

REPORT TO	ON
CABINET	Wednesday, 13 November 2019



TITLE	PORTFOLIO	REPORT OF
Options Appraisal and Business Case for the McKenzie Arms, Bamber Bridge	Cabinet Member (Finance, Property and Assets)	Assistant Director of Property and Housing

Is this report a <b>KEY DECISION</b> (i.e. more than £100,000 or impacting on more than 2 Borough wards?)	<b>Yes</b>
Is this report on the <b>Statutory Cabinet Forward Plan</b> ?	<b>Yes</b>
Is the request outside the policy and budgetary framework and therefore subject to confirmation at full Council?	<b>No</b>
Is this report confidential?	<b>No</b>
	<p><b>However Appendix A is confidential in line with Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972.</b></p> <p><b>Information relating to the financial or business affairs of any particular person (including the authority holding that information)</b></p>

## PURPOSE OF THE REPORT

1. To update Cabinet on the development appraisal for the former McKenzie Arms site off station in Bamber Bridge with a view to developing the site for housing.

## PORTFOLIO RECOMMENDATIONS

2. That Cabinet approve the development for 15 dwellings and proposed scheme mix for the site for the purposes of providing affordable housing.
3. That Cabinet agree whether or not to enhance the scheme to the Passivhaus standard.
4. That Cabinet agree in principle to commit section 106 and other funding to finance the scheme and recommend to Council that section 106 and other funding should be committed to take this scheme forward.
5. That Cabinet approve the proposal to be developed into a planning application.

6. That Officers report back to Cabinet following the decision from planning committee to update Cabinet on any conditions attached to the development, to consider the preferred procurement route and update Cabinet on progress made in identifying further sources of funding from other bodies to reduce the contribution of the Council in financing the development.

## REASONS FOR THE DECISION

7. The decision taken will meet the Council's Corporate Plan priorities in relation to delivering different models to provide quality homes that people can afford to live in whether they chose home ownership or rented accommodation.
8. The decision shall also enable a much underused Council asset to be utilised to provide much needed affordable housing in Bamber Bridge.

## EXECUTIVE SUMMARY

9. The report provides Cabinet with an update on the work undertaken to date to bring forward this site for development.
10. A development appraisal has been completed which has recommended the redevelopment of the site to provide 15 dwellings for affordable housing.
11. The development shall comprise of 3 three bedroom Townhouses, 9 One bedroom apartments and 3 two bedroom apartments. There is a healthy demand for all properties to be developed.
12. There is a gap of £704,819 between the total costs of the scheme and the value of the scheme. There are a number of reasons for this including the additional costs associated with high quality design and meeting national guidance on space standards (circa 20% bigger than what is typically provided by the market), rental values are low and subsequently the payback period for the scheme is circa 37 years.
13. The properties have been designed to high environmental and energy efficiency standards and there is the potential to develop an exemplar Passivhaus scheme design.
14. Should Cabinet approve the recommendations a planning application shall be developed and the outcome of the planning decision and an update on financing and procurement routes shall be reported back to the next available Cabinet meeting following planning committee.

## CORPORATE PRIORITIES

15. The report relates to the following corporate priorities:

Excellence, Investment and Financial Sustainability	
Health, Wellbeing and Safety	√
Place, Homes and Environment	√

Projects relating to People in the Corporate Plan:

Our People and Communities	
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## BACKGROUND TO THE REPORT

- 16.** The McKenzie Arms site was originally purchased by the Council in 2012 to assist in the development of a much larger residential development site to the rear of the site in question. At the time of acquisition, Members were provided with a comprehensive report, setting out the options for purchase, along with an assessment of all appropriate risk, and approval was given for the acquisition.
- 17.** Since 2012, the developer of the land to the rear submitted two separate planning applications with regards developing out land to the rear. One of these application contained the land in question as key access, the second provided access via an alternative route which was not in the control of this Council. Both of these applications where approved by this Council.
- 18.** In 2018, the developer commenced the redevelopment of the land to the rear thus rendering the Council owned site no longer required by the developer for access purposes.
- 19.** The Council undertook a consultation exercise in relation to the McKenzie Arms and a number of other sites in December 2018 and January 2019 and there was only one objector to the change of use from a local resident who wanted the site retained as a car park. There is now an opportunity to bring this site forward for meaningful development, and redevelop this prominent site in Bamber Bridge from a brownfield site, to a development that not only meets the needs of the community, but also develops a quality built environment.
- 20.** The Council's most recent Strategic Housing Market Assessment and the Council's waiting list (Select Move – Choice Based Lettings Scheme) figures for Bamber Bridge indicates most demand for rented accommodation in this area. Furthermore, the South Ribble Housing Land Position Report dated 31 March 2019 has revealed that an average of 54 affordable units have been delivered annually in the Borough over the last 10 years with an average of only 10 affordable dwellings per annum being constructed in Bamber Bridge. This scheme would therefore make a significant contribution towards meeting unmet housing need.
- 21.** The scheme as currently devised will meet the nationally required space and air quality standards. It will provide for an approximate 20% increase in the overall floor area in each of the residential units over what the market is typically delivering. Whilst this increases the build costs associated with the proposed scheme it provides an opportunity to showcase a high quality development to the development market and enhance the welfare of the occupiers.
- 22.** It is recommended that consideration is given to increasing the energy efficiency provided throughout the scheme towards a Passivhaus standard. A Passivhaus building is driven by air quality and comfort, where thermal comfort is achieved solely by post-heating or post-cooling the fresh air flow as required.
- 23.** As such, a Passivhaus building requires very little energy for heating or cooling, whilst providing a high level of comfort for the occupants. The Key Benefits would include:

- Works towards the legislative target of 80% carbon reductions set by the UK government.
- Reduction in energy bills - Passivhaus buildings achieve a 75% reduction in space heating requirements, compared to standard practice for UK new build.
- High quality construction and glazing creates a peaceful, sound-proof environment.
- Excellent indoor air quality helps alleviate allergies and respiratory problems.
- Passivhaus coupled with a small amount of renewables can achieve zero carbon targets.

24. Passivhaus will increase the development costs by roughly £200,000.

## **PROPOSALS (e.g. RATIONALE, DETAIL, FINANCIAL, PROCUREMENT)**

25. Given the size of the development an OJEU compliant tender process shall be required and it is recommend that a 3 stage tender process is carried out as follows:-

- Stage 1 - Expression of interest released  
Prior to carrying out the tender exercise, an initial pre-market engagement should be carried out to ascertain the potential interest in the market for carrying out the development. This would allow the full tender process to be optimised according to the anticipated market demand.
- Stage 2 - Sifting exercise  
The second stage of the tender process would be to release an Expression of Interest to the marketplace. This would allow the number of interested tenderers to be reduced to approximately 6 preferred contractors to be taken to the final ITT stage. This exercise would allow SRBC to filter interested parties by relative experience and capability and potentially set the level of overheads and profits applicable to the tender. Precise Stage 2 quality questions would depend on the type of procurement undertaken (see below options) and discussion with SRBC's procurement team.
- Stage 3 - Selection of a preferred contractor  
The third stage would be for the appointment of the main contractor and would allow SRC to assess the tender returns of the shortlisted tenderers. Precise Stage 3 quality questions would depend on the type of procurement undertaken (see below options) and discussion with the Councils procurement team.

26. There are 3 principal options for the procurement of the main contractor that are considered suitable for a development of this type and size - two stage traditional tender process, two stage design and build process (with or without guaranteed maximum price, and a framework agreement (such as Scape, Homes England).

27. A full breakdown of procurement options can be seen on pages 16 and 17 of the business case.

## **CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION**

28. The Council undertook a consultation exercise in relation to the McKenzie Arms and a number of other sites in December 2018 and January 2019 and there was only one objector to the change of use from a local resident who wanted the site retained as a car park. Local elected members have been consulted and are supportive of the development.

## ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

29. A number of options were considered as part of the business case, the options appraised were:

1. Do nothing
2. Dispose of the Site on the open market
3. Re-develop the Site for market housing
4. Re-develop the Site for affordable housing

### Options Descriptions

#### 30. Option 1. Do nothing

The Site was acquired in 2013 to unlock development for a proposed residential development site known as the Former Wesley Mill with the former buildings demolished following purchase. However, the developer of the Former Wesley Mill site decided to proceed with its scheme (known as Wren Green) using another access route and that development is now well advanced. This effectively created a redundant site which has no alternative current use. Do nothing is therefore not an option.

#### 31. Option 2. Dispose of the Site on the open market

The Site has been valued at between £200,000 and £250,000 however disposal on the open market would be complicated by the overage agreement in favour of the former owner.

It is envisaged that a private owner would bring forward either a small scale housing, or roadside, development, if the Site was sold on the open market. However, there is no certainty on the timing of such development nor the type of development that would be delivered.

#### 32. Option 3. Re-develop the Site for market housing

Consideration has been given to developing the Site for market housing and piecemeal sale of the individual residential units. In this case, SRBC may develop a scheme which would meet local demand characteristics, focusing on the owner occupier and investor market, involving smaller unit sizes (e.g. below nationally described space standards) and may require the use of value orientated construction methods with lower quality design characteristics, to enable a viable scheme.

#### 33. Option 4. Re-develop the Site for affordable housing

This option would entail developing the Site for a quality housing scheme which meets nationally described space standards and established demand for affordable housing in the area with SRBC having sole control over the completed scheme.

#### 34. The recommended option is Option 4 - Re-develop the Site for affordable housing

The reason for this is that this is a unique project which offers some significant opportunities from delivering quality housing for residents at affordable rents. It also creates the potential to deliver an exemplar energy efficiency scheme and have the ability to improve the life of residents.

## FINANCIAL IMPLICATIONS

35. The financial model indicates that the development costs are greater than the investment value of the completed scheme. There are a number of reasons for this including the quality of the design, generous space standards and the proposed rents being charged at affordable rather than market rent. Furthermore, the scheme and site are relatively small

so it is not possible to develop economies of scale and the overage agreement acts as a disincentive to selling properties or selling the site.

36. Due to the above there is a need for the council to cover the short fall on development costs and to provide the land (valued at between £200,000 to £250,000) at nil value.
37. It is estimated that the total scheme costs for the development shall be £2,046,799 with potentially £90,000 grant funding available from One Public Estate land release programme and £1,966,799 available from affordable housing section 106 monies to fund the development. The scheme is estimated to have a value of £1,341,980 and is expected to provide an annual rental income of £60,500 based upon full occupation and affordable rents being charged to tenants.
38. Should Cabinet wish to enhance the environmental standards of the scheme to meet Passivhaus standards then the scheme development costs are likely to increase by a further £200,000.

## **LEGAL IMPLICATIONS**

39. The site is subject to an overage agreement (this terminates in 2032) in favour of the former owner of the site. The overage would be triggered by development of the site as a means of access to the former Wesley Mill site. It is considered that the proposed development of the site for affordable housing as outlined in the report would not trigger these overage provisions. External advice has been obtained in this regard.
40. A short term licence has been provided to the garage owner adjacent to the site to allow him to park vehicles temporarily on the land whilst having works undertaken. This agreement expires in January 2020 and it is not expected to be renewed. Clearly the use of land for parking purposes hardly constitutes the most productive use of the land.
41. It can be confirmed that there are section 106 monies available for the purposes of providing affordable housing within the borough.
42. Procurement issues will be looked into thoroughly at the appropriate time. Inevitably there is some uncertainty over what the requirements will be at this stage due to uncertainty over Brexit.
43. Clearly it will be for planning Committee to decide whether to grant planning permission.

## **AIR QUALITY IMPLICATIONS**

44. The proposed development site is located within an area of poor air quality and has been declared an Air Quality Management Area. The proposed development introduces new additional receptors to this area, specifically plots 1, 2, & 3, whose proposed garden amenity areas will be directly adjacent to the busy road and source of pollution. In addition the development will introduce additional vehicle movements to the area and result in a further deterioration of the air quality in the vicinity of the site.
45. As such air quality will be a material consideration at the planning stage and detailed consideration and assessment of the impacts on air quality will be required, an air quality assessment shall be carried following discussions with the Councils Environmental Health Service.

46. The development will seek to utilise modern means of construction and aim to achieve the highest possible environmental standards.

## **.HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT IMPLICATIONS**

47. Should cabinet approve the recommendations contained in the report then the development would be placed on a full project footing and a project manager would be appointed to manage and oversee the project. A multi-disciplinary project team shall also be developed to ensure the project is delivered to agreed time, cost and quality requirements.
48. The council shall also need to ensure it has the right skills and capacity to effectively manage the housing stock once the development has been completed.

## **ICT/TECHNOLOGY IMPLICATIONS**

49. Not applicable

## **PROPERTY AND ASSET MANAGEMENT IMPLICATIONS**

50. It is recommended that the land equating to £200,000 - £250,000 is provided for the development at nil cost.
51. The development will have implications for the management and servicing of the dwellings which shall be factored into the business plan and implementation plan for the scheme.

## **RISK MANAGEMENT**

52. There are 4 key areas of risk which are summarised below:
53. Financial –The scheme will require a significant level of subsidy from the Council if it is to be financially viability and deliverable. Without this deficit funding the scheme cannot proceed. Officers are examining other potential sources of funding with Homes England to help reduce the deficit however whilst the deficit may come down there will still be a significant gap between the costs of the scheme and the financial returns from it.
54. Reputational – there is a danger that the Councils reputation will be adversely affected if it fails to proceed with the scheme.
55. Site Security – There are presently a number of vehicles parked on the site which will need to be removed prior to the commencement of works and security measures shall be required to prevent vandalism, damage and injury once the construction process commences.
56. Delivery – The overage agreement presents a potential obstacle to delivering the site and the Council shall need to gear up with a project team possessing the right skills and expertise to deliver the development.

## **EQUALITY AND DIVERSITY IMPACT**

57. The allocations and lettings policy for the development shall be subject to equality and diversity legislation which shall be fully complied with.

## **RELEVANT DIRECTORS RECOMMENDATIONS**

58. That members consider the recommendations and clarify how they would like to proceed with the project.

## **COMMENTS OF THE STATUTORY FINANCE OFFICER**

59. This is a costed proposal which is line with the Council's Corporate Plan priorities in relation to delivering different models to provide quality homes that people can afford to live in whether through home ownership or rented accommodation.

60. As set out in the report, the Council is in receipt of s106 developer contributions specifically for the provision of affordable housing which can be used to fund this scheme along with central government funding. If this s106 funding isn't spent then there is a risk that it may have to be repaid.

61. The proposal is that the properties will be owned and managed by the Council but the net rental forecast allows for a management fee element. The forecast rental income is a new income stream for the Council. Other associated costs such as property maintenance, void costs and insurance costs have been factored into the business plan.

## **COMMENTS OF THE MONITORING OFFICER**

62. Please see legal implications above. This is an exciting opportunity. The land clearly needs to be developed. We will ensure that proper procedures are followed throughout.

## **BACKGROUND DOCUMENTS**

63. Please refer to cabinet reports relating to the McKenzie Arms which were considered at Cabinet on the 20 March 2019 and 22 June 2019.

## **APPENDICES**

64. Appendix A - Copy of Business Case for McKenzie Arms Development.

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