

# Corporate Policy & Resources Committee



16 October 2023

<b>Title</b>	<i>Development Delivery Options for Council owned Development Sites.</i>
<b>Purpose of the report</b>	To make a Key Decision
<b>Report Author</b>	<i>Coralie Holman – Group Head Assets</i>
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Corporate Priority</b>	Community Affordable housing Environment Service delivery
<b>Recommendations</b>	<p><b>The Committee is asked to approve:</b></p> <p><b>Option 1</b> Development Sub Committee with support of officers:</p> <ol style="list-style-type: none"> <li>1) Progress a comprehensive mixed use, phased masterplan strategy for Council owned sites in Staines.</li> <li>2) Identify suitable development delivery options for Council owned sites, in other parts of the Borough and not included as part of a comprehensive Staines masterplan or subject to early disposal to mitigate high holding costs (recommendation 1a above).</li> <li>3) Identify and progress options for mitigating holding costs via: <ol style="list-style-type: none"> <li>a) Early disposal of sites, which have high monthly holding costs and not suitable for inclusion in a comprehensive masterplan for Staines-upon-Thames</li> <li>b) Work to obtain fixed costs for the demolition of Thameside House to offset high holding costs</li> <li>c) Temporary lettings for those sites which will continue to remain in the Council’s ownership in the medium to long term</li> <li>d) Delegate authority to the Development Sub Committee to agree the terms and completion of lettings where these are not covered under the Officer Scheme of Delegation.</li> </ol> </li> </ol>
<b>Reason for Recommendation</b>	<i>Following approval by this Committee to i) support the suspension of direct delivery of development on Council owned</i>

	<p><i>sites and ii) explore new ways of delivering the Council's affordable housing priorities, a special Development Sub Committee meeting was held on 25<sup>th</sup> September 2023 to discuss alternative development delivery methods. This report sets out the recommendations reached at the 25<sup>th</sup> September 2023 meeting, which this committee are asked to approve, pending approval by Full Council on 19<sup>th</sup> October 2023 to suspend all direct housing delivery, as set out in the 11<sup>th</sup> September 2023 report to this committee.</i></p>

## 1. Summary of the report

On 11<sup>th</sup> September 2023, this Committee approved a proposal to recommend to Full Council, suspension of all future direct delivery of the Council's affordable housing delivery programme. This recommendation was made due to the substantial increased 'risk' associated with direct development, resultant from significant recent increases in borrowing and construction costs. These higher costs were impacting on the financial viability of the Council's developments.

The Council has been and will continue to meet significant holding costs on a number of development sites which total c. £1.6m pa. Whilst delivery of affordable housing remains a key priority, to allow the Council to address the needs of residents, the Council must also identify and agree early solutions to mitigate these holding costs in parallel with exploring new ways of delivering affordable housing. Options to include early disposal and demolition of buildings where terms are acceptable, and costs are financially viable to the Council.

Short term lettings can be progressed to offset a proportion of the cost, but it is anticipated this will only generate income of c. £120,000 pa compared to holding costs of £1.6m. **Appendix 1** in this report sets out the breakdown of this £1.6m on a site-by-site basis. Incurring this level of expenditure is not sustainable and significantly widens the revenue budget gap. Failure to reduce holding costs will require this Council to identify alternative savings. A £1.6m cost represents c.6.25% of the Council's total revenue budget as shown in **Appendix 2**.

A special meeting of the Council's Development Sub Committee was held on 25<sup>th</sup> September 2023 which considered the mitigation of holding costs, suitability of a number of alternative development delivery mechanisms for i) a Council and ii) the specific Council owned site and the timescales of each delivery option.

The committee concluded principles for mitigating these holding costs should be agreed and progressed in the interim period i.e., temporary lettings and the early disposal of sites, where rental and capital receipts were considered to be financially acceptable to offset the significant £1.6m holding costs.

This report sets out in more detail the various delivery mechanisms, their potential suitability as referenced above, the Council's statutory requirement

to obtain best value and the need to ensure the Council's aspirations are deliverable i.e., realistic in the property market place to attract partner interest.

## **2. Key issues**

- 2.1 If Full Council approve, at its meeting on 19<sup>th</sup> October, the reduction in future additional borrowing and suspension of the direct delivery of residential development by the Council, alternative ways of delivering the Council's affordable housing priorities need to be identified and agreed in parallel with implementing early decisions to mitigating the £1.6m pa holding costs the Council is currently incurring.
- 2.2 By not taking proactive and sometimes difficult decisions with regard to each site, the Council will continue to incur this level of costs which is not financially sustainable. **Appendix 1** sets out the holding costs on a site-by-site basis.
- 2.3 Whilst it may be possible to offset some costs by demolition of buildings i.e., Thameside House (cost c. £600,000), other options include early unconditional disposal of those sites incurring the highest costs (Oast House and Ashford Victory Place). Consideration will be needed on a site-by-site basis to determine whether there is a positive contribution to a comprehensive mixed use masterplan approach for council owned sites in Staines-upon-Thames.
- 2.4 By re-considering alternative delivery mechanisms for Council owned sites, the current Council have the opportunity to consider a new vision and agree collaborative outcomes for mixed use development in Staines-upon-Thames, utilising a masterplan approach where the Council has comprehensive land holdings.
- 2.5 Revisiting the development on sites, not included within the 'masterplan' provides the opportunity for the Council to input in scheme designs, consult with residents and communities, establish a suitable level of development risk, clarify councillors' risk appetite, and control to deliver new housing by ensuring schemes are financially viable with or without financial subsidy from the Council.
- 2.6 The Council need to agree its priorities when progressing partnership opportunities to meet the affordable housing priorities i.e. being clear on aspirations with respect to social housing, development densities, acceptable levels of development risk, which has a direct correlation on the control of decision making, financial impacts i.e. whether schemes must be financially viable or whether the Council is prepared to subsidise losses incurred by developers where design restrictions are imposed which impact the development density in terms of height and mass.
- 2.7 The alternative development delivery options range from unconditional direct disposal of sites, which provides the opportunity for sites with the greatest holding costs to be sold in the quickest time possible to more complex joint venture options which will provide more control for the council in respect of decision making and input into the final scheme design, uses and outcomes but has much longer timescales involved for delivery and completion. **Appendix 3** sets out the delivery options in more detail.

- 2.8 To progress alternative delivery mechanisms the Council's aspirations must be financially viable to ensure they are deliverable within the property market place, this is specifically relevant in terms of conditionality around acceptable development density. If schemes are not financially viable the Council may need to subsidise the losses developers incur.
- 2.9 The masterplan option for Staines-upon-Thames may provide an opportunity to consider site values on a comprehensive portfolio basis rather than individual site values, meaning gains on some sites offset losses on others.
- 2.10 The Council needs to decide whether it wishes to progress the Benwell Phase 2 and Ashford Multi Storey Car Park schemes in their current form that are due to be considered by the Council's planning committee or withdraw both applications.

### **3. Option 1 (recommended)**

- 3.1 Approve the recommendations within this report, to allow the Development Sub Committee in conjunction with officers to:
- (a) commence work to identify land and property holdings within Staines-upon-Thames to be included within a mixed-use masterplan. Considerations will include locations of the sites, proposed uses and current holding costs and development financial viability.
  - (b) assess those sites not included within the masterplan and/or located in other parts of the Borough outside of Staines, against alternative development delivery options. This will establish the preferred design and level of development risk and control in comparison with the financial outcomes i.e. do preferred options result in financial subsidy from the Council being required to ensure delivery.
- 3.2 Project timetables, budgets and options will be developed with regular update reports brought back to this committee to ensure the necessary approvals are obtained prior to any major work streams being progressed. A master programme timetable which will be brought back to this committee as soon as possible with further detail on the proposed timing of update reports.
- 3.3 Develop and agree principles for mitigating holding costs via, early disposal of sites, demolition of Thameside House and temporary lettings for those sites which will continue to remain in the Council's ownership in the medium to long term.

### **3.4 Option 2: (not recommended)**

- 3.5 Do not progress alternative development delivery mechanisms for any of the sites, but instead look at securing longer term lettings or unconditional disposals for all sites to offset holding costs. This option will not meet the Council's priority of providing affordable housing.

### **4. Financial implications**

- 4.1 Following technical discussions with the Chartered Institute of Public Finance & Accountancy (CIPFA) officers' view is that Council can suspend the developments and retain the capitalised interest on the land and building acquired where planning permissions are still being pursued for those sites.,
- 4.2 Officers will need to assess each development project and the 'other' costs incurred, to quantify the level of costs that can remain capitalised and in the

balance sheet, and those that need to be written back to the Revenue Budget and consequently the General Fund. This is likely to be a substantial figure, approximately £10m.

- 4.3 The financial reports on this agenda, particularly the Reserves Strategy will set out options for dealing with this impact, reviewing Earmarked Reserves, and identifying those Reserves which could be used to mitigate the impact of these costs
- 4.4 In addition to dealing with existing accumulated capitalised costs, there will be significant ongoing holding costs which even with some mitigating actions will exert pressure on the Council's Revenue Budget, every year until the sites are disposed of or new schemes are taken forward with partners, and which will reinforce the need to achieve a balance between involving Councillors and residents in agreeing the way forward and making decisions on sites as quickly as possible. The proposals are likely to result in a significant reduction (of nearly £400m) in the scale of the Council's Capital Programme moving forward and to reduce the amount of additional borrowing (with the exception of financing the leisure centre currently under construction) required in the future. Currently the estimated reduction in future borrowing is £284m
- 4.5 As part of reducing the scale of its Capital Programme and associated borrowing the Council will be able to revise downward its Authorised Limit and Operational Boundary Limit, borrowing limits significantly. This is addressed on the revised Treasury Management Strategy report on this Agenda.
- 4.6 The following Financial and Assets strategies and policies would be impacted and would require refreshing as a result of the proposed change of strategy direction.
  - (a) Medium Term Financial Plan
  - (b) Impact on the 2023/24 Revenue Budget
  - (c) Impact on the 2024/25 Budget
  - (d) Reserves Strategy
  - (e) Capital Programme
  - (f) Treasury Management Strategy, including reducing future borrowing limits:

Authorised Limits & Operational Boundary, and other Prudential Code Indicators
  - (g) Capital Strategy

## **5. Risk considerations**

- 5.1 Risk: Higher interest rates and build cost inflation result in reductions in the market value of some financial assets, which could present further risks if exposures are not prudently managed.
- 5.2 Mitigation: By suspending the direct housing development programme, this will provide an opportunity for officers to assess and evaluate all the options available and present robust options to Council for consideration.
- 5.3 Loss of Control: Disposal of sites and Partnership working will result in the council sharing decision making with purchasers or partners. It is therefore essential as part of any disposal or procurement process the Council is clear

about its intentions for a site and sets out those priorities which is it not prepared to change. This will ensure all bidders are clear on the site specific 'red lines' and resultant flexibility they will encounter purchasing sites from or partnering with the Council.

- 5.4 Conditionality – if conditionality imposed by the Council is not acceptable to the 'market place' this will deter bidders and result in the Council being unable to progress delivery of schemes if Full Council agree to no longer undertake direct development. In this scenario the Council will continue to incur substantial holding costs for sites.

## **6. Procurement considerations**

- 6.1 Any procurements required as a result of the approval of any recommended options will be carried out in accordance with the Council's Contract Standing Orders and with the Public Contracts Regulations 2015 where applicable to ensure compliance and achieve value for money.

## **7. Legal considerations**

- 7.1 Section 1, Localism Act 2011 provides councils with a general power of competence whereby a local authority has the power to do anything that individuals generally do unless prohibited by statute including anything by virtue of a pre-commencement limitation.
- 7.2 Section 123 of the Local Government Act ("LGA") is a pre-commencement limitation which provides that a council shall not dispose of land under the section for a consideration which is less than the best value that can be reasonably obtained except with the consent of the Secretary of State.
- 7.3 Should the Council be minded to dispose of any of the sites, a market valuation should be obtained prior to disposal to show compliance with Section 123 LGA as above.

## **8. Other considerations**

- 8.1 Over the last few months, it is becoming clear that a number of other councils are increasingly struggling to finance and deliver their housing aspirations and are having to revisit their approaches.

## **9. Equality and Diversity**

- 9.1 Equality impact assessments will be worked up to assess impacts of the options put forward.

## **10. Sustainability/Climate Change Implications**

- 10.1 Climate change mitigations will be considered as part of the options analysis.

## **11. Timetable for implementation**

- 11.1 Based on the recommendation above,
- (a) 19<sup>th</sup> October Council to consider CPRC recommendations.
  - (b) Officers will work with Development Sub Committee Members on a monthly basis over the coming year to develop options, priorities and understand financial viability as set out in this report
  - (c) As set out above a project timetable will be developed setting out the proposals for each site and key milestones/decisions where updates will be brought back to this committee

## **12. Contact**

12.1 Coralie Holman c.holman@spelthorne.gov.uk

### **Background papers:**

CPRC Report *Revised Direct Housing Delivery Strategy* 11<sup>th</sup> September 2023

### **Appendices:**

- Appendix 1 - Development site holding costs
- Appendix 2 – Impact of holding costs on Revenue budget
- Appendix 3 - Alternative Development Delivery options
- Appendix 4
- Masterplan Strategy & Timescales