

# METROPOLITAN BOROUGH OF KNOWSLEY

To: The Leader and Members of the Cabinet

Date: 18 July 2012

Wards Affected: All

Portfolio Areas: Regeneration, Economy and Skills

Key Decision

## REPORT OF THE DEPUTY CHIEF EXECUTIVE

### **A STRATEGIC APPROACH TO THE DISPOSAL AND DEVELOPMENT OF COUNCIL-OWNED SURPLUS LAND**

#### **1. PURPOSE OF THE REPORT**

The purpose of this report is to seek the Cabinet's approval of a new approach to the disposal and development of surplus Council-owned land, which would be aimed at delivering housing-led regeneration in accordance with the Council's pledge.

#### **2. RECOMMENDATIONS**

Members of the Cabinet are recommended to:-

- (i) Agree a new approach to the disposal and development of the Council's surplus land as set out within this report;
- (ii) Endorse the proposed strategic approach to the disposal of land which could lead to the Council moving from the generation of defined capital receipts received on an up-front basis to receipts being received on a phased basis as land is developed;
- (iii) Agree to the commencement of a procurement process to identify a shortlist of developers who would then be invited to engage in competitive dialogue prior to submitting tenders as outlined at paragraph 3.9.3 of this report; and,
- (iv) Delegate authority to approve the detailed land packages to the Deputy Chief Executive in consultation with the Cabinet Member with Portfolio for Regeneration, Economy and Skills.

### **3. BACKGROUND**

- 3.1 The Council has made a pledge to invest in the development of 426 new affordable homes and to make land available for up to 2,250 additional homes in the Borough. Through a pro-active approach to the disposal of its own surplus land holdings, the Council can itself play a significant role not only in the delivery of such land for housing but also by taking the pledge a stage further by ensuring the delivery of new homes on that land.
- 3.2 In order to achieve this outcome, a new approach to the disposal and development of surplus Council land is proposed, based on the establishment of a strategic partnership working with housing developers. As land owner, the Council is in a strong position to influence both the quality and pace of development whilst also deriving an equitable share of financial return. The proposed approach will deliver new homes to agreed standards and timescales in line with the Council's Housing Strategy and our aspiration to transform the Borough. The proposed approach will also sustain and create local employment.
- 3.3 The Council owns 229 acres of surplus land. This land is spread over 58 sites, of which 13 are located in the south of the Borough, 15 in the central area and 30 in the north. Maps identifying specific sites (which are listed at Appendix A) are available on request from the Deputy Chief Executive.
- 3.4 The traditional approach adopted by the Council to disposing of development land has been by competitive tender, which is well proven to achieve high land values in a buoyant market. However, in the current market where housing developers are more cautious and finance more difficult to come by, this approach does not necessarily achieve the desired outcome. Where land does change hands, it does not always lead to development, as often the land is "banked" or attempts are made to sell on by speculators. This situation can also lead to neighbourhood issues as land is often left overgrown and can attract anti-social behaviour
- 3.5 Furthermore, whilst sales by tender in the right market conditions are effective in terms of achieving high land values on individual sites, they are not always the best way of maximising the benefits to be achieved in disposing of larger multi-site land holdings where a variety of outcomes may be desired, including cross-subsidy across sites of varying quality and market appeal.

3.6 In such cases, it can instead be beneficial to enter into a different relationship with developers, which can specify a variety of outcomes and also a more equitable share of financial rewards than can often be achieved via a sale by tender. By working together, it is also possible to minimise the developer's finance charges on land costs and share in the benefit of this reduction in costs.

3.7 The range of outcomes that the Council would wish to see under such an arrangement would include as an example:-

- The delivery of specific house types and tenures;
- The provision of affordable housing and specialist housing;
- Development of difficult sites as well as prime sites;
- New energy-efficient homes;
- A planned programme of comprehensive development; and,
- A share of developer's profit.

3.8 In order to test this approach, informal discussions have been held with three housing developers and two local registered providers of social housing. These early discussions have established that:-

- There is an appetite in the market for working in partnership;
- Developers are actively building again and are keen for new opportunities;
- Developers want to develop in Knowsley;
- There is experience of housing-led regeneration creating its own market in areas of low demand;
- Developers recognise the benefits of cross -subsidy in bringing forward sites of varying quality;
- There are examples of similar approaches working well with other local authorities; and,
- Developers work well with registered providers of social housing to deliver affordable housing.

3.9 The discussions have informed the development of options for moving forward. The following options have been identified:-

### 3.9.1 *A Framework Agreement*

This approach would comprise the assembly of a framework of a small number of development partners under a common set of financial and development principles, who would then be invited to bid for packages of sites in competition. Whilst this approach would enable the Council to clearly establish the partnership terms, it does involve a two-stage procurement approach in accordance with European Regulations, which adds time and cost. The framework would be established for a period of up to four years and each separate package would be subject to a mini-competition between the selected developers. Experience also shows that frameworks do not necessarily deliver the full benefits of open competition over their life and can be very inflexible, as there needs to be a long-term commitment to both the selected developers and the terms of the framework.

### 3.9.2 *A Single Partner*

The Council could enter into a development partnership with a single partner to develop all sites via a single procurement exercise. This would enable a long-term relationship to be developed and could offer supply chain benefits. There would however be only a limited number of developers who would be able to effectively develop on the scale envisaged and maintain a level of progress acceptable to the Council. There is also a risk that the predominance of one developer could lead to a lack of variety and that the absence of competition may lead to complacency.

### 3.9.3 *A Packaged Site Approach*

Under this approach, the Council would identify a small number of packages of sites and market them in open competition with the benefit of a comprehensive brief. The brief would detail the Council's expectations in terms of all outcomes and bids would be scored against the delivery of these. A development partnership agreement would then be completed in order to secure the delivery of the outcomes. This would ensure a high degree of competition, be of sufficient scale to generate efficiencies, and would ensure that the Council retained sufficient control to guarantee delivery. The procurement would be conducted in two stages, with the first stage involving pre-qualification to identify a shortlist of developers which would then be invited to submit tenders for each package following a competitive dialogue process.

3.10 Of the three options identified in section 3.9 of the report above, the packaged site approach offers the best compromise between securing the delivery of the necessary outcomes, ensuring competition and benefitting from a partnership approach. Whilst it does involve a

complex procurement process, this would ensure that the process is open and transparent.

- 3.11 It is recognised that there is a risk that the inclusion of all sites in the packages could leave no sites available for small local builders. This in turn could have a detrimental effect on a number of small local businesses, which would not be desirable. Therefore, at the competitive dialogue stage of the procurement process, larger developers would be encouraged to put forward consortia bids, including potentially small local builders and registered social landlords in order to maximise the social value of any partnership. In addition, in order to ensure continuity of supply of such sites to support small local builders, it would also be intended to leave a number of small sites out of the packages and to continue to dispose of these on a programmed basis over a number of years.

#### **4. BUILD NOW, PAY LATER**

- 4.1 In the current economic climate, some developers are unable to commit their limited capital resources to making full up-front payments in return for land value. There is a risk that this could limit the response to a procurement exercise in terms of both the number of developers who respond and the level of offers received. In addition, it could also hinder development progress and lead to a land banking situation, which is exactly what the proposed approach is aiming to avoid.
- 4.2 A response to this risk could be the adoption of a “Build Now, Pay Later” approach. This would allow the developer to better manage development cash flow as land value is not an up-front payment and, depending on the approach, can also allow some sharing of the risk on sales values between landowner and developer.
- 4.3 Build Now, Pay Later is particularly appropriate for larger more complicated sites which would require significant capital investment to unlock the development potential. Such sites may require up-front investment in infrastructure, remediation or other abnormal development costs. There may also be planning uncertainty affecting timescales and the scale of development. It can also be a beneficial approach where development revenues are likely to be spread over a number of years and may also secure greater returns for the landowner.
- 4.4 The use of Build Now, Pay Later should be tested on a site by site basis to ensure value for money and affordability. This can be best achieved by comparing bids on Build Now, Pay Later terms against the traditional up-front payment basis with overage. As Build Now, Pay Later reduces the developer’s finance costs and provides some degree of risk sharing, it should be more attractive to the developer than an

upfront single payment. This should be reflected in the developer's overall financial offer for the land.

#### 4.5 *Phased Payments*

There are various Build Now, Pay Later models. For example, the "phased payments" approach is commonly used across the public sector where the land value or base price is apportioned across a number of phases with specified dates or triggers for when payments would be made. As the full land value is not paid up-front, there is less pressure on the developer's cash flow and financing facility. The developer bears less initial risk, as payments are linked to completed or sold phases and this again should be reflected in the price bid and the willingness of developers to compete for the site. The timing of payments and percentage of land value paid on completion of each phase can be varied to suit the risk characteristics of the site, e.g. greater receipts later in the development cycle may improve the development cash flow further.

#### 4.6 *Risk Sharing*

Alternatively, risk sharing based on a percentage of receipts may be preferable for sites requiring significant infrastructure investment and may be attractive to developers in markets where there is greater uncertainty over receipts. This approach would not normally specify payment dates or the amount to be paid on completion of each phase but would apportion the sales receipts between the developer and landowner. The percentage share would typically be the outcome of the competitive process and the model can include long-stop payments/dates. This approach would normally involve a sharing of the risk and reward from market movement in house prices and the subsequent revenue generated but would not generally include sharing the risk of fluctuations in development costs, which would be borne by the developer.

### **5. NEXT STEPS**

- 5.1 Should the packaged site approach be progressed as recommended in this report, the next step would be to identify an appropriate first phase package. It is important that any package is large enough to attract recognised house builders, but not too large, which could lead to narrowing the market. Initial soft marketing testing has been undertaken to determine an appropriate scale and it would appear that a package of sites, which would lead to the construction of between 300 – 500 homes over a period of 2 – 3 years would be appropriate.
- 5.2 In practical terms, there is merit in aligning these geographically along the lines of north, central and south packages. In determining which to progress as a first phase, the Council needs to be mindful of the scale

of development currently proposed in Kirkby and the impact this will have on communities over the next few years. Further development in the north of the Borough alongside existing schemes runs the risk of having a negative effect, although this would be kept under review as the timing of other development proposals becomes clearer.

- 5.3 In addition, plans remain in place for the ongoing housing development being delivered through the North Huyton Revive regeneration programme in the central area of the Borough, and therefore it is important that undue competition is avoided with this programme. These two factors may point to a first phase package being concentrated predominantly in the south of the Borough.
- 5.4 The importance of ensuring comprehensive development and cross-subsidy by combining sites of varying quality has been identified above as an advantage of the approach to be adopted. The first phase package therefore needs to include an appropriate mix of sites.
- 5.5 As outlined above, the first stage of the procurement process would be to identify a shortlist of developers through a pre-qualification questionnaire process. The shortlisted developers would then be issued with detailed development briefs for each site in the first package, which would specify the expected outcomes and also the financial/legal parameters. The developers would submit initial proposals which would form the basis of a competitive dialogue process prior to inviting tenders. The outcome of the tender exercise would then be the subject of a further report for approval by the Deputy Chief Executive in consultation with the Cabinet Member with Portfolio for Regeneration, Economy and Skills.
- 5.6 Alongside the proposals in this report, additional support to stimulate the supply of affordable housing within the Borough is also being considered such as support for First Time Buyers (e.g. mortgage guarantor schemes), proactive approaches to bringing empty homes back into use and working with partner Registered Social Landlords around shared ownership schemes.

## **6. RESOURCE IMPLICATIONS**

### **6.1 Financial**

- 6.1.1 The financial implications of adopting the proposed approach set out within this report are currently not quantifiable. The proposed approach for the disposal of Council land could move away from the traditional sale and upfront payment to a phased payment model. A future report will detail the outcome of the procurement process and the detailed financial implications will be taken into account before any decisions to dispose of any packages of land are taken.

- 6.1.2 In addition to the above, the Council would receive additional Council Tax revenue and funding through the New Homes Bonus scheme for any additional properties constructed in the Borough.

## **6.2 Human Resources**

There are no direct human resource implications as a result of this report.

## **6.3 Information Technology**

There are no direct information technology implications as a result of this report.

## **6.4 Physical Assets**

The report focuses upon potential future disposal methods of Council owned land and the benefits and impacts that this may have at a neighbourhood level.

## **7. RISK ASSESSMENT**

- 7.1 There is a risk that packaging sites together and coming to an arrangement with a small number of large developers could be detrimental to small local builders. By keeping smaller sites out of the packages and releasing these to market in a programmed way, the Council can continue to maintain a supply of sites for small local builders.
- 7.2 There is a risk that, in the current financial and economic climate, the response from developers to the proposed approach may not be positive. Initial discussions have however demonstrated an appetite amongst developers for the proposals and inclusion of the option to Buy Now, Pay Later would assist from a financial perspective.
- 7.3 There are a number of advantages and disadvantages associated with the precise way the arrangement with developers could be configured. These are set out at above at section 3.9 of the report above and have informed the arrival at the recommended approach.

## **8. IMPACT ON POPULATION GROUPS**

There is no direct impact on any population group as a result of this report. However encouraging development in this way will allow the Council to meet both its housing need and its aspiration, it may also allow the needs of special need group, such as the elderly to be met.

## **9. COMMUNICATIONS ISSUES**

- 9.1 Consultation has taken place with the relevant Ward Members prior to the Council declaring the potential development sites listed at Appendix A as surplus to requirements.
- 9.2 Elected Members and residents would also be consulted on any specific proposals for any site as part of any planning application process.

## **10. CONCLUSION**

The proposed approach to the disposal and development of Council owned surplus land would enable the delivery of new homes on land identified as suitable for housing in line with the Council's pledge and Housing Strategy.

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### Appendices:-

Appendix A List of Potential Residential Development Sites

### Background Papers:-

None



## **APPENDIX A**

### **LIST OF POTENTIAL RESIDENTIAL DEVELOPMENT SITES**

<b>Description</b>	<b>Location</b>	<b>Area (Acres)</b>
Former Cherryfield School, Rockford Avenue	Kirkby	7.68
Scotchbarn Lane	Prescot	7.26
Brookside Primary School, Waterpark Drive	Stockbridge Village	7.07
Nine Tree Primary School, Hollow Croft (*)	Stockbridge Village	6.03
Knowsley Southern Primary Support Centre, Arncliffe Road	Halewood	5.98
Huyton Leisure Centre, Roby Road	Huyton	5.73
Knowsley Northern Primary Support Centre, Bramcote Walk	Kirkby	4.94
Roughwood Drive	Kirkby	4.45
Former Simonswood School, Land to the South of Quarryside Drive	Kirkby	4.32
Former St Joseph The Worker Playing Fields at Bewley Drive	Kirkby	3.34
Former Sacred Heart School, Westhead Avenue	Kirkby	3.19
Land at Highfield	Kirkby	2.10
Greenway Square, Green Way	Huyton	1.61
Astley Road	Huyton	1.51
Rear of Properties, Cedar Road	Whiston	1.51
Land at Bramcote Close	Northwood	1.21
Land at Knowl Hey Road/Blakeacre Road	Halewood	1.11
Frederick Lunt Avenue	Knowsley Village	1.01
Land at Ormond Crescent/Wyllin Road	Kirkby	0.99
Site 1 - Prescot By-pass/St Helens Road	Prescot	0.94
Land to the Rear of 47-55 Brook Hey Drive	Kirkby	0.79
Land at Carfax Road	Kirkby	0.74
Land at Copthorne Road/Melverley Road	Kirkby	0.72
Land at Pitsmead Road	Kirkby	0.72
Land at Overdene Walk/Lyelake Road	Kirkby	0.67
Land at Simonswood Lane	Kirkby	0.62
Behind 1 to 23 Normandy Road	Huyton	0.59
Former Stockbridge School, Pool Hey (*)	Stockbridge Village	16.88
Land off Shevingtons Lane	Kirkby	0.59
Land at Copthorne Walk	Kirkby	0.57

Land at Garth Road	Kirkby	0.54
1 to 7 Thursby Walk	Kirkby	0.54
Land at Garth Road	Kirkby	0.49
Land at Carrs Terrace (off Cross Lane)	Prescot	0.49
Land at Bramcote Walk	Kirkby	0.44
Malta Close	Huyton	0.42
Land to rear of 11 Chadwell Road	Kirkby	0.37
Land to rear of 10 Frederick Lunt Avenue	Knowsley Village	0.37
Land between Shelley Close and Byron Close	Huyton	0.35
Land adjacent to St Leo's Church, Rudgate	Whiston	0.35
Land at Ennerdale Close	Kirkby	0.32
Gilescroft Avenue	Kirkby	0.32
Land to rear of 61 Honey Hall Road	Halewood	0.32
Land at Dryden Grove	Huyton	0.30
Dragon Drive – Land Adjacent to Whiston Library	Whiston	0.30
Land to rear of 17 Woodlands Road	Huyton	0.27
Corner of Broad Lane and Pinfold Crescent	Kirkby	0.27
Adjacent to 16 Browning Close	Huyton	0.17
St Agnes Primary School	Huyton	2.92
St Dominic's (Subject to Land Swap)	Huyton	2.36
Hillside/Knowsley Lane (Former Training and Conference Centre)	Huyton	7.33
Former Kirkby Leisure Centre Site, Valley Road (3 phases of 6 acres)	Kirkby	18.00
Mill Lane, Kirkby	Kirkby	3.92
Former All Saints School	Kirkby	26.76
Tower Hill Regeneration Area	Kirkby	33.36
Bridgefield Forum (3 phases)	Halewood	21.50
St Edmund of Arrowsmith	Prescot	10.29
The Avenue	Halewood	1.50
Total		229 Acres

(\*) Although currently identified as surplus to Council requirements, the future of these sites is being reviewed as part of the Stockbridge Village Master Planning Process.