and proposals.
  - e) Business case.
  - f) Costs and Revenue.
  - g) Timescales.
  - h) Funding, cash flow and other financial matters.
  - i) SWOT assessment.
  - j) Marketing requirements.

### Former Cleveland Scientific Institute (CSI) site

12. One of the projects that has emerged since the December 2019 Executive report is the redevelopment of the former CSI site on Corporation Road, a prominent town centre location. The owner of the site acquired it in 2019 with the intention of carrying out a residential development. The developer's original intention was to work with a Registered Provider to attract Homes England grant in order to facilitate the project, but an agreement has not been forthcoming and the scheme will not be delivered without intervention.
13. The land owner has designed a scheme that is ready to be submitted for planning approval, which incorporates two retail units and car parking on the ground floor, with 131 one and two bedroom apartments in a further 14 floors above.
14. The development of high quality apartments in this location would accord with the Mayor's aspiration for high quality urban living projects, which will raise the profile of the town centre and make it a more attractive place to live and work and will also complement the recent commercial developments in and around Centre Square. The proposal will also generate over £175k per year from Council Tax, based on Band A, to support the Medium Term Financial Plan.
15. Discussions have been ongoing between the Council, MDC and the land owner to identify a means of bringing the plans to fruition in the absence of the support of a Registered Provider. The conclusion of these discussions is that MDC is best placed to work with the land owner to enable the project by providing the funding required to deliver the project. .
16. A detailed Project Plan has been produced that proposes a preferred option for MDC to take the scheme forward in partnership with the land owner. It is proposed that MDC would provide the development finance and purchase the completed development at a cost of up to £17m. Although the exact nature of the final deal, and the costs and returns arising from it, would be a matter solely for the MDC Board, the Council would need to ensure that MDC was adequately funded to proceed with the preferred option. The CSI Project Plan is attached as Appendix 1 to Part B of this report.

### Boho Village

17. In December 2018, Executive approved the sale of plots of land in Middlehaven to a developer via an option agreement. A scheme has been developed and a planning application has been submitted but third party funding is required to construct the units. A deal proposed by the developer to utilise Registered Provider funding and pre-sell units has stalled, but the providers have indicated their willingness to deal directly with MDC.
18. The 61 unit scheme is well designed and would again accord with the Mayor's aspiration for high quality urban living and help kick-start the regeneration of Middlehaven. It also demonstrates the ability of the Council and MDC to proactively support and deliver projects. The project will also generate over £80k per year from Council Tax, based on Band A, to support the Medium Term Financial Plan.

19. Discussions between the developer, the Council and MDC have concluded that the scheme can be delivered if MDC take over the role of developer, acquire the land from the Council, provide project funding, and, underwrite the purchase of unsold units.
20. The developer has agreed to terminate the existing option agreement with the Council, if there is agreement that the land will be sold to MDC to facilitate the development. This report will, therefore, seek the requisite Executive approval for the sale of the land to MDC.
21. There are in-principle agreements with two Registered Providers to purchase blocks of units and the original developer will take on the role of Development Manager and receive an agreed fee and profit share.
22. A detailed Project Plan has again been produced that proposes that MDC take on the role of developer. It is proposed that MDC would provide funding of up to £7m to construct the scheme, and up to £1m for longer term rent backed investment. As with the CSI proposal, the detail of the deal is a matter for the MDC Board, but the Council would need to ensure that the company is adequately funded. The Boho Village Project Plan is attached as Appendix 2 to Part B of this report.
23. This report will therefore recommend that the Executive approve additional Council capital borrowing of up to £24m, which will be provided to MDC in the form of a commercial loan. MDC will also seek additional funding from Homes England's Affordable Homes Programme in respect of the CSI site, which, if received, would reduce the Council's funding requirement.
24. Although the financial arrangements of any deals would be a matter for the MDC Board rather than the Council, the Council's Section 151 officer would need to be satisfied that the funding is being used appropriately and in line with the Company's objectives, 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?**

25. It is recommended that Executive approves
  - a) the new Middlesbrough Development Company Limited (MDC) Strategic Plan, attached as Appendix 1 to this report;
  - b) the surrender of an existing option, and subsequent disposal of land at Middlehaven on mirror terms to MDC in order to facilitate the delivery of the Boho Village development, with the Director of Finance granted delegated authority to authorise any variation from the existing option terms, if required; and,
  - c) capital borrowing of up to £24m to fund the construction of an apartment development on the former CSI site in the town centre and the Boho Village development at Middlehaven (subject to further sign off from the Council's Section 151 Officer).

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

26. 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 Mayor's ambition accords with

the priorities for Place, set out in the Strategic Plan 2020-23, which states that the Council will:

- a) develop Middlehaven as a residential, leisure and commercial centre of national significance; and,
- b) build more town centre homes to boost businesses and increase vibrancy, while reducing the need to build on green space.

27. 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.

28. The strategic benefits to the Council from the activities of MDC include the following.

- a) Meeting its stated aim and objectives.
- b) Helping to regenerate neighbourhoods and communities.
- c) Addressing housing and commercial property shortages in areas of need.
- d) Improving quality of new units.
- e) Improving speed of delivery of new projects.
- f) Assisting in the disposal of surplus Council land.
- g) Increasing Council Tax and Business Rates income.
- h) Making a positive statement of intent by the Council.
- i) Demonstrating the ability of the Council to deliver new projects.
- j) Positively impacting on the local and wider economic situation through property and construction related business and employment.
- k) Supporting local businesses.
- l) Contributing to wider Council goals, objectives and activities.

29. The project specific objectives that the Council is seeking to achieve by allocating the required funding to deliver the proposed CSI and Boho Village developments are to:

- a) enable MDC to deliver high quality homes and apartments that contribute towards delivering the Council's urban living aspirations;
- b) generate a long-term rental income stream for MDC; and,
- c) secure the income that would be received from the Council Tax and Business Rates generated by the scheme.

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

30. In respect of the recommendation for the Council to borrow additional capital in order to fund the CSI and Boho Village projects, other potential decisions were considered and are summarised in the following paragraphs.

## CSI Site

31. **Do nothing** - The developer's original intention was to work with a Registered Provider to attract the Homes England grant required to make the project financially viable. None of the local providers are interested in the project.
32. **Grant fund third party developer / investor** – Providing grant funding to a third party would hand over funding that could not be recovered by the Council or MDC.
33. **Direct project delivery by MDC** - The site is in third party hands and the developer is willing with support to deliver the scheme. They do not want to dispose of the site and acquisition by MDC, even if possible, adds construction risk on a large scheme.

## Boho Village

34. **Do nothing** - Without an investment partner the scheme is very unlikely to be delivered. The developer does not have funding and registered providers have been very cautious about dealing directly with up-front payments utilised to fund construction.
35. **Grant fund third party developer / investor** – Providing grant funding to a third party would hand over funding that could not be recovered by the Council or MDC.
36. **Direct project delivery by MDC** – The site is optioned by the developer, so MDC cannot simply step in.

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

### ***Legal***

37. 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. The proposed Council led interventions involve carrying out a commercial activity and must therefore be done through a Company
38. MDC is a local authority trading company limited by shares and operates in accordance with its Memorandum and Articles of Association, Shareholder Agreement, Strategic and Project Plans, and, Loan Agreement.

### ***Financial***

39. The existing approved funding package for MDC is for up to £10m and 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 compliant with State Aid law.
40. The Strategic Plan appended to this report includes a section on Financial Matters and provides details of the drawdown of funding from the Council to MDC since the company was established.

41. The MDC Board has approved the detailed Project Plans for the CSI site and Boho Village, and Executive approval is therefore being sought to borrow up to £24m to fund the schemes. However, it should be noted that the Council has the potential to receive grant funding from a number of sources, including the Future High Streets Fund, Towns Fund and Brownfield Sites Fund, which could be allocated to the CSI or Boho Village schemes and may reduce the Council's borrowing requirement.
42. The Council would ultimately benefit from the development of the CSI site and Boho Village, through the Council Tax and Business Rates generated by the apartments and commercial units.

### ***Policy Framework***

43. 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.
44. 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***

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

### ***Risk***

46. 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.

47. In respect of the proposals for the CSI site and Boho Village, the key risk to the Council is the ability of MDC to repay the loan. The risk has been minimised through the development of full Project Plans and appropriate due diligence that has been assessed by the MDC Board, as formal investment propositions, 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)**

48. The Council's Section 151 Officer will be asked to sign off whether the use of the funding required for the development of the CSI and Boho Village sites represents an appropriate use of the Council's resources (rather than the terms of the deals – which are a matter for the MDC board to assess).



## Appendices

Appendix 1: MDC Strategic Plan

Appendix 2: Impact Assessment.

## Background papers

<b>Body</b>	<b>Report title</b>	<b>Date</b>
Executive	Housing Delivery Vehicle – New Direction	20 December 2019