

POLICY & FINANCE COMMITTEE

27 JUNE 2019

ARKWOOD DEVELOPMENTS LIMITED – BOWBRIDGE ROAD DEVELOPMENT, NEWARK

1.0 Purpose of Report

1.1 To consider the recommendations from the Shareholder Committee that Policy & Finance approve the sale of the land at Bowbridge Road to the Council's Company, Arkwood Developments Limited (the Company), and the release of the equity to the Company to facilitate the commencement of the development of the Bowbridge Road site.

2.0 Background Information

2.1 The Shareholder Committee, at its meeting on 11 June 2019, considered and approved the business case for the Bowbridge Road development site that had been submitted by the Company.

2.2 The detailed business case is attached for Members as background information as an exempt appendix.

3.0 Proposals

3.1 The Shareholder Committee resolved to approve the business case for the Bowbridge Road development scheme and as a consequence requested the Policy & Finance Committee to approve the release of equity funding to the Company in the sum of £3,321,276. There is provision within the Council's approved capital programme of £4m in respect of equity funding for the Company.

3.2 The Council commissioned an external independent surveyor, HEB Chartered Surveyors, to undertake a viability appraisal of the proposed scheme and a valuation of the development land. The surveyor has advised a residual sum of £1,970,469 based upon the proposed scheme should be shown for land acquisition value.

3.3 However, HEB has advised that it would be prudent or the Council to include an 'overage' mechanism within the contract for sale whereby additional payments are released to the Authority should the Company improve upon the gross development value and as a result of the residual profit.

4.0 Equalities Implications

4.1 There are no adverse equalities implications arising from the report. The proposed development scheme as detailed in the Company's business case specifically includes provision of residential units for older persons, who are persons with protected characteristics within equalities legislation.

5.0 Financial Implications FIN19-20/8968

5.1 On 7 March 2019, the Council approved a capital programme which included £4m in respect of the equity funding for Arkwood. Should the business case be approved by this

Committee, this would allow the release of the equity funding to the Company in the sum of £3,321,276.

- 5.2 The further loan funding (at 75% of the gross development cost) will be calculated once the final design has been determined and, subject to the further report to be tabled at this Committee in the December cycle to identify the final gross development cost, will be added into the capital programme in order to be released when the cash flow for the total development has been received and approved.
- 5.3 From both of the viability appraisals the gross development profit, after accounting for overheads and contingencies would be between £1.89m and £2.90m meaning a profit on gross cost of between 14.23% and 21.74%, which is well in excess of the Council's 6% return, as set out in its approved Investment Plan. This would then be available for the Council as a dividend (subject to tax), or in order for the company to reinvest into the next development it is due to undertake.
- 5.4 As is common practice, within the housing market, the purchase of the land will be done on a deferred basis in order to assist with the most efficient cash flow analysis of the development site. The deferred HRA capital receipts will be finalised by a legal agreement and factored into the financing of future HRA capital projects. The agreement will also include interest payments on the deferred capital receipt, which will be additional income to the HRA.

6.0 Community Plan – Alignment to Objectives

- 6.1 The Company is referenced in the Community Plan under the objective of accelerating the supply of new homes by delivering 300 new homes by 2020/27.

7.0 RECOMMENDATIONS that:

- (a) **the sale of the land at Bowbridge Road to the Company for the sum of £1,970,469 be approved, and the Director – Governance and Organisational Development be given delegated authority to finalise the terms for the sale at this sum, to include deferred payment and provision for an overage agreement to provide the Council with additional sum(s) should the Scheme design be enhanced further and increased profitability achieved; and**
- (b) **the equity funding of £3,321,276 be released to the Company to facilitate the development of the Bowbridge Road site.**

Reason for Recommendations

To allow the first development by the Council's development company, at Bowbridge Road, Newark, to commence.

Background Papers

Report to Shareholder Committee (exempt)
HEB report (exempt)

For further information please contact Karen white on Ext 5240 or Nick Wilson on Ext 5317.

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