

**POLICY & RESOURCES COMMITTEE – 7 DECEMBER 2015**

**COUNCIL - 7 DECEMBER 2015**

**REDACTED - PART II - NOT DELEGATED**

**2. SOUTH OXHEY INITIATIVE FINANCING ARRANGEMENTS  
(DoF)**

***This report is NOT FOR PUBLICATION because it deals with information relating to the financial or business affairs of any particular person (including the authority holding that information) – being paragraph 3 of Schedule 12A.***

**1 Summary**

1.1 Following the decision made at the 13 October 2015 Policy and Resources Committee to agree the commercial terms of the South Oxhey scheme, this reports sets out the financial implications for the Council. The report also asks Members to agree the financing of the scheme.

**2 Details**

2.1 Following an OJEU compliant Competitive Dialogue process, where final bids were received in April 2015, Countryside Properties (CP) were selected as the Council's preferred bidder at the Policy & Resources Committee on 20th May.

2.2 The scheme proposed by CP includes the provision of in total 514 residential units, some 58,000 sq.ft. of retail space together with associated external works all valued at around £150million.

2.3 In essence the Council are required to provide CP with vacant possession of the site, on a phased basis, and will need to secure a Compulsory Purchase Order so that this can be achieved. The site comprises land and buildings which encompass more than 200 varying interests, including residential leaseholders, Thrive Homes' tenants, TRDC garage tenants and retail leaseholders, most of whom are entitled to compensation by the Council for their loss. In return CP will "draw down" the necessary land on a phased basis, by virtue of them being granted long leases and making land payments in consideration.

2.4 The principal terms of the Development Agreement, which is proposed between the parties, were taken to the Policy & Resources Committee on 2 November and Members approved those legal arrangements, giving the Chief Executive delegated authority to exchange contracts, in consultation with the three Group Leaders.

2.5 In headline terms, the Council's costs, including those associated with the CPO process, are estimated at X. In contrast the total land value that will be paid by CP to TRDC over time is forecast to be X. Both figures are the subject of a number of conditions, which were set out in a report prepared by Deloitte Real Estate and presented to P&R on the 13 October. The difference between these two amounts, being some X, and referred to as the residual land value (RLV), is the positive capital benefit, before the cost of funding, which accrues to the Council.

2.6 However there is a net loss in annual revenue of X. This arises from the fact that the Council currently derives about £470,000 pa, (a figure that will not remain in perpetuity) from the existing commercial leaseholders. When the new scheme is ultimately fully occupied, TRDC will be entitled to a ground rent of some X. The

way in which this shortfall could be addressed was discussed on the 13 October.

- 2.7 The overall capital and revenue financial implications of the scheme are shown in appendix 1.
- 2.8 The Council will be required to cash flow some of the capital expenditure and there will be a cost of borrowing associated with this expenditure. The cost of the cash flowing of the capital expenditure is estimated to be around £75,000 over the lifetime of the scheme, these can be seen in appendix 2. This is also shown in the revenue costs of the scheme included at appendix 1. The cash flow costs have been based on borrowing from the PWLB at their 5 year rate. It may be possible for the Council to source short-term funding at a cheaper rate depending on the financial position of the Council at the time it needs to incur the expenditure, or the costs may increase if interest rates rise significantly in the future. However, as the capital financing amounts are relatively small this is unlikely to significantly change the figures included in this report.
- 2.9 As part of the scheme, there will be a redevelopment of the retail offering in the area. This will provide a reduction of revenue of X at the end of the scheme. It was agreed by the Policy and Resources Committee on 13 October 2015 that X would be reinvested in other investment opportunities in order to close the revenue gap. Details of the revenue funding changes relating to the retail redevelopment can be seen in appendix 3.
- 2.10 It is anticipated that the income from business rates for the retail development will remain the same as the existing retail provision and therefore no adjustment to the figures has been made for this element.
- 2.11 The scheme will provide a loss in revenue income due to a reduction in commercial rents received from the development, and details can be seen in appendix 3. In order to reduce this financial impact the Council will invest the residual land value into revenue-generating opportunities.
- 2.12 The Council has also had a X grant approved by the Local Enterprise Partnership (LEP) at its Performance Management Committee meeting on 19 November 2015. This grant can be used to help offset the Council's capital expenditure on the scheme and thus increase the amount of money available for reinvestment. This will increase the surplus from the scheme to X which will be available to reinvest in order to close the revenue shortfall. The Council has yet to receive a formal offer letter but has had confirmation that the LEP's Performance Management Committee approved the allocation. The final details of the offer are still to be identified but it is anticipated that the Council will be able to accept the conditions and that this money can be used towards the South Oxhey scheme. It has therefore been included in this paper. This money will be used to fund the capital expenditure and will reduce the cost to the Council of borrowing.
- 2.13 There will be an estimated increase in Council Tax income of £70,000 for a full year following the completion of the scheme. This increased income has also been assumed to be used to offset the reduced revenue for the scheme. There has been no allowance built into these figures for any increased costs as a result of these properties being built. There will not be a full-year impact until the final year of the scheme and estimates of when the income will be received have been included in this report. The council tax levels have been calculated based on the estimates included in the Council's Medium Term Financial Plan.
- 2.14 Table 1 below shows how the overall position on the Council's finances once the above items have been taken into account. This shows that at the completion of the project the majority of the revenue reduction has been

recovered. Further details on how the revenue gap has been closed can be found in appendix 4.

Table 1. Financial impact on the Council

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Capital Grants	528	(396)	535	1345	1993	1649	732	370	165

2.15 The Policy and Resources Committee have also wanted to look at ways of increasing the level of affordable housing included in the scheme. The Council will have to fund any increases over the proposals put forward by CP. There are a number of options available for consideration and these are outlined below. A decision on the level of investment into the affordable housing is expected to be made early in 2016, once further details are confirmed on the local government financing arrangements. The Council has some Section 106 monies available to fund affordable homes. It is anticipated that this may be in the region of £1M. This may be available to finance additional affordable housing in the South Oxhey scheme.

2.16 The Council currently receives New Homes Bonus (NHB) for each new property created in the district. In the Autumn Statement on 25 November 2015 the Chancellor announced changes to the NHB scheme and stated that the government wished to consult on the reforms “including means of sharpening the incentive to reward communities for additional homes and reducing the length of payments from 6 years to 4 years.” The precise details of the proposals are not yet known.

2.17 If the NHB was to continue in its present form then it is anticipated that this would generate an additional £2.9M income which could also be used to reinvest in the scheme. The NHB has not been included in the figures in table 1 due to the uncertainty of the future funding. Once further details are known about the proposed new scheme this money may be available to fund additional affordable housing in South Oxhey.

2.18 The Council has also secured some funding from the Homes and Communities Agency (HCA). The amount that has been allocated is £2.8M and, at the present time, this allocation is to the Council. However, it will be Home Group who will be undertaking the work for which the grant has been allocated. The Council is currently working with the HCA to transfer its allocation to Home Group. It is anticipated that this will be agreed and that the money will be available to Home Group. If grant is not able to be transferred this may cause a financing problem for the Council. It is anticipated that the situation with the HCA will be agreed shortly.

### 3 Options/Reasons for Recommendation

3.1 It is necessary to approve the financing of the scheme to allow the project to proceed, in accordance with the Council’s Financial Regulations.

### 4 Policy/Budget Reference and Implications

4.1 The recommendations in this report are within the Council’s agreed policy to develop South Oxhey but not within the Council’s agreed budgets.

### 5 Financial Implications

5.1 The financial implications are contained in the report.

**6 Legal Implications**

6.1 None specific.

**7 Equal Opportunities Implications**

7.1 None specific.

**8 Staffing Implications**

8.1 None specific.

**9 Environmental Implications**

9.1 None specific.

**10 Community Safety Implications**

10.1 None specific.

**11 Public Health implications**

11.1 None specific.

**12 Customer Services Centre Implications**

12.1 None specific.

**13 Communications and Website Implications**

13.1 None specific.

**14 Risk Management and Health & Safety Implications**

14.1 The Council has agreed its risk management strategy which can be found on the website at <http://www.threerivers.gov.uk>. The risk management implications of this report are detailed below.

14.2 The following table gives the risks if the recommendation(s) are agreed, together with a scored assessment of their impact and likelihood:

	Description of Risk	Impact	Likelihood
1	HCA grant is not transferrable	III	E
2	Revenue funding gap is not completely closed	III	E
3	LEP funding is not received	III	E
4	LEP funding is subject to claw back	II	F
5	CPO costs may increase	III	E

14.3 The above risks are plotted on the matrix below depending on the scored assessments of impact and likelihood, detailed definitions of which are included in the risk management strategy. The Council has determined its aversion to risk and is prepared to tolerate risks where the combination of impact and likelihood are plotted in the shaded area of the matrix. The remaining risks require a treatment plan.

Likelihood ↑	A						Impact	Likelihood
	B						V = Catastrophic	A = >98%
	C						IV = Critical	B = 75% - 97%
	D						III = Significant	C = 50% - 74%
	E			1,2,3 ,5			II = Marginal	D = 25% - 49%
	F		4				I = Negligible	E = 3% - 24%
			I	II	III	IV	V	F = <2%
	Impact →							

## 15 Recommendation

15.1 That Policy & Resources Committee recommend to Council that

15.1.1 Council approves the financing of the South Oxhey scheme

15.1.2 Members note the impact on the revenue funding:

15.1.3 Council approves the current estimated residual land value of X to be invested in revenue-generating opportunities.

15.1.4 Council notes that this investment, together with the increase in council tax revenue generated by the scheme and the additional surplus generated through the LEP funding will ensure that the majority of the loss in revenue generated by the scheme is recovered.

15.1.5 Public access to the decisions be immediate.

15.1.6 Public access to the report be denied until the development agreement is signed.

### APPENDICES / ATTACHMENTS - (ALL REDACTED)

Appendix 1 – Financial implications of the scheme.

Appendix 2 – Capital Cash flow costs

Appendix 3 – Revenue income changes for retail income

Appendix 4 – Closing the revenue gap

