

Meeting: Cabinet
Date: 19 December 2024
Classification: Part 1 Report with Part 2 (Confidential) Appendices
Key Decision: Yes
Title of Report: Fossetts Farm
Scrutiny Committee: Policy & Resources (16 December 2024)

Executive Director: Alan Richards, Executive Director for Environment & Place
Report Author: Alan Richards, Executive Director for Environment & Place
Executive Councillor: Councillor Daniel Cowan, Leader of the Council and Councillor Kevin Robinson, Cabinet Member for Regeneration, Major Projects, and Regulatory Services

1. Foreword Notes:

A: PLANNING: This report deals only with the land transaction. New planning application(s) will be required in due course for all development proposed at Fossetts Farm. No applications have been submitted at this stage and are not anticipated until spring of 2025 at the earliest. Nothing in this report or any associated decisions will fetter the separate responsibilities of the Council in discharging its statutory planning function as Local Planning Authority, through the Development Control Committee

B: TRUST MATTERS: Whilst all steps have been taken to reduce the impact on trust land, and it is no longer anticipated that the proposed development at Fossetts Farm will have any implication on the land held in trust at Jones Memorial Ground or the Youth Commemoration Ground. It is anticipated, subject to the highways design and modelling, that the requirement for a small slither of land at the northeast corner of Victory Sports Ground will stand. Decisions pre-exist to deal with this and do not need to be varied at this time therefore Councillors need not have direct consideration of any trust related matters for the purposes of this report.

2. Executive Summary

- 2.1. This report informs Cabinet on the latest position reached between the Council and Thames Plaza Plc and Citizen Housing LLP in relation to the proposed development of land at Fossetts Farm.

- 2.2. The report makes a series of recommendations which, subject to the completion of satisfactory due diligence, would enable the Council to proceed to the exchange of contracts on a new suite of documentation. These would enable the funding and delivery of housing which in turn would enable and secure a series of payments to be made to COSU (Custodians of Southend United), the new owners of Southend United Football Club (SUFC), out of the profits from the development. These payments to COSU would enable their redevelopment of the current stadium at Roots Hall.

3. Recommendations

It is recommended that Cabinet:

- 3.1. **NOTES** the latest position in relation to Fossetts Farm following the sale of Southend United Football Club to COSU.
- 3.2. **AGREES** the updated Heads of Terms for the Fossetts Agreement for Lease (AFL) set out at **Confidential Appendix 1**.
- 3.3. **AGREES** to proceed to enter into a new suite of agreements based on the Heads of Terms at **Confidential Appendix 1**, including an updated AFL for housing at Fossetts Farm, noting that entering in to such an agreement will also release the Council from the AFL relating to Roots Hall.
- 3.4. **DELEGATES AUTHORITY** to the Executive Director for Finance and Resources, in consultation with the Leader of the Council, to agree any adjustments required to the transaction and to authorise the completion of the relevant documentation including the AFL **SUBJECT TO:**
- A) the completion of all due diligence (as referenced in 4.12 or this report and the link in that paragraph to the 29 April 2024 Cabinet Report) to the satisfaction of those to whom authority is delegated above.
 - B) A pre-exchange condition that all Merseyside Pension Fund/CBRE approvals relating to the Club transaction and the AFL have been delivered
 - C) The inclusion of satisfactory protections securing contributions to the redevelopment of SUFC Stadium at Roots Hall.
 - D) The underwriting of all the Council's costs relating to the transaction (referenced in 4.12 and in the **Confidential Appendix 1**).
 - E) There being no remaining sums due to the Council under any accounts (rent/business rates etc) at the point of exchange of contracts.

4. Background

- 4.1. There is a long background to the proposed development of land at Fossetts Farm dating back several decades.
- 4.2. Cabinet most recently considered a [report relating to the proposed development at Fossetts Farm on 29 April 2024](#). That report provided an update on the Council's due diligence, the proposed transaction and the next

steps in relation to the development of land at Fossetts Farm. The report also sought agreement to proceed to the exchange of contracts for the updated transactional arrangements subject to the satisfactory (to the Council) completion of due diligence and a range of other conditions to secure the Council's, and related party interests.

- 4.3. The 29 April 2024 cabinet report also included comprehensive background and chronology for the project with links to previous cabinet reports and decisions which is therefore not restated here. The 29 April report describes the income strip model - the intended mechanism to fund the development at Fossetts Farm - and sets out in some detail the due diligence that the Council must undertake to gain the necessary assurance to proceed with the revised transaction. This report updates on how negotiations have developed since the last report to Cabinet.
- 4.4. Since the 29 April 2024 Cabinet meeting, the sale of SUFC has been completed (subject to conditions between the outgoing and incoming owners).
- 4.5. Following the 29 April Cabinet meeting, the Council's due diligence continued and in mid-June 2024 the Council confirmed that the proposed transaction did not pass the due diligence required to enable the Council to proceed and that discussions had therefore been reopened with Citizen Housing LLP and Thames Plaza Plc.
- 4.6. Following this outcome, Citizen Housing LLP has engaged positively in these discussions, and these have resulted in a complete redesign of the proposed type and scale of housing at Fossetts Farm along with a significant reduction in the overall numbers.
- 4.7. Revised Heads of Terms have been agreed between the Council and Thames Plaza Plc (and Citizen Housing LLP as the development partner) and these revised Heads of Terms are presented to Cabinet at **Confidential Appendix 1**. The Heads of Terms are confidential to the parties as they set out all the commercial details of the proposed transaction and once again remain subject to due diligence.
- 4.8. The revised transaction is still based on an income strip model as has previously been described in detail. It relates only to Fossetts Farm save for the arrangements to secure financial contributions to support investment in Roots Hall. The main changes to the Heads of Terms for the AFL include the matters outlined below which represent some significant changes in terms of the scale and nature of the development and consequential improvements to the level of risk to the Council associated with this long-term leasing and funding arrangement:
 - A move away from large blocks of apartments to a high proportion of single family homes, all of which would still be for rent for the long term.

- A consequential reduction in the number of homes with the current proposal being for approximately 318 homes in the first phase followed by two further phases bringing the total to no more than c.805 homes (note: exact numbers overall and within phases, and phasing boundaries are likely to vary as detailed design progresses through planning and design phases, in particular the final phase is likely to reduce in numbers).
- A reduction in the proposed lease lengths to up to 52.5 years for phase 1 and up to 50 years for phases 2 and 3.
- A clear phase transition mechanism ensuring that rent levels and let-up periods are reviewed at key points to maintain viability at key stages (including at the phase transition points).
- Adjustments in the Council's favour to the rent review cap and collar protections.
- Affordable housing to be dealt with exclusively through the planning process subject to an absolute minimum threshold of 20.75% of all units (with rents in line with Local Housing Allowance rates).
- Adjustments to the Net Operating Income (NOI) (gross rent less operational costs of running the scheme) calculations to meet the due diligence required thresholds and include provision for capital expenditure in the long term. Council's margin is maintained at 15% Day 1 NOI.
- Improved capital contributions and a reinstatement of the Council profit share provisions.
- Cancellation of the AFL over land at Roots Hall once a revised planning permission is in place for Fossetts Farm (when the new owners of SUFC will also have the option to purchase the freehold of Roots Hall). This will then support COSU in their investment in Roots Hall.
- Protections to ensure, by way of a pre-condition to signing the AFL, that all Merseyside Pension Fund/CBRE approvals relating to the Club transaction and the AFL have been delivered.
- Further protections to secure the relevant payments to the new owners of SUFC in relation to Fossetts Farm and SUFC sale from Thames Plaza Plc have been made in compliance with the overall financial agreement between COSU and Thames Plaza Plc (without which the transition between phases cannot happen).

4.9. There will need to be some refinement as the due diligence and planning stages progress (especially for the later phases) however at the point of writing, the housing mix across the whole development based on 805 homes is expected to be broadly as set out in the table below:

42 AH	Houses			Other			
	2 bed	3 bed	4 bed	1 bed	2 bed	3 bed	4 bed
BTR	103	310	72	30	76	39	10
AR (LHA)	26	80	17	8	19	11	4
Total	129	390	89	38	95	50	14
Total	485 (123 AH)			155 (42 AH)			

The Current schedule indicates 805 homes in total:

- 640 Build to Rent (Market); and
- 165 affordable Housing, all to rent and all capped at LHA rates.

On this basis, the rental projections for the residential elements of the proposed development at this stage are set out in Confidential Appendix 2 to provide context and scale to the financial considerations.

- 4.10. The detail of the Heads of Terms must remain confidential to protect the commercial interests of all parties while due diligence is undertaken and, subject to the outcome of that due diligence, the legal work being completed. For this reason, the Heads of Terms are included at **Part 2 Confidential Appendix 1** to this report.
- 4.11. It remains the case, as before, that the funding market still has some way to go before the capitalisation rate is low enough to raise sufficient capital to fund the development, however both parties understand how the capitalisation rate impacts on land value. The capitalisation rate is the yield which the fund will finance the development, applied as a multiplier to the rent payable to the fund. The land value is a product of the development cost and the rental levels. At the point at which the capitalisation rate provides a land value which is sufficient for Citizen Housing LLP and Merseyside Pension Fund/CBRE to agree for the land to be put in, the scheme can be unlocked. As it could take many months to get to a position where all parties are ready to proceed, it is important that this position is achieved in advance of the capitalisation rate reaching the necessary level so that the parties can proceed quickly to fund the scheme at that time, benefitting from the lowest possible capitalisation rate and therefore optimising the prospect of achieving viability.
- 4.12. The property, market, financial and legal due diligence is currently underway. Citizen Housing LLP has agreed to underwrite all the costs of the due diligence and the legal work to ensure that all that can progress, at their financial risk, alongside the Council's governance process.
- 4.13. On completion of the new AFL, the current suite of documentation would fall away, including the AFL for Roots Hall.
- 4.14. Following completion, Citizen Housing LLP will progress a new planning application for Fossetts Farm. This is likely to be a hybrid application seeking outline consent on the whole scheme, with detailed permission for the infrastructure and the first phase of c.318 homes to the north of the development site. Subsequent phases would then be the subject of reserved matters applications in due course at the relevant times. Whilst all parties want to see housing delivery as soon as possible, it is likely that the planning process will take much of 2025 with a start on site possible in 2026, subject to

the alignment of the requisite market conditions. It is estimated that the scheme would deliver over a c.4-6 year timeframe from start on site.

5. Reasons for Decisions

- 5.1. To enable the proposed development to proceed by ensuring that the relevant documentation is in place in good time, with all suitable and necessary protections for the Council in place and subject to all necessary due diligence. such that the development can proceed when the funding market conditions enable it to be funded.
- 5.2. To secure payments to the new owners of Southend United Football Club and to enable investment to refurbish and upgrade the stadium and facilities at Roots Hall.

6. Other Options

- 6.1. The Council remains perfectly entitled to opt not to proceed with the varied terms and to disengage in the negotiations. The exchanged AFL remains valid however this was proved with due diligence not to be viable and is no longer deliverable with the change in ownership of SUFC and the need to separate Roots Hall and Fossetts Farm to enable the stadium to be redeveloped at Roots Hall.
- 6.2. The Council could seek to support the principles but encourage the developer to find an alternative partner to take the built product. This is an option although the Council has previously agreed to take on this role and there is benefit in retaining control over the housing, housing types and tenure and in receiving the long-term commercial benefit from the rental income (above rent paid-out and costs) and ultimately the full capital value for £1 at the end of the annuity lease terms.

7. Financial Implications

- 7.1. The financial implications (assuming 805 homes) are set out in principle in the report and the detailed commercial terms are included in **Confidential Appendix 1** with the estimated rental projections in **Confidential Appendix 2**. The methodology for calculating these will remain however the actual finances will evolve as the design and the final number of homes does.
- 7.2. The detailed modelling is being tested during the due diligence process however the independent financial assurance conditions will mean that there is no prospect of proceeding to exchange of contracts unless and until the Council and its advisors and external auditors are fully satisfied that the transaction as a whole is in the best long-term interest of the Council and the residents of Southend-on-Sea.
- 7.3. With the delegation to proceed being to the Council's s.151 officer in consultation with the Leader of the Council, this protection is strong, and Cabinet can take good assurance from this position.

- 7.4. House building brings many community benefits. Research commissioned by the House Building Federation (HBF) ¹ has identified some of the key benefits building new homes can generate for the national and regional economy as well as for a local community's wellbeing and sustainability. This research includes the development of a calculator, which is freely available and allows anyone to calculate the benefits that building new homes will bring to your community including the estimated knock-on benefits to the economy and local community.
- 7.5. This is not a full detailed assessment of this specific development (which also includes other elements) but is a broad indication of the benefits associated with building c.800 homes. The output is below:

Building 805 homes is estimated to:



Support the employment of **2,797** people

Provide **34** apprentices, graduates or trainees



Increase open space, community sport, leisure spending by **£724,500**



Generate **£36,225,000** towards new affordable housing



Generate **£5,031,250** towards infrastructure including **£2,270,285.15** towards new and improved schools.



Generate **£21,466,669.35** in tax revenue

Including **£1,620,062.5** in council tax revenue

8. Legal Implications

- 8.1. The Council's legal position will be protected through the transactional documentation completed and negotiated by Gowling WLG and their highly experienced team. The Council's legal team will also be involved at all key stages to ensure that there is a satisfactory level of involvement and understanding across the transaction.
- 8.2. The Council's Director Legal Services will need to be involved, alongside the s.151 officer in determining the satisfaction (or otherwise) of the legal due diligence.

¹ [The Economic Footprint of Home Building](#)

9. Policy Context

- 9.1. The Council is committed to delivering high quality, sustainable housing including affordable housing. The land at Fossetts Farm presents one of the largest development opportunities for the city to rise to the challenge of delivering housing to meet the ever-growing demand. The Corporate plan identifies the priority of Caring with a good quality of life for all and commits to enabling the housing and infrastructure that the city needs.
- 9.2. The Council has previously supported the large-scale development of the land at Fossetts Farm for a residential-led development, including most recently with the Southend United Football Club stadium remaining at Roots Hall.

10. Carbon Impact

- 10.1. Development in this mainly greenfield location will have carbon impact however the officer team has been clear in its expectations around the quality expected of development at Fossetts Farm. The detailed specification is still in development, but high sustainability credentials will be a requirement of the Council and of any funder of a development of this scale and type. It will also be expected by the target tenant market.
- 10.2. The Council and the developer are aligned, as will the funders of development at this scale, on the need to deliver a development to be proud of, including impressive sustainability credentials.

11. Equalities

- 11.1. No Equalities impact assessment relating to the land transaction has been undertaken at this stage. The development will be designed to modern accessibility standards and will be marketed broadly and available to all, subject to satisfaction of the relevant affordability criteria for the housing type and size concerned.

12. Consultation

- 12.1. The land transaction is a private commercial transaction between the Council and the developer and as such has not been subject to consultation.
- 12.2. The broad principles of the transaction have been well exposed in the local media and through previous cabinet papers which have been mainly in the public domain (except the detailed commercial terms)
- 12.3. The development will be subject to the usual, full planning process and the relevant consultation period and processes required of a development of this scale and nature in due course.

13. Appendices

- 13.1. **Appendix 1 (Part 2 - Confidential Heads of Terms)**
- 13.2. **Appendix 2 (Part 2 – Confidential Rent Projections (805 Homes))**

14. Report Authorisation

This report has been approved for publication by:		
	Name:	Date:
Executive Director(s)	Alan Richards	2 December 2024
S151 Officer	Joe Chesterton	6 December 2024
Monitoring Officer	Susan Zeiss	6 December 2024
Relevant Cabinet Member(s)	Cllr Daniel Cowan	5 December 2024