



NORWICH City Council

Committee name: Cabinet

Committee date: 17/07/2024

Report title: Potential acquisition of land – Anglia Square

Portfolio: Councillor Stonard, Leader of the council

Report from: Head of property and economic development

Wards: Mancroft

OPEN PUBLIC ITEM

KEY DECISION

Purpose

To consider the potential acquisition of land in the city.

Recommendation:

To:

1. Note the work to date on the project detailed in the report and endorse the work activities identified to take the project forward.
2. Delegate authority to the executive director with responsibility for non-housing assets, in consultation with the S151 Officer and portfolio holder for resources, to enter into discussions and negotiation with the landowner with a view to making an expression of interest for the potential acquisition of the site, subject to due diligence and full business case approval.

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. On 18 July 2023 planning permission was approved for a Hybrid (Part Full/Part Outline) application for the comprehensive redevelopment of Anglia Square, and car parks fronting Pitt Street and Edward Street for: up to 1,100 dwellings and up to 8,000sqm (NIA) flexible retail, commercial and other non-residential floorspace including Community Hub, up to 450 car parking spaces (at least 95% spaces for class C3 use, and up to 5% for class E/F1/F2/Sui Generis uses), car club spaces and associated works to the highway and public realm areas.
2. The development was to be delivered in 4 phases, with phases 1 and 2 in detail and phases 3 and 4 in outline. The detailed element of the permission included 353 new homes, of which 106 were to be affordable.
3. To support viability of the development the Council secured £15m of Housing Infrastructure Fund (HIF) from Homes England and approved an exceptional circumstances exemption from Community Infrastructure Levy. Changes arising from the building safety act make it likely that additional costs would now be incurred, and potentially fewer dwellings could be delivered likely leading to a further deterioration in the scheme's viability.
4. The site is owned by Colombia Threadneedle (CT) a leading global asset management group. A conditional contract for the sale of the site to Weston Homes had been agreed, however in February 2024 Weston Homes announced they were no longer able to proceed with the scheme, due to escalating costs and viability concerns.
5. Officers have subsequently been meeting with CT to discuss the next steps for the site and have engaged a strategic development consultant, Place Partners UK (PPUK) to assist.
6. CT have engaged Knight Frank as their agent, who have now commenced marketing the site in three lots, the main site is one lot with each of the satellite car parks as separate lots. The brochure for sale is aimed more at the asset management market than promoting the comprehensive regeneration of the site.
7. **Place Partners UK** have undertaken a strategic review of the development and highlighted the following:
 - a. Challenges with financial viability at Anglia Square have underpinned its long history of delivery failures and also created further complexities as the journey has progressed. For example, the complex planning history is a consequence of trying to resolve viability with higher density.
 - b. The lack of viability is driving the concern over how the scheme could be delivered and raising the possibility that CT sell the land to a partner that does not share the council's vision for regeneration on the site nor its quality and place aspirations. This could happen precisely because the scale of viability challenges mean CT is unlikely to attract a more desirable developer.

- c. Given the scale of viability challenges the most likely outcome if CT were to sell the land is that it could be bought by a speculator, who could sit and wait or seek to try to break up the site and sell off parts as potential development plots. This is borne out by the site being marketed in three separate lots. In this situation Anglia Square would likely decline further and the opportunity for comprehensive regeneration lost.
 - d. Irrespective of who delivers the scheme or owns the land, the scale of the viability challenge is such that if the scheme is to be delivered and comprehensive regeneration achieved, it will require significant public sector support and that support will need to be wider than just the council.
- 8. The council knows from the viability work undertaken by Weston Homes, and independently reviewed by Avison Young, that the build costs that Weston could achieve are significantly below the market rate, due to their structure and use of internal capabilities. This will create further viability challenges for any alternative developer looking at the site.
- 9. There are 3 options available for the council to consider in discussions with CT:
 - a. Do nothing - Likely outcome is the site is run down further and progressed with piecemeal development, where the Council's only management tool will be planning. This will not lead to delivery of the comprehensive, high quality place outcomes in a timely manner that the Council are seeking. This could also undermine confidence in developers looking at the city and could hinder other development projects. However, this has the lowest exposure to direct financial risk for the council.
 - b. Support CT to secure a new developer partner - CT are committed to sale and identify that the likely buyer would be seeking an asset management role which would maximise income from the existing asset income streams. This will not lead to delivery of the comprehensive, high quality place outcomes in a timely manner that the Council are seeking. CT have engaged Knight Frank as their agent, who have now commenced marketing the site, seeking unconditional bids by the end of July and completing the sale of the site in the Autumn. Other than brokering introductions with interested parties it is difficult for the council to directly intervene to secure an appropriate buyer, other than engaging with interested parties.
 - c. Step in directly and acquire the site from CT - Currently this is the option with the strongest likelihood of achieving comprehensive development and regeneration outcomes. The key challenge is ensuring that a future scheme is financially viable, with significant public sector support needed from central government. Another risk is to ensure that holding costs from the current Anglia Square operations wouldn't prevent a potential Council purchase of the site. This represents the largest financial risk to the council as until a viable scheme is available comprehensive redevelopment in the way envisaged cannot occur. In the absence of securing sufficient funding to bridge any affordability gap the council would incur holding costs and there would be increasing pressure for the council to bridge the gap from its own resources. A way

to minimise this risk would be to seek delivery partners to work in partnership with the council.

10. Comprehensive redevelopment of the site will provide significant strategic benefits for the city:

- a. Increase in new homes to meet local housing need and demand.
- b. Delivery of a strategic site within the Greater Norwich Local Plan.
- c. Delivery of a new local centre for the North City Centre.
- d. New jobs both during construction and upon completion.
- e. Build confidence in Norwich as a City for developers and act as a catalyst for wider regeneration and growth.
- f. Increase council tax and business rates base.

11. Senior officers met with CT to:

- a. highlight the council's intention to facilitate the comprehensive redevelopment of the site in line with its policies.
- b. seek an appropriate period to allow the city council to express an interest in the option of acquisition and negotiate an 'in principle' option to acquire, explaining that due to the pre-election period, the need to undertake due diligence and engage with Homes England over viability gap funding, this is not possible in their outlined timetable.
- c. To strongly urge CT to inform all prospective purchasers of the site of the council's aspirations for the comprehensive redevelopment of the site to deliver much needed housing, alongside other economic, social, and environmental benefits.

Next Steps

12. We will continue a dialogue with CT over the prospective sale and to express the council's commitment to seeing comprehensive regeneration of Anglia Square.

13. Engage architects and a quantity surveyor to review the current design, to consider recent changes in legislation from the Building Safety Act and prepare a revised cost plan to inform a business case.

14. Undertake further due diligence on the site, including legal advice, planning advice, surveys, market intelligence and exploring potential development partners.

15. Prepare a revised 'ask' of Government for funding, through Homes England.

16. Seek delivery partner and investor feedback on detailed appraisals to establish a viable early phase delivery plan for the detailed aspects of the planning approval.

17. This further due diligence work is anticipated to be completed in August and, subject to the outcome, a full business case would be worked up for Cabinet to consider making a final offer in the Autumn.

Consultation

18. None, due to commercial confidentiality.

Implications

Financial and resources

19. 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.

20. There are currently no resources included within the council's revenue budget or capital programme to progress with this proposal. It is imperative that Members understand the significant financial risks associated with this proposal, in the absence of confirmed government support to mitigate in full the viability gap.

21. Subject to approval of the 2023/24 provisional outturn report on the agenda for today a budget of £0.3m from the use of reserves will be used to take the project forward and prepare a full business case for acquisition and development of the site. This includes:

- a. Strategic development advice.
- b. Architect to review the current design and consider any changes required to meet the Building Safety Act.
- c. Planning advice
- d. Quantity Surveyor to prepare a cost plan to assist with valuation of the land and development viability.
- e. Sales Agent / market advice
- f. Legal advice – likely to require specialist legal advice regarding the acquisition, potential delivery models and funding agreements.

22. A potential acquisition of the site is guided by Knight Frank, as selling agent, at c£8.5m and will be subject to the next stage work where a full business case will be prepared to support a final offer. Any offer would be subject to a further report to cabinet and full council for approval of the business case.

23. The estimated viability gap is significant, and this represents the difference between the estimated development costs and the value created in the site whether from sales receipts or income streams from rental yields and commercial yields.

Legal

24. The Legal implications are:

25. Section 120 of the Local Government Act 1974 is the relevant legislation for acquisition of land by agreement by principal councils. This states that a principal council can acquire land:

(1) For the purposes of:

(a) any of their functions under this or any other enactment, or

(b) the benefit, improvement or development of their area, a principal council may acquire by agreement any land, whether situated inside or outside their area.

(2) A principal council may acquire by agreement any land for any purpose for which they are authorised by this or any other enactment to acquire land, notwithstanding that the land is not immediately required for that purpose; and, until it is required for the purpose for which it was acquired, any land acquired under this subsection may be used for the purpose of any of the council's functions.

Statutory considerations

| Consideration | Details of any implications and proposed measures to address: |
|------------------------------------|---|
| Equality and diversity | It is not anticipated that this decision will have any material equality and diversity implications. |
| Health, social and economic impact | <p>It is not considered there are any health or social impacts arising from this decision.</p> <p>The economic impact of the regeneration of Anglia Square is significant. Particularly the delivery of jobs during construction and following completion. The wider economic impacts if the Scheme goes ahead have also been detailed at length in the preceding Planning Applications Committee report.</p> |
| Crime and disorder | <p>The site is based in one of the most deprived neighbourhoods in terms of crime, and blighted sites increase the risk of anti-social behaviour.</p> <p>This decision can help to facilitate development of the site, reducing the potential for crime and disorder.</p> |
| Children and adults safeguarding | It is not considered there are any impacts on children or adults safeguarding arising from this decision. |
| Environmental impact | Delivery of energy efficient homes. |

Risk management.

| Risk | Consequence | Controls required |
|---|---|---|
| <p>Financial Risk - The council will be liable for any maintenance and holding costs of the existing asset until redevelopment.</p> <p>High Risk</p> | <p>There are significant holding costs for security and maintenance of the site that would be a revenue cost to the city council.</p> | <p>Expressing an interest in a conditional offer will allow time to produce a clear delivery strategy with Government funding and development partners agreed prior to purchasing the site which would minimise holding costs.</p> |
| <p>Financial Risk - The cost to take forward the due diligence work is estimated at £0.3m and could be abortive work if the site is not acquired.</p> <p>High Risk</p> | <p>If the site is not acquired this will become a revenue cost to the General Fund.</p> | <p>Seek exclusivity agreement with CT to ensure the best chance of acquisition.</p> |
| <p>Financial Risk - If the site does not deliver comprehensive redevelopment the council would not realise increases in council tax and business rates.</p> <p>High Risk</p> | <p>Loss of increased income to the council likely to exceed £0.5m per annum.</p> | <p>Expressing an interest in a conditional offer will allow time to produce a clear delivery strategy with Government funding and development partners agreed.</p> <p>Highlight to any prospective purchasers the council's aspirations for the site.</p> |

| Risk | Consequence | Controls required |
|--|---|--|
| <p>Financial Risk – financial viability has worsened since the granting of planning approval</p> <p>High Risk</p> | <p>Previous viability reports showed that the development was not commercially viable without significant public sector support (£15m HIF and £2.2m ECR from CIL). The reports were based upon Weston Homes build costs and did not inc. finance costs. Further increases in build costs have also increased the viability gap.</p> | <p>Expressing an interest in a conditional offer will allow time to produce a clear delivery strategy with Government funding and development partners agreed.</p> <p>Engagement with Homes England to understand requirements and availability of funding to meet any increased viability gap.</p> <p>Seek developer partners / investment to reduce the risk to the council.</p> |
| <p>Financial Risk – If the site is developed for car parking rather than comprehensive regeneration this could affect the council's car parking income.</p> <p>High Risk</p> | <p>Loss of income from Council owned car parks.</p> | <p>The council has a maximum car parking strategy which could be utilised in the planning process; however this would be open to appeal.</p> <p>Highlight to any prospective purchasers the council's aspirations for the site.</p> <p>Ultimately the council could use its statutory powers if regeneration was not forthcoming from any new purchaser.</p> |
| <p>Reputational Risk - The development of Anglia Square has proven controversial. The council taking more control of this will come with some reputational risk should delivery not proceed at pace.</p> <p>High Risk</p> | <p>Likely to be a high degree of local and potentially national media interest in the council acquiring the site and in delivery moving forward.</p> | <p>Expressing an interest in a conditional offer will allow time to produce a clear delivery strategy with Government funding and development partners agreed.</p> <p>Need to have a very clear communication strategy</p> |

| Risk | Consequence | Controls required |
|---|---|--|
| <p>Planning and Reputational Risk - If the council were not to proceed with the recommendation there is a risk the site would be acquired by parties that would not deliver the comprehensive regeneration of the site.</p> <p>High Risk</p> | <p>This would have an impact upon delivery of homes against the GNLP target, potentially undermine confidence of the development industry in the city, which could affect other major development / regeneration schemes and not deliver the wider social and economic benefits to this part of the city.</p> | <p>On-going engagement with CT</p> <p>Highlight to any prospective purchasers the council's aspirations for the site.</p> <p>Ultimately the council could use its statutory powers if regeneration was not forthcoming.</p> <p>A clear delivery strategy with Government funding and development partners is required to ensure the benefits are realized.</p> |
| <p>Planning Risk – The scheme currently has Nutrient Neutrality credits allocated but these expire in July 2024. There is a risk that further credits may not be available.</p> <p>Medium Risk</p> | <p>If credits are not available through the city council scheme the impact would be further delays and / or increased costs from seeking alternative credits.</p> | <p>Engagement with the planning department to seek a new agreement for nutrient neutrality credits subject to availability.</p> |
| <p>Planning Risk – since planning was approved the Building Safety Act has been passed requiring some re-design work. Depending upon the extent of changes this could require a new planning application.</p> <p>High Risk</p> | <p>A new planning application would come at a significant cost and delay to the scheme.</p> | <p>The £0.3m budget allows for due diligence work including architects, cost consultants and planning advice. We will seek to minimise the impact upon the current planning application.</p> |

Other options considered.

26. Options considered are highlighted in para 9 above.

Reasons for the decision/recommendation

27. Cabinet is recommended to:

1. Note the work to date on the project detailed in the report and endorse the work activities identified to take the project forward.

2. Delegate authority to the executive director with responsibility for non-housing assets, in consultation with the S151 Officer and portfolio holder for resources, to enter into discussions and negotiation with the landowner with a view to making an expression of interest for the potential acquisition of the site, subject to due diligence and full business case approval.

28. This will enable officers to enter into discussions with the landowner of the site and negotiate a position to consider acquiring the site by way of making a conditional expression of interest that, subject to due diligence and business case, may lead to an offer for the site.

29. The acquisition of Anglia Square would support the council's housing growth ambitions and to provide a regeneration of a major strategic site in the city.

Background papers: None

Appendices:

Contact officer:

Name: Andrew Turnbull

Telephone number: 01603 989607

Email address: andrewturnbull@norwich.gov.uk



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