

Southend-on-Sea Borough Council

**Report of Executive Director (Finance and Resources)
and Deputy Chief Executive (People)
To**

Cabinet

**On
17 September 2019**

**Agenda
Item No.**

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Management

Housing and Development Pipeline Update

**Relevant Scrutiny Committee(s): Policy and Resources Scrutiny Committee
Cabinet Members: Councillor Ian Gilbert and Councillor Ron Woodley**

Part 1 (Public Agenda Item)

1. Purpose of Report

- 1.1 To update members on the work underway looking at the pipeline of housing and development opportunities across the Borough and to present recommendations setting out the proposed way forward.

2. Recommendations

- 2.1 To note the progress of the first phase of housing and development pipeline sites currently in delivery as set out in Section 3.11.
- 2.2 To note progress on the Acquisitions Programme for Council Housing as set out in Section 3.3.
- 2.3 To note the work undertaken to date on the development land pipeline as set out in Section 3.5 and allocate £645,000 from existing capital reserves held within the General Fund and Housing Revenue Account as appropriate, in the first phase to enable the necessary initial site feasibility, due diligence, survey and high level design work to be commissioned to demonstrate viability (or otherwise) and enable a more detailed assessment of the number of units which could be delivered across the sites and, in relation to those suitable for joint venture opportunities, to establish appropriate objectives and bundling of sites. Following detailed feasibility, those sites which are proved to be viable will be presented to Cabinet for agreement on the preferred way forward for development in due course.
- 2.4 To agree that PSP Southend LLP be invited to undertake the next stage of feasibility (to e2) for sites which the pipeline assessment work has indicated

would be suitable for PSP delivery and for the Council to commission valuations for these sites to establish the baseline values. At this stage PSP will work at their risk. Once these sites have been assessed in detail by PSP Southend LLP, recommendations will be made to Cabinet for the sites to be opted in to the LLP for delivery or for alternative approaches to be considered.

- 2.5 To agree for negotiations to progress to update and re-brand PSP Southend LLP as set out in 3.21. In particular so that the board and reporting structure can be aligned with other Council LLPs and companies, reporting in to the Shareholder Board and to delegate the agreement of the detailed arrangements to the Strategic Directors (Finance and Resources and Legal and Democratic Services) in consultation with the Leader of the Council.
- 2.6 To note the proposed amendments to the Ilfracombe Avenue site, specifically that the Library will not be located within the proposed housing development which is proposed to provide a housing-for-rent scheme which will include a planning policy level of affordable housing for rent (capped at Local Housing Allowance levels). Income from the development will be used to finance the capital borrowing required to complete the necessary condition works at the existing Southchurch Library.
- 2.7 To agree the principle that the Council is minded to enter into an income strip lease transaction in relation to the proposed residential development at Roots Hall subject to subject to the completion of the relevant due diligence and to ensuring the long-term financial sustainability for the Council. To note that if a suitable transaction can be agreed, the terms of that transaction will be put to Cabinet for consideration.

3. Background

- 3.1 Cabinet agreed a report on 25 June 2019 and made the following resolutions: (minute 76 refers)
 - **Resolution 1.** That the work to develop a regeneration framework and pipeline of housing and regeneration projects, including the potential to establish a revolving investment fund to deliver the pipeline, with a report coming forward to Cabinet in September 2019, be agreed.
 - **Resolution 2.** That the process for responding to third party approaches is agreed for implementation.
 - **Resolution 3.** To proceed with the Acquisitions Programme for Council Housing as agreed in the Council's Housing, Homelessness & Rough Sleeping Strategy.
 - **Resolution 4.** That a capital budget of £4.3M be created within the Housing Revenue Account (HRA) capital programme for 2019/20 to facilitate the Acquisitions Programme, funded 30% from retained Right to Buy Capital receipts and 70% from HRA Capital Investment Reserve.

- 3.2 This report updates on the work undertaken subsequently and on the next phases of work which will be required to support the Council's ambitious housing and land development programme.

Acquisitions Programme Update

- 3.3 In terms of progress in relation to the Acquisitions Programme and the associated £6.3m budget, officers have agreed the methodology and process for dealing with these acquisitions. Presently 13 properties are under offer and with solicitors and a further 3 have completed at the time of writing.
- 3.4 The table below sets out the properties currently under offer (not identifiable here as they are all subject to contract), the total acquisition cost and total anticipated spend.

Bedrooms	Type	Purchase price, works and Stamp Duty cost (£000 (rounded nearest £1k)
4	semi-detached	£ 353
3	semi-detached	£ 275
1	flat	£ 142
3	terraced house	£ 252
3	end of terrace house	£ 285
3	semi-detached	£ 267
2	end of terrace house	£ 255
3	semi-detached	£ 258
3	semi-detached	£ 273
3	terraced house	£ 253
3	semi-detached	£ 280
2	bungalow	£ 274
2	flat	£ 196
2	flat	£ 192
3	semi-detached	£ 336
2	semi-detached	£ 250
Total		£ 4.14m

Regeneration Framework and Development Pipeline

- 3.5 In relation to the first recommendation, 31ten Consulting (31ten) have been engaged to bring some independent advice and rigour to the process of analysing individual sites, their development potential and how they can most beneficially fit in to a comprehensive development pipeline within which capital receipts can be recycled to improve the sustainability of the overall programme. This includes sites for housing, wider regeneration and a range of other land uses.

- 3.6 31ten have also been commissioned to support the Council with the delivery of an overarching Regeneration Framework for the Borough to provide a spatial representation of Southend 2050 and set local action on sites with development potential within a regional and sub-regional context.
- 3.7 A single list of sites and opportunities have been identified to form the pipeline, including Council owned and private sites. A series of regular workshops and sessions have been held with a wide cohort of officers from Assets, Strategic Planning, Housing, Development Control, Regeneration and Finance to advance this work. During these sessions the methodology and tools have been devised to enable the site analysis work to be undertaken.
- 3.8 A site appraisal tool has been trialled and refined to record key information and build a knowledge base of individual sites. As well as capturing the development potential of individual sites, the site appraisal process has been designed to determine which development opportunities are best delivered through which development vehicle ranging from Council led delivery either internally, or through its wholly owned company to joint venture partnerships with the private sector. This work has identified an emerging timeline for the development of sites and provided a detailed pipeline programme which is currently being reviewed.
- 3.9 The next stage of the pipeline work is to undertake further due diligence through the commissioning of survey, feasibility, and high-level design work to demonstrate viability of both individual sites, and bundles of sites, in order to enable a more detailed assessment of the number of units which could be delivered across the sites and the appropriate delivery vehicle to be used.
- 3.10 At this stage, the pipeline will also be reviewed against the emerging Regeneration Framework to ensure that development opportunities are aligned to deliver wider outcomes. Once this due diligence work is completed it is intended that those sites which are proved to be viable will be presented to Cabinet for agreement on the preferred way forward for development in due course. It is estimated that this due diligence work requires a budget of £645,000 of funding as referenced in recommendation 2.3.
- 3.11 A number of sites within the Pipeline are currently underway and this section sets out those sites which are approved to proceed and which are now in the delivery phase.

Site	Number of Units	Delivery Vehicle	Progress comment	Estimated completion
Friars, Constable Way	Nursery plus 9 houses	PSP Southend LLP	Nursery completed. Housing due to start on site during September.	Q4 2020
Ilfracombe Avenue Car Park	24 flats	PSP Southend LLP	Subject to agreement of recommendation 2.6 of this report, a detailed proposal is ready to be signed off by the LLP Partnership Board to enable a planning application to be worked up for	Q4 2021

			submission.	
Modern Methods of Construction (MMC) Pilot Project	4-5 Units	Strategic Housing	Employers Agent (EA) & Architect have been appointed. Site investigation has been carried out. Outline planning permission anticipated by end of the year.	2021/22 Q1
HRA Phase 3	25 Units	Strategic Housing	Site investigation has been carried out. EA to be appointed by September 2019.	2021/22 Q3
HRA Phase 4	20-31 Units	Strategic Housing	Site investigation has been carried out. EA to be appointed by September 2019.	21/22 Q4
HRA Phase 5 & 6	Tbc	Strategic Housing	Funding agreed for feasibility work to determine phases 5 & 6	tbc

PSP Southend LLP Update

- 3.12 On 14 June 2011, Cabinet agreed to establish a Limited Liability Partnership (LLP) which has 50:50 representation and ownership by the Council and BV Strategies Facilitating Ltd. (now PSP Facilitating Ltd) respectively. On 12 December 2011, the LLP was formally incorporated as PSP Southend LLP ("the LLP").
- 3.13 An Operations Board and a Partnership Board were established and have met periodically since incorporation to review and agree projects for the LLP to progress.
- 3.14 PSP Southend is one of the key delivery vehicles that has been considered through the pipeline work and is a key tool in delivering the Council's ambitious growth programme. The Operations Board of the vehicle considers pipeline projects and makes recommendations to the Partnership Board which then decides whether to progress to delivery. As the Partnership Board is convinced of the merits of projects, they move through the key stages of the LLP project pipeline. These key stages are:
- Stage 1 (e1) Exploration
 - Stage 2 (e2) Evaluation
 - Stage 3 (e3) Examination
 - Stage 4 (e4) Engage
- 3.15 As part of the 14 June 2011 Cabinet decision, it was agreed that any sites to be progressed through the LLP would be opted in by the Cabinet and thereafter, their progress through to delivery would be managed by the LLP to deliver the optimum commercial return.
- 3.16 To date, the LLP has delivered:

- 32 Units of market housing at the former Hinguar Primary School
 - The 9 units of affordable housing required for Hinguar plus a further 6 units on the site of the former Saxon Lodge. All 15 of these were sold to Moat Housing Association.
 - A new nursery on Constable Way
 - The demolition and site preparation of Friars Community Centre, Library and the Pupil Referral Unit in preparation for development.
 - An updated planning permission has just been issued for the construction of 9 houses for market sale on the site (to cross-finance the nursery) and Tern Developments is mobilising for construction to commence imminently.
- 3.17 The LLP has also reviewed a number of further sites which present good opportunities for development and it continues to offer a good alternative delivery vehicle for the Council.
- 3.18 Since the LLP was established at the end of 2011, PSP has substantially evolved its model as it has developed partnerships with many more Local Authorities. PSP now has 3 offices, much greater resources and new equity funders (Cobalt Square). PSP has also refined the areas which it is particularly effective and whilst it can be used to provide a range of property related solutions, the primary focus is aligning with that of local authorities around the delivery of good quality, low carbon, and energy efficient homes. In this regard, it has also developed its own housing model which can be used across its partnerships.
- 3.19 The PSP housing model enables the Local Authority to loan capital to finance housing development which is designed, built and then managed by PSP companies for an agreed period of time. The Council in return owns the development, receives the rent from the housing (net of management costs) and has the benefit of capital growth. PSP has access to a variety of traditional and modern methods of construction along with a partnership with modular contractors who are proto-typing energy contributing housing.
- 3.20 Alongside the evolution of the PSP model, the Council now has several more companies and is moving to ensure that these operate with consistency of reporting in to the Shareholder Board.
- 3.21 PSP Southend LLP was originally established for a 10 year period. Given that this period has only 2 years to run, it is recommended that:
- The objectives of PSP Southend LLP are reviewed and updated to align with the Council's 2050 roadmap and ambition
 - That the LLP is rebranded for a new 10 year period
 - That the PSP Southend LLP board structure is updated so that both Operations Board and Partnership Board (or their equivalents) are officer boards reporting in to the Shareholder Board
 - That the agreement of the detailed arrangements be delegated to the Strategic Director (Finance) and the Strategic Director (Legal and Democratic Services) in consultation with the Leader of the Council.
- 3.22 In relation to the proposed Ilfracombe Avenue development of c.24 units of housing, the initial intention of accommodating a replacement for Southchurch

Library in the ground floor has been proved to be unviable therefore recommendation 2.6 seeks agreement for the scheme to progress as a housing only site (with a Planning Policy compliant level of affordable housing for rent (capped at Local Housing Allowance levels) and for the revenue generated from the scheme to be used to finance the capital required to deal with the existing condition issues which need to be addressed at Southchurch Library. These are estimated at approximately £200,000. This ensures that the site delivers an appropriate level of affordable housing whilst also enabling the wider community benefit arising from the necessary improvements to Southchurch Library.

- 3.23 Moving forward, there is good potential for the LLP to serve the Council well in the delivery of the small to medium sized sites leaving the Council resources available to focus on the continued direct delivery of smaller sites through the Strategic Housing Team and importantly, to focus resources on the very resource-intensive delivery of major schemes such as the next phases of tower block development and other major sites which have the potential to deliver many hundreds of homes and associated development but which will require significant and sustained resources. As always, the use of the LLP is only recommended where it can be demonstrated that it provides the best option for the Council in relation to a given site.
- 3.24 It is recommended at 2.4 that PSP Southend LLP be invited to undertake the next stage of feasibility (to e2) for sites which the pipeline assessment work has indicated would be suitable for PSP delivery This next stage of feasibility will be progressed and, subject to the outcome of that work, recommendations on the way forward will be presented to Cabinet. It is important to note that this feasibility work is non-committal at this stage and also that in relation to most of these sites, delivery via PSP is only one of a number of possible options.

Roots Hall Proposed Development

- 3.25 Roots Hall Limited has recently presented proposals to all councillors for the latest scheme of development at Roots Hall. This development is principally on land belonging to the football club but it also brings in land owned by the Council at 291-301 Victoria Avenue.
- 3.26 The proposed development comprises approximately 500 new homes including c.170 units of Affordable Housing in line with the Council's planning policy DM7 (The initial proposal is for 60% social rented and 40% affordable rented). (NOTE: The scheme is still being refined and has not yet been submitted for planning.)
- 3.27 Officers are currently undertaking due diligence with property advisers Cushman Wakefield's specialist investment and residential teams to assess a proposal for the Council to enter in to an income strip lease of the development.
- 3.28 The proposal is that the Council takes a leasehold interest in the entire scheme at Roots Hall. Under the lease, Citizen Housing Ltd would be responsible for the facilitation and delivery of the development. The Council would be responsible for all maintenance and management and, for the payment of an index-linked rent to Citizen Housing. The Council would then receive all the rents received from the scheme (net of management costs). At the end of the

lease term the full value of the whole development and all future income would transfer to the Council for £1.

- 3.29 It is clear that the delivery of this scheme would make a significant impact on housing delivery numbers both in terms of affordable, and market housing. Homes England are aware, and are supportive of the proposal in principle subject to the Council taking the lease.
- 3.30 The proposal does however present some risk for the Council and it is these which the Council is working with Cushman Wakefield on to fully understand and mitigate if possible.
- 3.31 Subject to the acceptable mitigation of these risks, completion of all necessary due diligence and the refinement of the overall deal (with independent specialist advice), it is hoped that the Council will be able to reach a position whereby the deal can progress as broadly outlined above. The proposal will also need to be checked and ratified by the Council's external auditors for financial prudence and the scheme will require planning permission.
- 3.32 Once the fine details are settled, given the scale and financial impact risks of this proposed transaction the matter will be brought back to Cabinet for agreement.
- 3.33 The recommendation at this stage at 2.6 is therefore that officers prioritise the due diligence work on this proposal so that, assuming it can be worked in to an acceptable position, that it is ready to be presented to Cabinet for a decision.
- 3.34 Members are asked to note that there is potential for the same arrangement to be employed in relation to some or all of the residential element of the proposed Fossetts Farm development and that assuming the proposal can be made to be acceptable for Roots Hall, the work and the principles established in relation to Roots Hall will be portable to that scheme also.

4. Other Options

- 4.1 The Council could opt not to use PSP for further developments although in order to continue the delivery of the range of sites, alternative resourcing considerations would be required.
- 4.2 The Council could opt not to pursue negotiations for an income strip lease for the development at Roots Hall.

5. Reasons for Recommendations

- 5.1 To update Cabinet on progress on the HRA infill sites and acquisition programme.
- 5.2 To allocate funding for the next stages of feasibility work on the pipeline of sites.
- 5.3 The updating and re-branding of PSP Southend LLP will enable it to report in to the Shareholder Board in line with the other Council companies.

- 5.4 Removing the library from the scheme at Ilfracombe Avenue will significantly improve viability and deliverability and enable investment in to the existing library building.
- 5.5 To enable officers to progress negotiations in relation to the Roots Hall development proposals.

6. Corporate Implications

6.1 Contribution to the Southend 2050 Road Map

The development of the housing and regeneration pipeline, the proposed acquisition of property to be utilised for affordable housing in the borough both work towards the Southend 2050 Safe and Well outcome of **“We are well on our way to ensuring that everyone has a home that meets their needs”**.

The development of a regeneration framework and pipeline are also key contributors to the Opportunity and Prosperity outcomes “We have a fast-evolving, re-imagined and thriving town centre, with an inviting mix of shops, homes, culture and leisure opportunities” and **“Key regeneration schemes, such as Queensway, seafront developments and the Airport Business Park are underway and bringing prosperity and job opportunities to the Borough”**.

Southend’s *Housing, Homelessness & Rough Sleeping Strategy* aims to provide ‘decent high quality, affordable and secure homes for the people of Southend’ and the development and purchase of affordable contributes to this.

6.2 Financial Implications

A capital budget of £645,000 is required for the first phase of feasibility of the Pipeline schemes. This is an initial estimate is based size specific costs and will cover the necessary title investigations, valuations, site and environmental investigations, architectural feasibility and high level development appraisal work required to progress these opportunities. The capital budget will be funded from capital reserves held within the General Fund and HRA as appropriate to the scheme under consideration

The report identifies approximately £200,000 of capital works required to improve Southchurch Library and that these will be funded through borrowing with the financing costs covered by the income from the Ilfracombe Road site.

6.3 Legal Implications

Initial consultation has been undertaken with the Council’s Legal Team and ongoing work is being undertaken with Essex Legal Services for the Acquisitions Programme.

6.4 People Implications

No People Implications regarding the Pipeline or the re-branding of PSP Southend LLP.

There are resourcing implications in the delivery of the pipeline which will need to be addressed as the project develops, some of which will be addressed through the management restructuring proposals currently being implemented.

6.5 Property Implications

The main purpose of the pipeline work is to review, and develop a strategic approach for the Council's forthcoming or latent development opportunities and this will of course generate many strategic and details property implications as the work progresses.

6.6 Consultation

Consultation has taken place with internal colleagues for the pipeline as referenced in 3.5 above. As schemes develop further consultation will be undertaken with the Planning department, local residents and ward members as appropriate.

6.7 Equalities and Diversity Implications

The relevant equality assessments will be undertaken where necessary.

6.8 Risk Assessment

Risk register and issue logs will be used as part of the development of the sites within the Pipeline and are continued to be used for the Acquisitions Programme.

6.9 Value for Money

Value for money assessments will be undertaken by through the pipeline project alongside the relevant Council departments and this will be informed through the feasibility work.

6.10 Community Safety Implications

Potential regeneration and pipeline opportunities will look to meet with Secured by Design standards where possible.

6.11 Environmental Impact

New pipeline schemes will look to improve environmental standards in the build process where possible and also will look to improve landscaping and environmental and economic sustainability where possible.

7. Background Papers

Cabinet Report. *Future Phases of Affordable Housing Development Programme Update*, 17th January 2019

Cabinet Report, *Housing Update*, 25th June 2019