

Report to: EXECUTIVE CABINET

Date: 28 July 2021

Executive Member: Councillor Oliver Ryan-Finance and Economic Growth

Reporting Officer: Jayne Traverse, Director of Growth
Gregg Scott, Assistant Director- Investment, Development and Housing.

Subject: FORMER HATTERSLEY DISTRICT CENTRE

Report Summary: This report provides recommendations surrounding an agreement to sell land including the Former Hattersley District Centre to Onward Homes Limited (who are adjoining landowners), thereby facilitating a wider residential redevelopment scheme.

Recommendations: It is recommended that Executive Cabinet approve the disposal of its Freehold interest in the land areas, which includes the Hattersley District centre shaded green and blue on the attached drawing 18-012/02 (**Appendix 1**) for £1, subject to an Overage provision in favour of the Council of £350,000 together with a contractual obligation for the Council to receive Nomination Rights in respect of a completed development for less than the best price reasonably obtainable on the basis it will promote or improve the economic, social or environmental well-being of the Borough.

Corporate Plan: It will formalise and facilitate a request from a Registered Provider who is seeking to provide a more comprehensive redevelopment opportunity; and supporting the proposals would also release Homes England subsidies and Brownfield Homes Funding (remediation funding), thereby assisting inward investment and regeneration locally. The proposed measures shall contribute to delivering corporate priorities-housing, economic growth and employment opportunities.

Policy Implications: Continued inward investment within Hattersley is essential for a range of social and economic reasons in order to create a sustainable community; plus the intended development would regenerate a redundant site that has lain vacant for many years and is subject to fly-tipping and anti-social behaviour.

Financial Implications: The report proposes to dispose of Council owned land in Hattersley to Onward Homes Ltd for the purpose of a wider development scheme. Onward Homes own adjoining land which would be included in the development (please see **Appendix 2**).

(Authorised by the statutory Section 151 Officer & Chief Finance Officer) The disposal will enable Onward to develop the site via external funding (section 2.1 refers).

The proposed development will comprise of 161 homes (section 1.2 refers). This would realise estimated annual council tax revenue of £0.172m for the Council based on band A 2021/22 council tax rates. The actual level receivable will vary and will be dependent on potential discounts awarded due to household circumstances and council tax rates that prevail at the time of residence.

This development is also one of four Older People's Extra Care schemes within Adult services to support current and future demand (section 2.4 refers). The development is expected to avoid future service costs currently estimated at £0.122m per annum.

Section 1.8 of the report states that Sanderson's (independent valuers) reported a best consideration figure of £0.361m for the land. The proposed recommendation would result in a disposal at £0.361m less than best consideration.

Members should note however, that section 3.2 of the report references an overage provision which is capped at £0.350m that would be receivable by the Council in the event of the disposal of 18 designated properties on the development at a future date (Appendix 3 also refers).

Each party will cover their own costs relating to this transaction if approved. The cost to the Council has been £0.007m to date with any further costs financed via the existing Growth directorate revenue budget.

Members should be satisfied that the proposed recommendation demonstrates value for money for the Council alongside the estimated financial benefits that will be realised as set out within the report and summarised within these comments.

**Legal Implications:
(Authorised by the
Borough Solicitor)**

The report explains that the transfer is for less than the best price reasonably obtainable. The transfer can only go ahead if the Council considers it will promote or improve the economic, social or environmental well-being of the Borough.

It is important to balance the benefits of the scheme with the disposal of Council assets for what is potentially no capital receipt, since there is no guarantee that any of the properties will be sold.

It is possible to protect the Council's interest in the transfer, but this will require robust negotiation by the Development Team with clear commercial terms for any overage to be agreed in advance of instructing Legal Services.

The Council has a precedent for transactions of this nature and it has been advised that the terms of the overage reflect those previous transactions. Given that the Council will be transferring at less than best consideration it ought to take a robust approach in prescribing the form of overage that it requires.

Risk Management:

Grant funding does not materialise, jeopardising the overall development: Unlikely, as negotiations surrounding grant funding are well advanced by Onward Homes.

Further Abnormal costs prevent the intended scheme from a financial perspective: this risk is low, as Onward have undertaken extensive investigation surveys, factored significant abnormal and remedial costs within their appraisals and have tendered the whole project with a contract to develop out the project currently available to implement.

Market uncertainties, particularly surrounding Covid-19, push the developer into a less risky development elsewhere: again unlikely and Onward Homes still appear eager to progress the intended development, have invested heavily in the project and consider this

location as a key investment and regeneration area in their business plan.

Background Information:

Appendix 1:	Plan of area of land at the corner of Hattersley Road East and Beaufort Road, SK14 3EQ, referred to as "Property 1" comprising 0.58 hectares (1.45 acres) of brownfield land in the residential area of Hattersley, previously accommodating Hattersley Community Centre; which has now been demolished
Appendix 2:	A plan of the wider redevelopment site proposed by Onward Homes
Appendix 3:	Terms and conditions of transfer
Appendix 4:	Independent valuation from Sanderson Weatherall ("Sandersons") on 9 April 2020,
Appendix 5:	Valuation to comply with Council's obligations under Section 123 of the Local Government Act 1972

The background papers relating to this report can be inspected by contacting Howard Elliot-Jones, Senior Surveyor — Estates:



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1. INTRODUCTION

- 1.1 On 30 September 2020, the Council approved an updated policy, thereby allowing the Authority to consider the disposal of its assets. The policy advocates a 'two step' approach, with Executive Cabinet initially declaring an asset surplus after prior consultation with Ward Councillors, prior to officers seeking to negotiate terms for a sale, which can then be approved by the Director Growth in consultation with the Executive Member (Finance and Economic Growth). The subject asset was declared surplus at Executive Cabinet on 30 September 2020 as part of an initial 'batch' of assets that the Council are now looking to bring forward for sale.
- 1.2 The Council owns an area of land at the corner of Hattersley Road East and Beaufort Road, SK14 3EQ, referred to as "Property 1" comprising 0.58 hectares (1.45 acres) of brownfield land in the residential area of Hattersley, previously accommodating Hattersley Community Centre; which has now been demolished (please see **Appendix 1**). The site now is under consideration as part of a larger development to provide 91 Extra Care Units within a single building made up of 60, one bed two person apartments and 31, two bedroomed three person apartments; together with 70 residential units on the remainder of the overall site.
- 1.3 An additional area, referred to as "Property 2" comprises of 168 sqm (0.0415 acres) of public open space land containing a footpath (also shown in **Appendix 1**). Planning Permission has been obtained on both the wider Hattersley District Centre site and adjoining land for residential redevelopment: with property 2 included within the planning permission to be used as garden land for two dwellings and public open space.
- 1.4 Negotiations have been ongoing for several years with Onward Homes, who approached the Council and advise that they have secured planning permission to develop the land for houses and apartments (Planning reference **20/00129/FUL**). Onward Homes are keen to fulfil their grant requirements and commence with the affordable housing scheme in early 2021. A plan of the wider redevelopment site proposed by Onward Homes is attached (please see **Appendix 2**).
- 1.5 The intended scheme incorporates the Council's land (Property 1 and Property 2): Onward Homes are therefore looking to acquire the subject area in order to deliver their intended wider redevelopment scheme. At the Executive Cabinet meeting held on 30 September 2020, the subject area was declared surplus and in line with the policy agreed, delegation would now pass to the Director of Growth as part of an Executive Decision in consultation with the Executive Member, Finance and Economic Growth.
- 1.6 Terms have been agreed for the Council to transfer its Freehold interest in the subject area of land to Onward Homes for £1 (one pound). An overage provision (should Onward dispose of specified accommodation within the scheme) is proposed, in view of any potential shortfall (referred to below). Based on the Extra Care scheme being proposed, this nominal sum is in excess of the (negative) value independently reported, as a consequence of the significant 'abnormal' costs associated with development of the land. All other terms and conditions are outlined in **Appendix 3**.
- 1.7 As outlined above, the Council obtained an independent valuation from Sanderson Weatherall ("Sandersons") on 9 April 2020, in anticipation of the sale (please see **Appendix 4**). The valuation report advised that, having regard to the cost schedule provided for the proposed extra care development (a *residual valuation*), the development costs would outweigh the Gross Development Value of the scheme on completion. It was apparent from the costings that some very substantial, abnormal site costs apply to the overall site, with further high preliminary costs. These costs, added to the already high build costs were determined to exacerbate the unprofitability of the overall scheme, which reported a **negative** value of £275,000 for the Council owned land.

- 1.8 Further valuation advice for internal purposes was received from Sandersons on 30 April 2020 (please see **Appendix 5**): this specifically highlighted the Council's obligations under Section 123 of the Local Government Act 1972 when considering a disposal at "less than best consideration". This second report provided a value of the land disregarding the development proposals for the Extra Care facility: In this separate appraisal, Sandersons used the *comparative method* of valuation, applying a rate of £250,000 per acre to the site area. This appraisal was on an unrestricted basis (ie independent to the scheme proposed by Onward Homes). Sandersons concluded the development site(s) would be suitable for development in isolation, commenting "The size of the site would provide a good quantum of development and it benefits from road frontage and access". The valuation therefore considered the council owned site, which was excluded from the overall scheme developed by Onward Homes. This additional guidance reported a figure of £350,000 for property 1. A figure of £11,500 was reported for property 2, albeit Sandersons commented this was not capable of development in isolation, envisaging limited demand, should interest not be progressed by Onward Homes.
- 1.9 As stated, the land has several underlying issues, with significant abnormal costs and excavation of former foundations envisaged, which were not necessarily reflected within the later valuation provided by Sandersons (which reported a positive land value); albeit these costs are scheme specific in the Valuer's opinion (ie they relate solely to the Onward scheme). Further discussions with the Valuer indicate a reluctance to amend the higher valuation figure, in the absence of site specific abnormal and remedial costs for the council site only, which we do not hold and which would be costly and time consuming to produce.
- 1.10 Irrespective of whether Sandersons amend their assessment of Market Value as a result of any updated remediation costs that may become available, Onward Homes would not be in a position to pay a positive land value in order to deliver their scheme (as the residual appraisal prepared by Sandersons demonstrates a negative land value of £275,000). The Council therefore need to determine whether or not it is prepared to consider a sale to Onward Homes at a potential, **maximum** undervalue of £361,499 (i.e. Property 1 value of £350,000 and Property 2 value of £11,500, less £1) in order to deliver the scheme and realise the benefits being provided by the scheme.
- 1.11 To explain, whilst the Council has obligations under s.123 of the Local Government Act 1972 in order to obtain best value, the Council has further powers under The Local Government Act 1972: General Disposal Consent (England) 2003 to dispose of land at an undervalue in special circumstances, which are:
- a. The Local Authority considers that the purpose for which the land is to be disposed is likely to contribute to the achievement of any one or more of the following objects in respect of the whole or any part of its area, or of all or any persons resident or present in its area;
 - i) the promotion or improvement of economic well-being;
 - ii) the promotion or improvement of social well-being;
 - iii) the promotion or improvement of environmental well-being; and
 - b. the difference between the unrestricted value of the land to be disposed of and the consideration for the disposal does not exceed £2,000,000 (two million pounds).

2. FURTHER CONSIDERATIONS

- 2.1 In terms of the above, the proposed scheme meets the criteria within points i), ii) & iii) above, namely:
- i) the promotion or improvement of economic well-being, with the injection of nearly £11 million of Public Subsidy (estimated as £2.8m for remediation from Brownfield Homes Fund ("BHF") and £8.2m as Housing Subsidy from Homes England). This injection relies on the inclusion of the Council owned site within the wider redevelopment proposal.

- ii) the promotion or improvement of social well-being, which is facilitated by the inclusion of 91 bedroom Extra Care facility within the community.
- iii) the promotion or improvement of environmental wellbeing: this arises from the substantial remedial works to be conducted by Onward, which are a necessary pre-requisite to developing or using the overall site and will be facilitated by the injection of funding (referred to above).

2.2 It is confirmed that the difference between the unrestricted value of the land to be disposed of and the consideration for the disposal does not exceed £2,000,000 (two million pounds).

2.3 In terms of the BHF, GMCA are looking at the following time scales to sign off grant funding agreements, as follows:

- Agreement on output deadlines and overage/clawback triggers before Legal work commences: as soon as practically possible.
- Receipt of State Aid/Subsidy Control and Certificate of Title: to follow agreement, above.
- Receipt of Solicitors comments on Draft Funding Agreements: to follow agreement, above.
- Exchange of a Funding Agreement by 31 July 2021.

As discussed, the envisaged funding exceeds £2 million and if lost, this could jeopardise the project.

2.4 Some of the benefits to be conferred upon the local area from the scheme are as follows:

- Increased Council Tax revenue.
- A projected total scheme in excess of £28 million in value, providing much needed investment.
- Providing holistic redevelopment to the location.
- The intended scheme has already been tendered; and is ready to commence on site to take up BHF subsidy as well as Homes England funding.
- Creating a mixed housing development in terms of tenure and housing type.
- Facilitates the need to expand Extra Care across the Borough, encouraging independent living, ensuring Best Value from a quality of life perspective and cost basis.
- Links to overall regeneration strategy in the locality, including open space and the wider strategy at Godley Green and proposed infrastructure improvements.

3. CONCLUSION

3.1 Decision making may wish to focus on the initial figure (the negative valuation) produced by a residual method of valuation; with further thought directed towards the opportunity for the properties to be developed as part of a wider regeneration scheme of the Hattersley District Centre. Further uncertainties surrounding the site conditions have been exacerbated by Coronavirus (COVID 19) - the impact of the virus on the UK generally, with a high chance this volatility will naturally impact on property prices.

3.2 Subsequent discussions with Onward Homes have enabled an Overage provision to be included: this identifies certain houses within the intended scheme from which the Council would benefit, in the event they are sold, to a maximum of £350,000.

4. RECOMMENDATIONS

4.1 As set out at the front of the report.