

<b>Report to:</b>	Cabinet	<b>Date of Meeting:</b>	Thursday 24 June 2021
<b>Subject:</b>	Phase 2 Sefton Council Asset Disposals		
<b>Report of:</b>	Executive Director of Corporate Resources and Customer Services	<b>Wards Affected:</b>	Norwood Dukes and Manor
<b>Portfolio:</b>	Cabinet Member - Regulatory, Compliance and Corporate Services		
<b>Is this a Key Decision:</b>	Yes	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	No		

### Summary:

This report provides Cabinet with details of three surplus assets that could be made available to Sandway Homes. These assets will form Phase 2 of Sandway Homes' development programme.

Disposal of the assets to Sandway Homes supports the wider Framework for Change Programme and the Asset Maximisation project identified as part of the Public Sector Reform list of projects that would help the Council meet its stated objectives and deliver financial sustainability. Cabinet has previously agreed to dispose of assets to generate capital receipts to support the Growth and Strategic Investment Programme and the Council's Framework for Change Programme.

Each transfer to Sandway Homes would be subject to the same disposal approval processes set out in the Asset Disposal Policy and used for the transfer of Phase 1 sites to ensure transparency and so that "best consideration" requirements under Section 123 Local Government Act 1972 (as amended) are satisfied. Valuations will be prepared for each site based on the applications submitted for Planning permission and the agreed land purchase price reported back to Cabinet or Cabinet Member as appropriate at a future date.

'As set out within this report, the Company will be notified that the Council has identified these three sites as part of its Asset Disposal programme that it would be prepared to sell to the Company for its Phase 2 operations, for which the Company is asked to produce a robust Business Plan/case that will in turn be provided to Cabinet for consideration. This will be evaluated against the Council's key objectives of housing provision and financial return taking full account of risk. The Company have and will need to incur expenditure from external Contractors and Advisors to prepare this Business Plan/case similar to the approach taken in preparation for Phase 1.

To date the Company have incurred £0.2m of expenditure in advance of the Council

making a decision as to which sites may be made available in order that progress can be made expediently. As stated during the preparation for Phase 1, the Council incurred such expenditure as the Company was yet to be incorporated and these costs are included in the overall Phase 1 Business Plan.

Similarly these costs incurred by the Company will be included in the overall Phase 2 proposal and will be factored into the overall dividend due. In terms of the impact on working capital of the Company this sum will need to be funded in advance of the Phase 2 Business Plan/case being approved by Cabinet. From discussions with the Company the peak debt of £5.1m that has previously been approved for Phase 1 will not be reached. It is therefore recommended that the Company be permitted to include this sum within that previously approved peak debt facility to support the development of the Phase 2 Business Plan/case to the value of £0.200m with interest being charged as per the agreed approach to debt owed.

This proposal will not impact the dividend due from Phase 1 unless the Council subsequently decide not to progress with Phase 2 in which case this would need to be met from the dividend due from that Phase'

### **Recommendations:**

1. That Cabinet approve the disposal of the following Council sites to Sandway Homes Limited:

- (1) Isle of Wight Farm, Southport – on condition that technical due diligence and a planning application is progressed in the 2021/22 financial year.
- (2) Bootle High School, Bootle – on condition that technical due diligence and a planning application is progressed within the 2021/22 financial year.
- (3) Foul Lane, Southport – on condition that technical due diligence and a planning application is progressed in the 2021/22 financial year.

2. That further report(s) on the detailed terms and conditions agreed for the disposal of the sites be submitted to the appropriate Cabinet Member or Cabinet for approval in accordance with the Asset Disposal Policy

*3. Cabinet approve that Sandway Homes Limited be permitted to incur expenditure of £0.200m in the development of the Phase 2 Business Plan and that this be included in the previously approved debt facility for Phase 1.*

### **Reasons for the Recommendations:**

Sandway Homes is a key delivery vehicle to secure capital receipts to support the Council's Framework for Change Programme. Cabinet previously approved on 9 January 2020 (Asset Maximisation Report) that the Isle of Wight Farm and Bootle High School be identified as being surplus to operational requirements and available for disposal. Officers have assessed other prospective sites and with the addition of Foul Lane,

Sandway Homes will have three sites to form Phase 2 of their build programme. This will allow the Development Company to continue to provide new residential dwellings, including affordable housing, and generate capital receipts plus a share of profit (revenue return) to the Council

The Asset Disposal Policy details the route for approval dependent on the level of capital receipt agreed between the parties

The request for expenditure of £0.200m for Sandway Homes Limited enables the completion of the Phase 2 Business Plan.

**Alternative Options Considered and Rejected:** (including any Risk Implications)

Option 1 – “alternative sites are offered to Sandway Homes”.

Risk: current Council sites declared surplus are generally smaller sites or have associated timing issues, which means that they cannot be brought forward as quick. The impact is that the Council would receive a lower land receipt, lesser share of the development profit, and ultimately fewer affordable houses delivered in the Borough.

Option 2 – “the Company takes forward a smaller number of sites” in Phase 2.

Risk: the financial return to the Council will be reduced accordingly. There may be a requirement for Sandway Homes to retain a greater amount of the development profit produced by the remaining sites so that sufficient funding is available to enable technical due diligence and planning applications can be progressed.

**What will it cost and how will it be financed?**

**(A)Revenue Costs** The Council will have costs associated with the appointment of external Valuers to prepare a valuation (based on the Sandway Homes scheme submitted for planning), and to take account of any grant funding secured by the development company. The valuations will inform each land purchase price in line with “best consideration” requirements. Such fees can be offset against the eventual capital receipt in accordance with Capital Accounting Regulations.

**(B)Capital Costs**

£0.200m for the reasons set out in the Summary and Recommendation 3

**Implications of the Proposals:**

<p><b>Resource Implications (Financial, IT, Staffing and Assets):</b> Property and Facilities Management will work alongside Legal and Democratic Services to agree Heads of Terms through to the completion of land sale Agreements.</p>
<p><b>Legal Implications:</b> The Chief Legal and Democratic Services Officer will complete legal documentation for each disposal.</p>
<p><b>Equality Implications:</b></p>

There are no Equality implications

**Climate Emergency Implications:**

The recommendations within this report will

Have a positive impact	N
Have a neutral impact	N
Have a negative impact	Y
The Author has undertaken the Climate Emergency training for report authors	Y

Whilst the disposal of three sites for housing will have a negative impact on the Climate Change Emergency Sandway Homes will mitigate such impact by undertaking the development in a compliant scheme in accordance with Planning policy.

The Construction Sector is changing due to the onset of climate change and the need to diversify traditional construction practices towards sustainable, manufacturing led techniques which will reduce carbon emissions through the construction process is recognised.

To date on the Phase 1 sites Sandway have committed to reducing its carbon footprint. The following examples of construction have been implemented to over and above Building Regulation standards

- Car charging points for over 60% of units delivered over the three sites
- MMC methodology wherever applicable, approved to Homes England grant standards
- Site cut and fill strategy is to enable wherever possible all material to be left on site reducing overall site carbon footprint on movement of heavy vehicles.
- Landscaping strategy implemented ensures as much green space on the sites as possible is retained
- SUDS strategy where possible includes natural defences and drainaway

Phase 2 will provide Sandway and the Council the opportunity to explore alternative methods of construction, as well as implementing a comprehensive specification which incorporates renewable technologies such as electric / solar based heating systems.

Sandway will look to implement a 'whole building approach' to design which ensures that all new homes are built to the highest performing standard, following eight core principles: Accessibility, Aesthetics, Cost-effectiveness, functionality, productivity and health, safety/security and sustainability.

**Contribution to the Council's Core Purpose:**

Protect the most vulnerable: Phase 1 will deliver 112 open market homes / 36 affordable homes which comprise a mix of affordable rent and shared ownership

properties. Should the Council wish to seek a Partnership with Sandway Homes to include properties for vulnerable people as part of its Phase 2 Programme, (which may include Extra Care / specialist supported accommodation), this can be explored

Facilitate confident and resilient communities: Sandway Homes development programme is providing new housing in the Borough, including forms of affordable housing which will provide additional housing choice for the local communities of Sefton. Sandway is registered as a Help to Buy agent, which allows the Company to provide access to first time buyers for to up to 20% deposit from Government (on properties up to £224,000), to support them on to the housing ladder. The Company has the ability to reach out to a number of customer Groups, and moving forward can tailor any affordable element of a housing scheme ensuring 'best fit' based on local need in terms of both tenure and property type. This will provide the Council with an opportunity to directly intervene to promote confident and resilient communities.

Commission, broker and provide core services: The disposal of Council owned assets for housing purposes provides a number of direct benefits to the Authority in addition to the items outlined within the resilient communities section. Progressing disposals generates a capital receipt for the Council, Planning gain through S106 stipulations, interest payable on any further loan to Sandway and any profit on sales. These direct outputs will support a number of Council service priorities including economic regeneration and the provision of further housing as required (including affordable homes).

Place – leadership and influencer: not applicable

Drivers of change and reform: The progression of further projects via Sandway Homes, and the Council's ability to deliver additional housing units is a key delivery vehicle supporting the Council's Framework for Change Programme. Direct delivery also supports the Council's Housing Strategy providing housing choice in parts of the Borough where there has not been any new build delivery for a significant amount of time.

Facilitate sustainable economic prosperity: Sandway Homes will continue to generate direct and indirect employment opportunities through the delivery of Phase 2 sites. Construction continues to support economic recovery post Covid-19, and the Company will promote opportunities for local supply chains (including Contractors, Suppliers and Technical & Professional Services), as it moves to commission Phase 2.

Greater income for social investment: The Development Company model set up by the Council looks to generate revenue income to the Council that can be used to support wider Council priorities as outlined in the core services section above. The Phase 1 Programme is set to achieve a return to the Council which comprises the capital receipts a dividend and profit on the loan together with additional Council Tax.

Cleaner Greener; The Construction Sector is changing due to the on-set of climate change and the need to diversify traditional construction practices towards sustainable, manufacturing led techniques which will reduce carbon emissions through the construction process. Phase 2 will provide Sandway and the Council with the opportunity to explore alternative methods of construction, as well as implementing a

comprehensive specification which incorporates renewable technologies such as electric / solar based heating systems.

Sandway will look to implement a 'whole building approach' to design which ensures that all new homes are built to the highest performing standard, following eight core principles Accessibility, Aesthetics, Cost-effectiveness, functionality, productivity and health, safety/security and sustainability.

## **What consultations have taken place on the proposals and when?**

### **(A) Internal Consultations**

The Executive Director of Corporate Resources and Customer Services (FD.6421 /21) and the Chief Legal and Democratic Officer (LD.4621/21) have been consulted and any comments have been incorporated into the report.

### **(B) External Consultations**

## **Implementation Date for the Decision**

Following the expiry of the "call-in" period for the Minutes of the Cabinet Meeting

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## **Appendices:**

The following Appendix is attached to this report:

- 1.Summary of the Council's Agreed Disposal/approval process

## **Background Papers:**

There are no background papers available for inspection.

### **1. Introduction**

- 1.1 Due to significant reductions in Government grant allocations, the Council no longer has available capital resources to support the delivery of its Capital Programme. This means that it can either borrow capital funding which would lead to a corresponding financial cost that would need to be met via the Medium-Term Financial Plan or it can seek to secure funding from external partners or through the disposal of assets and generation of capital receipts. As part of the Framework for Change Programme set out and agreed by the Council in March 2017, the Asset Maximisation project was identified as part of the Public Sector Reform list of projects that would help the Council meet its stated objectives and deliver financial sustainability.

- 1.2 Under Asset Maximisation, a Cabinet paper for Phase 1 disposals was presented and approved on 9 January 2020 (with some exceptions), which confirmed those assets identified as being available for disposal (see Table 1). These form Phase I of the disposals programme and a subsequent update report was approved by Cabinet in 5 November 2020, which detailed progress and key financial metrics.

<b>TABLE 1 PROPOSED PHASE 1 DISPOSAL SITES</b>	
<b>Address</b>	<b>Status</b>
Land at Isle of Wight Farm, Southport	Declared surplus
Bootle High School, Browns Lane	Declared surplus

- 1.3 Following the approval of the Company's Business Plan, Sandway Homes has been established and a permanent Chief Executive is now in place. Technical due diligence work has been progressed and has informed the development of master plans for Barton's Close, Meadow Lane and Z Blocks in Netherton. Sandway Homes is now in the process of delivering their first phase and is on site on the Southport sites. The Development Company has now formally requested three new sites, which will form a Phase 2 development programme.
- 1.4 As a result of this cabinet are asked to consider that the following two declared surplus sites in Table 1 be transferred to Sandway Homes:
- 1.5 Land at Isle of Wight Farm Southport is considered a suitable opportunity for Sandway Homes to progress in 2021. As a larger site than the Phase I sites being delivered by Sandway Homes, a disposal and development route via the Company offers clear financial benefits to the Council. At around 15 acres gross, the gross development value (GDV) and the resulting financial gain (land plus development profit) will be significantly larger. A recent valuation report by Cushman and Wakefield commissioned by the Council assumes a notional scheme of 201 houses, including a policy compliant on-site affordable housing ratio of 30%. The notional scheme has a GDV of £36.5m and is expected to produce a gross land value to the Council of £4.91m before deductions for abnormal costs and Planning costs.
- 1.6 Bootle High School Browns Lane is a Council owned site measuring 4.36 acres. A planning application has been submitted by the Council for a scheme of 59 houses. Cushman and Wakefield's report for the Council assumes a Gross Development Value of £9,384,000 with a gross land value of £1.35m before deductions for abnormal costs and Planning costs for a policy compliant scheme.

## **2. Addition of a Third Development Site for 2021**

- 2.1 Officers have identified additional assets which might be suitable for transfer to Sandway Homes for consideration as a third Phase II development site.
- 2.2 The rationale for selecting a shortlist of sites takes account of the following factors:

- Is the site designated residential within the Local Plan: Officers have considered sites that are designated as residential within the Local Plan.
- No alternative use to residential: Officers have considered those sites that can be brought forward for other land uses (i.e. care home or food store) would generate a capital receipt more than the land receipt plus revenue return that the Company could deliver by building houses.
- Min/max site delivery capability: Larger sites capable of delivering more than 100 dwellings will be supported for inclusion given that the Company has built capacity and confidence through its Phase I programme.
- Local known competition: A consideration is made of whether there are other housing sites coming on stream in the local area, which will present competition for sales and potentially impact on the rate of sales achieved by a scheme i.e. reduce the sales absorption rate.
- Site can deliver increased financial benefits to the Council (Revenue and Capital): Supporting the offer of larger sites to the Company that provide the capability to ensure policy compliance or better e.g. Barton's Close, alongside increased financial gain (both land receipt plus revenue return) if the scheme is successful.
- Increased social value: Sites are favoured where commercial viability is strong (i.e. viability will not be challenging). This provides the opportunity to partner with Registered Providers to supply affordable housing provision on site.
- Location: to ensure even development, a range of high to low value sites and opportunities across the Borough, location is a factor.

2.3 The above factors have informed the recommendation that Foul Lane be offered to Sandway Homes. Further detail on the site is provided in the three paragraphs below:

2.4 Foul Lane Southport is the former Park and Ride site measuring 8.37 acres or thereabouts. The Council's registered title contains restrictive covenants for the benefit of the previous owners restricting the use of the site to that of a Park and Ride only. The previous owners also own the land to the rear. A single point of access from Foul Lane is a Local Plan requirement which necessitates an access road crossing the Council's land as a way of facilitating their development.

2.5 The parties have negotiated terms whereby the Council grant an Easement over its land enabling a highway crossing to be constructed (in a position to be mutually agreed) opening up the land to the rear in return for a waiver of the overage rights over the Park and Ride site enabling that to be disposed of for residential purposes by the Council to Sandway Homes. The Council has allowed access for Contractors to undertake site investigations on the land for the highway crossing. The Combined Authority has agreed to provide grant funding to the Council for pre development works on site which have been tendered and due to be reported.

2.6 The Council's estimate of value based on a scheme for 87 houses is £780,000 assuming a Gross Development Value of £15,900,000. This assumes that the covenants are released. This valuation is out of date so an updated market valuation will be required.

2.7 The land value for each of the proposed sites to be transferred to Sandway Homes will be determined by new valuations (see Section 3), which may take account land payments being deferred. The final disposal will also have to take



account of the lending terms of any external capital funding that Sandway Homes may secure to help bring forward sites (i.e. clawback provisions).

### **3.0 Best Consideration and Capital Receipt Forecasting**

- 3.1 The Council is under an obligation to ensure that any offers for properties represent “best consideration” in accordance with Section 123 of the Local Government Act 1972 (as amended). The transfer of all Council owned land to Sandway Homes will be required to satisfy best consideration requirements under Section 123 of the Local Government Act 1972. Specifically, all the sites will be subject to the same disposal approval process to ensure transparency and that Local Authority best value considerations are satisfied.
- 3.2 The land value for each of the proposed sites to be transferred to Sandway Homes will be determined by new valuations (see paragraph 3.3), which may take account land payments being deferred. The final disposal will also have to take account of the lending terms of any external capital funding that Sandway Homes may secure to help bring forward sites (i.e. clawback provisions).
- 3.3 The Council will commission market valuations of individual sites from suitably qualified Agents, based on a proposed housing scheme to arrive at a land value, which will take account of a market profit return to Sandway Homes. Sandway Homes will be notified of the land value, which then forms the basis of the land payment and ensures compliance with the Asset Disposal Policy as a non-competitive disposal.

## Appendix 1

### Summary of the Council's Agreed Disposal/approval process

#### *Pre-delivery stage.*

1. Council's Property Department undertake the asset review and identify potential sites for inclusion in Growth and Strategic Investment Programme, Housing Development Company or open market disposal.
2. Initial work presented to SCIG for feedback on potential disposals and options around who to be engaged, this will include consideration of sites that maybe suitable for Sandway Homes Limited.
3. Pre-delivery desktop work undertaken to understand potential value and key issues along with informal engagement.
4. Present initial findings represented to Members.
5. Members to provide guidance to officers on preferred disposal route and next steps prior to formal process/delivery.

#### **Formal Disposal Process.**

The main stages in the disposal process are as follows:

- Operational property closed, declared surplus to operational requirements and available for disposal by relevant Cabinet Member.
- Non-operational property declared available for disposal by Cabinet Member Regulatory, Compliance and Corporate Services.
- Pre-disposal actions and activity (planning briefs or outline planning consent, disposal terms, method of disposal, etc) agreed by relevant Officers and implemented.
- The disposal will usually be handled by the Council's property team unless it is of a specialist nature that requires external expertise or resource.
- In the case of open market disposals, the asset will be fully marketed using the Internet and more traditional advertising methods.
- The disposal process will consider any moratorium periods under Community Right to Bid.
- All offers will be considered for compliance with tender conditions and undergo a value for money assessment, initially by the relevant Council officials, before being reported as follows:
  - Value: < £100,000 – Decision delegated to Executive Director, Corporate Resources and Customer Services
  - Value: £100,001 to £500,000 – Decision made by Cabinet Member Regulatory, Compliance and Corporate Services
  - Value: > £500,001 – Decision made by Cabinet.
- After publication of the decision and progression through the call-in process (if instigated) the decision will be implemented, and Legal and Democratic Services instructed to deal with the requisite legal documentation and Conveyance.
- Progress of disposal activity monitored by the Cabinet Member Regulatory, Compliance and Corporate Services
- *Please note: Formal route – to be undertaken in line with the Asset Disposal Strategy (post Pre-delivery stage).*