

Committee name: Cabinet

Committee date: 11/09/2024

Report title: Development Site Pipeline

Portfolio: Councillor Kendrick, Cabinet member for an open and modern council

Report from: Head of property and economic development

Wards: All wards

OPEN PUBLIC ITEM

KEY DECISION

Purpose

For cabinet to consider the development site pipeline.

Recommendation:

Cabinet is requested to:

- 1) Note the progress on the development site pipeline work.
- 2) Delegate the disposal of the 6 assets listed within paragraph 20a of the exempt appendix to the executive director of resources, in consultation with the Section 151 officer and cabinet member for an open and modern council.
- 3) Recommend to Council, the adjustment to the 2024/25 capital programme, to fund further design, feasibility and infrastructure works to the 4 sites detailed in paragraph 20d of the exempt appendix to this report.

Policy framework

The council has five corporate priorities, which are:

- A prosperous Norwich.
- A fairer Norwich.
- A climate responsive Norwich.
- A future-proof Norwich.
- An open and modern council.

This report meets the 'A prosperous Norwich and a fairer Norwich' corporate priorities.

This report addresses 'Business in Norwich thrives in an inclusive and resilient economy' and 'Good quality homes for all' priorities or actions in the Corporate Plan

This report helps to meet the Greater Norwich Local Plan and the Strategic Asset Management Framework, adopted policies of the Council.

Background

1. The Corporate Plan 2022-2026 identified a key action to review potential council-owned development sites, including surface car parks, to improve their management, to develop a pipeline of potential housing development opportunities, and unlock revenue opportunities.
2. This action is underpinned by the strategic asset management framework of the council, which seeks to make the most of its own land holdings and financial capability to maximise rates of housing delivery through exemplary homes that meet the needs of the people of Norwich and develop a pipeline of development sites that can be delivered over the medium to long-term.
3. On 14 December 2022 cabinet endorsed Phase 1 of development site pipeline work, carried out by Bidwells, and approved further detailed feasibility work to be undertaken. Phase 1 included a market commentary on potential uses, a review of existing information on the sites, an initial assessment of the optimum use of the site and an initial valuation of the land.
4. Significant work has now been undertaken as part of phase 2 by Bidwells in partnership with Ingleton Wood architects and has included:
 - a. Detailed feasibility work on the potential of the site.
 - b. Design work to consider type, massing and scale of development that can be achieved on the site.
 - c. Full Red Book Valuations of sites.
 - d. Prioritisation of sites to be taken forward either for development or disposal.

Summary of Bidwells' report

5. Phase 2 work has identified the priority sites. The information is commercially sensitive, so at this time the sites will remain confidential, but each site will be subject to further consideration under the delegated authority sought in this report to determine the future use or disposal.
6. Based upon the advice, some sites would be more suited to disposal to the wider market, and this could generate significant capital receipts to the council.
7. Of the fifteen original pipeline sites the feasibility work has identified six as priority sites for disposal with one of these sites requiring wider land assembly before disposal and two sites for further feasibility / business case development for the council to deliver for commercial development.
8. Six sites require further feasibility and project planning work to be undertaken before determining the preferred decision for the future and 1 site has been withdrawn at this time.
9. The advice received from Bidwells shows a potential for delivery of between 978 and 1347 new homes across the priority sites along with approx. 70,000 sq ft of light industrial development for letting that would support economic growth as well as revenue returns.

10. Three further sites which were not in the original pipeline are also included in the exempt appendix for information following recent work. One we are seeking additional budget for further design and feasibility studies, with the remaining two sites involving site acquisitions that have previously been approved by cabinet.

Asset Disposals

11. Following approval by Cabinet in March 2024 an Asset & Development Board has been established to oversee proposals for the development pipeline.
12. The decision to dispose of land, detailed in the exempt appendix will be delegated to the executive director of resources, in consultation with the Section 151 officer and cabinet member for resources. The exception to this will be a site detailed in the exempt appendix which following a marketing exercise will be subject to further consideration by cabinet due to the scale of potential capital receipt.
13. Assets for which delegated authority to dispose is granted will be subject to a further review ahead of disposal with a report to the Asset & Development Board to allow a final decision. That report will also consider the most appropriate method of disposal and marketing strategy, which could include Lion Homes, and how best value considerations will be achieved.
14. Assets recommended for disposal in this report have the potential to raise c£32.74m in capital receipts and will be taken forward during this financial year.
15. Assets which, once competitively marketed, have bids that fail to achieve at least 90% of a red book valuation will be subject to further consideration by the Asset & Development Board for revised marketing or a further report to cabinet for a decision to proceed.
16. As detailed in the Managing Assets report, there is a need for a more effective deployment of capital to support longer term revenue generation and growth. This can be supported through an orderly disposal of property assets including those detailed in this report. Consideration would be given to not affecting land values by disposing of all the assets at one time.
17. However, generally, the Council will apply property capital receipts against debt. All future investment decisions are made on the basis as to whether the council would borrow for them. This is in line with CIPFA's best practice for holding and investing in investment properties.
18. Asset disposals will be managed in house by existing resource. Agents will typically be used for marketing, and this cost along with any legal fees will be set against the capital receipt, subject to a limit of 4% in line with guidance.

Investing in new development

19. The financing of assets and decisions to invest are separate decisions, particularly within the local government framework, where there are statutory charges (Minimum Revenue Provision) against the underlying need to borrow.

20. All decisions to invest in development of new commercial assets will be compared against investment hurdle rates, which would be slightly above 7.75% in today's current environment. The council will assess options for more detailed metrics, but the return required would be expected to cover repayment of principal and interest.
21. Following more detailed work some sites may be suitable for development through a range of delivery methods including those led by the council. Any development by the council will be subject to detailed business case and further cabinet and council approval for the budget, should this be the preferred option for a particular site.
22. Based upon the initial advice some sites would be more suited to disposal to the wider market, and this could generate significant capital receipts to the council. Some properties are generating an income and there should also be an underpinning strategy to understand the extent to which that revenue stream could be replaced to avoid undermining the council's revenue budget. There are also likely to be a range of capital and revenue costs associated with individual properties.
23. Assets recommended for light industrial development have the potential to generate £0.7m per annum in revenue.
24. Development of new assets for commercial purposes would generate additional business rates and any growth in residential development would also increase the council tax base for the council.
25. When sites are brought forward it is therefore important the total financial impact is understood and taken into account as part of the decision-making processes.

Consultation

26. The relevant portfolio holders have been briefed on the phase 2 work.
27. The report was taken to Scrutiny committee for consideration in March 2024.
28. At this time no public consultation has been carried out but individual sites will become subject to consultation through the planning process should they be taken forward for development.

Implications

Financial and resources

29. Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan 2024-29 and budget.
30. The cost of the phase 2 feasibility work is funded from the approved site feasibility budget. £0.61m in additional funding is being sought as an adjustment to the approved capital programme for 2024/25 to carry out further work on sites detailed in the exempt appendix to this report.

31. To the extent that the work is feasibility, it cannot be capitalised. However, if during the process those became actual delivery plans, they could. Therefore, the request is for the funding and as to whether it is capital or revenue will be determined at a later date.
32. Depending on the disposals undertaken, capital receipts of £32.74m could be generated, if the disposal estimates were based on the lower figures in the red book valuations. At current investment rates of 5%+, this could generate over £1.637m investment income over the course of a year, although future returns are likely to reduce as interest rates and investment yields fall. It is worth noting that even if the cash was reinvested into investment property improvements, that impact is unlikely to be immediate and there would be a short boost to revenues.
33. Disposals would also have two other consequences: that of reducing capital liabilities and associated revenue costs and the revenue income streams attached to these council owned assets. However, those details will be considered in full as part of the proposed feasibility studies.

Legal

34. There are no legal implications arising from this work to date.
35. Following further detailed feasibility work, by virtue of section 123 of the Local Government Act 1972, the city council has the necessary statutory powers to dispose of its land. This section also states that on a disposal, the council are under a statutory obligation to obtain the best consideration that can reasonably be obtained for the land.
36. Best consideration will typically be achieved via a competitive marketing process. In cases where there is a proposed sale to a 'special purchaser' due to the ability to realise a marriage value, these will be subject to a red book valuation to ensure that there is an uplift above market value.
37. Achieving best consideration will also ensure that the council is not caught by the subsidy control regime.
38. If any part of the site consists of open space land, section 123(2A) of this Act states that the council must follow certain statutory requirements to advertise the disposal of the said areas of open space land.
39. Open space is defined in the Town and Country Planning Act 1990 as land laid out as a public garden, or used for the purposes of public recreation, or land which is a disused burial ground. If it's not held for such purposes, it can be disposed of without the need to advertise the sale. This will be considered ahead of any disposal of such land.
40. Section 122(1) of the Local Government Act 1972 states that local authorities have a general power of appropriation for land or property which is no longer needed for the purpose its held: *'a principal council may appropriate for any purpose for which the council are authorised by this or any other enactment to acquire land by agreement any land which belongs to the council and is no longer required for the purpose for which it is held immediately before the appropriation'* but subject to the rights of other persons in or over the land.

41. This general power is subject to the provisions of section 19(2) of the Housing Act 1985. This states that if property is being used for housing accommodation, the consent of the Secretary of State is required if the property is to be disposed of or otherwise taken out of the Housing Revenue Account. This section applies to properties used partly or wholly for housing, including yards, gardens and outhouses, but garages are excluded from this.

Statutory considerations

Consideration	Details of any implications and proposed measures to address:
Equality and diversity	Sale of the assets will result in the transfer of the freehold interest, but this is not anticipated to have any material equality and diversity implications.
Health, social and economic impact	There are no direct consequences flowing from these proposals. Subject to full business case approval there would be potential economic growth from new development of light industrial or residential development.
Crime and disorder	There are no direct consequences flowing from these proposals. Albeit some of the properties in question are vacant and therefore can be targets for crime and disorder. The decision to dispose should assist in bringing the assets back into productive use.
Children and adults safeguarding	Not applicable
Environmental impact	Not applicable to this report however individual projects will have their own environmental assessment as they progress.

Risk management

Risk	Consequence	Controls required
Inability to dispose of the asset for the capital values identified.	Reduced capital receipts.	This will be monitored by the board and the action plan will be updated. A further asset review will be undertaken for assets which fail to sell on the open market.

Risk	Consequence	Controls required
Deterioration of market interest for development land	We are unable to generate interest for the land.	This will be monitored by the asset & development commissioning board. There will need to be flexibility over the exact timing of disposals to guard against this and the board will also consider the best method of disposal to realise a sale and maximise a return.
Deterioration of market for proposed light industrial development.	We do not generate the anticipated revenue income.	This will be monitored by the asset & development commissioning board. Decision gateways will be implemented at each RIBA stage to monitor the market. If risk is realized post completion asset can be considered for disposal to recover the capital outlay.

Other options considered

42. Each asset has options considered through the development pipeline work.

Reasons for the decision/recommendation

43. The recommendations within this report are aimed at ensuring the continued proactive management of our land and property assets. This builds on the substantial achievements made over the past two years and as set out in this report. Setting out a clear policy for assets, understanding why we own them and how they contribute to corporate objectives, including the development of new homes and the creation of jobs will enable us to maximise the use of our assets. The capital receipts and generation of revenue streams will play a key role in helping to fund front line services and our proactive management of the portfolio will ensure that this is sustainable into the future.

Background papers:

Appendices: Exempt appendix to this report

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