



## Report of the Cabinet Member for Business Transformation and Performance

Cabinet - 18 April 2019

### Council Property Development: Phase 2 General Fund

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| <b>Purpose:</b>                    | The purpose of the report is to provide a detailed update concerning progress with the Pilot Direct Property Development Project.          |
| <b>Policy Framework:</b>           | Asset Management Plan  |
| <b>Consultation:</b>               | Finance, Legal, Access to Services   |
| <b>Recommendation:</b>             | It is recommended that Cabinet:<br><br>1) Approve a public information notice to seek expressions of interest for a Joint Venture Partner. |
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#### 1. Introduction

The purpose of this report is to provide a detailed update concerning progress with the Council's Pilot Direct Property Development Project.

This Report considers the following:-

- Review of actions
- Current site specific actions
- Proposed way forward / feasibility scheme layout plans
- Planning applications timeline
- Financial content
- Consideration of setting up an at arms-length property development company versus an in-house model
- Governance

## 2. Review of Actions

The Council is seeking to develop its own general fund sites, to ensure regeneration of sites that previously may have been land banked as well as for financial gain. By taking greater control of the development process land values as well as any element of developers profit could be realised. The Council anticipates that capital values will have to be realised and whilst it is expected that there will have to be some recycling of capital gain to forward fund a cycle of development, capital will have to be put towards the Council's wider capital programme.

This will then assist in meeting the objective of Transforming our Economy & Infrastructure specifically by:

- Progressing strategic housing and mixed development sites to meet housing need and provide employment.

As a result the Council have focused upon the shortlist of identified quick-win sites previously reported; these included five target sites:-

- Home Farm, Singleton Park
- Former Gorseinon Business Park, West Street, Gorseinon
- Land at Mynydd Newydd Road / Milford Way, Penplas
- Land at Midland Place, Llansamlet
- Land at Mynydd Garnllwyd Road, Morriston

Technical and legal due diligence has been undertaken for each site, tailored and adapted to reflect site specific circumstances and issues arising during this process.

A core team of external consultants have been appointed following Council Procurement Policy to deal with all the sites with the exception of Home Farm:-

- Project Managers – Lee Wakemans Project & Development Consultants
- Architects – Gaunt Francis Architects
- Planning Consultants – WPM Planning & Development

In respect of the Home Farm site, the key external consultants appointed using a Regional Consultant Framework are:-

- Project Managers / Architect – James & Nicholas Architects
- Planning Consultants – Asbri Planning

At this stage, only the Project Managers have commenced and now largely completed their work. We are at the point where the Architect and Planning Consultants will now proceed and take the lead.

The technical and legal due diligence information which has been sourced will provide the basis for detailed feasibility schemes to be prepared having regard to practical circumstances and technical viability for each site.

### **3. Current site-specific actions**

#### **3.1 Home Farm, Singleton Park**

Subject to agreement on alternative provision for the existing Parks operational activities, Home Farm could be a unique, specialist and probably a 'once in a lifetime' prestigious opportunity for the Council to bring forward a heritage based development in a hugely sensitive setting, combining refurbishment / safeguarding of historic pioneering farm buildings in conjunction with new build housing.

Home Farm should be considered as a stand-alone project from the other pilot direct development sites.

CADW will be a very important consultee. Strategic Estates established a constructive relationship with CADW during dealings with the former Civic Centre at Penllergaer, where a commercial approach was adopted with sensitivity to heritage constraints. This achieved success with Planning Permission being secured for 80 houses in line with the emerging LDP incorporating 20% affordable housing provision.

Key points to note:-

- Partial technical due diligence has been undertaken with an emphasis upon the conservation, heritage and 'Listed' building / historic park context.
- Copy of the latest feasibility scheme layout plan attached for information.
- The proposed development comprises 42 residential units, including a mix of refurbished buildings and new build together with 20% affordable housing provision.
- Pre-Planning Application submitted to the LPA.
- Considerable constructive dialogue held by Strategic Estates / consultants and the LPA, which has resulted in the current latest feasibility, scheme layout plans.
- Following the submission of substantial technical information as requested, the LPA issued a formal written response to the Pre-Planning Application dated 7<sup>th</sup> September 2018. This will provide the framework for the Council to finalise detailed scheme plans, additional site survey work and progress to submission of a detailed planning application.

#### **3.2 Former Gorseinon Business Park, West Street, Gorseinon**

This is a brownfield site with existing industrial buildings, now vacated. The emerging LDP proposal is for 20 residential units.

A residential development is proposed, most likely to comprise a higher density detached housing scheme; 20% affordable housing provision will be the starting point however it is anticipated that viability issues will drive negotiation to reduce the level of affordable provision on a commercial basis.

Technical due diligence has been 95% completed, to include-

- Asbestos survey
- Ecology surveys
- Geo Environmental surveys
- STATS
- Topographical Survey
- Transport Assessment
- Bats survey
- Drainage survey

There is asbestos present in the buildings, which will require specialist removal prior to demolition works proceeding. Japanese knotweed is prevalent and will probably require removal to a licenced site.

An Outline Planning Application has now been submitted and validated as at 27<sup>th</sup> December 2018, Ref 2018/2724/OUT. Prior to submission of the planning application, consultation was undertaken via a formal PAC; neither the local Ward Member nor Llŵchwr Town Council raised any issues of objection.

### **3.3 Land at Mynydd Newydd Road / Milford Way, Penplas**

A cleared brownfield site that has remained cleared since demolition of the former Co-op store and associated district centre approximately 20 years ago.

A commercial led scheme is proposed, likely to comprise a discount foodstore with say 4-6 smaller unit shops alongside.

Discussions have also been held with HRA regarding an innovative, energy efficient new affordable homes scheme on adjoining HRA land.

Notwithstanding the above, the site has remained undeveloped for a very lengthy period of time, consequently it will be essential to follow an uncomplicated, market driven scheme in order to initiate development and make something happen. In simple terms, too many fingers in the 'development proposals pie' will cause delay and likely frustrate delivery of an occupier led first phase of development.

Technical due diligence has been completed, to include:-

- Arboricultural survey
- Ecology surveys
- Geo Environmental surveys
- STATS
- Topographical Survey
- Transport Assessment

A drainage survey and capacity report are to be finalised. There may be a foul drainage issue. Some additional ecology survey work is required, particularly in relation to Japanese Knotweed / Japanese Rose Plant.

This site will now move forward quickly to architect feasibility layout proposals.

### **3.4 Land at Midland Place, Llansamlet**

This is an historic brownfield site with the benefit of an emerging LDP proposal for 30 residential units.

Preliminary due diligence enquiries have established that the site is subject to a number of constraints, which will have an impact upon development proposals / viability together with an immediate impact upon timetable to complete detailed site investigations.

Problems identified so far include-

- A high ground water table, associated drainage problems and the unknown route of a culvert draining from under the adjoining railway.
- Medium risk of unexploded ordnance associated with historic mine workings.
- Ecology issues, especially tree cover, nest birds and protected species, which has resulted in the on-site geo technical investigations having to be delayed until September 2018.
- The site falls within a planning SINC designation.

Technical due diligence completed so far includes:-

- Acoustic survey
- Arboricultural survey
- Archaeological survey
- Ecology surveys
- Site investigation desk top appraisal
- STATS
- Topographical Survey
- Transport Assessment
- Bat survey

The site constraints will delay progress completing technical due diligence, with a knock-on delay in formulating feasibility plans. Underground mining and contamination intrusive works, combined with unexploded ordnance risks have increased geo-environmental survey costs.

Detailed site investigations will need to be co-ordinated with an ecologist in conjunction with a need to clear a route through the site vegetation for plant / machinery whilst limiting impact upon any specimen mature trees or protected species.

Highway engineering advice will be sought to establish the optimum point of access having regard to topography, situated at some point along Midland Place frontage opposite the existing junction with Ffordd Llundain.

### **3.5 Land at Mynydd Garnllwyd Road, Morriston**

In part, an historic brownfield site with an emerging LDP proposal for 95 residential units. However depending upon the boundary of Council land ownership brought into the site, there may be potential to increase housing numbers.

Preliminary due diligence enquiries have established that the site is partly constrained by the presence of a mineshaft near Mynydd Garnllwyd Road in the middle of the road frontage. This mineshaft will require specialist drilling to establish the rock-head and technical constraints / remedial works. A further constraint is the presence of a badger sett directly over the top of the mineshaft; a survey has established that the sett is not currently active; however, a special NRW Licence is required to enable the badger sett to be closed such that mineshaft drilling may proceed.

This one issue of a mineshaft coupled with a badger sett provides significant complexity involving third parties such as the Coal Authority and NRW, leading to time delay and additional significant specialist consultancy costs.

Technical due diligence has been partially completed, to include:-

- Archaeological survey
- Ecology surveys (bat survey being commissioned)
- Geo Environmental survey (part only and subject to mineshaft investigation)
- STATS
- Topographical Survey
- Transport Assessment
- Bat survey

It is not anticipated that the mineshaft investigation will proceed until appropriate licences are forthcoming from NRW. This is a critical piece of work, which will have a bearing upon the proposed new road access position, as well as the development feasibility layout.

## **4 Proposed way forward / feasibility scheme layout plans**

Development plans for Home Farm are well advanced.

It has become clear from the technical due diligence exercise that the sites at the former Gorseinon Business Park and Penplas can move forward more quickly with preparation of scheme feasibility plans and Pre-Planning Application submissions to the LPA. The Gorseinon site has now moved forward with registration of an Outline Planning Application.

The sites at Llansamlet and Morriston, being constrained, will be delayed pending completion of technical due diligence.

Generally, there has been a focus upon completing all additional ecology survey work during the previous summer survey window as recommended within each site survey report.

## **Next steps:-**

### **4.1 Home Farm**

- Ensure certainty of existing site operations and alternative arrangements
- Obtain fee proposals for detailed technical work already known to be required by the LPA in support of a detailed planning application.
- Undertake additional detailed site survey work.
- Consider the appropriate third party consultations that will be required together with PR strategy prior to the submission of a planning application and prior to bringing the Council's preliminary development proposals into the public domain.
- Inform the Council of known additional costs to be incurred in progressing proposals in readiness for a detailed planning application.
- Resolve access and tree felling issues.
- A market appraisal has been commissioned from Savills Chartered Surveyors.

### **4.2 Former Gorseinon Business Park, West Street, Gorseinon**

- Following submission of an Outline Planning Application, the focus is now upon undertaking a planning viability appraisal together with negotiations with the LPA once the statutory consultation process has been completed.
- It is envisaged further work in relation to drainage matters will be requested.

### **4.3 Land at Mynydd Newydd Road / Milford Way, Penplas**

- Complete a drainage capacity appraisal.
- Obtain a commercial appraisal regarding proposed unit shops alongside a small discount foodstore, together with advices concerning other potential occupier requirements and land uses. Savills now appointed.
- Progress initial scheme feasibility plans. First drafts anticipated during first Quarter 2019.
- Submit a Pre-Application to the LPA for consultation.

### **4.4 Land at Midland Place, Llansamlet**

- Complete technical due diligence during 1<sup>st</sup> Quarter 2019.
- Feasibility layouts unlikely to be prepared until later during the second quarter of 2019.

### **4.5 Land at Mynydd Garnllwyd Road, Morriston**

- Deal with NRW concerning the existing badger sett.
- Undertake mineshaft drilling subject to NRW consultation.
- Complete technical due diligence in conjunction with mineshaft investigations.
- Feasibility layouts unlikely to be prepared until the first quarter of 2019.

## **5 Planning Applications Timeline**

### **5.1 Home Farm**

- Pre-application consultation received third quarter 2018 which has generated a need for extensive further technical investigations.
- Estimate for a full planning application, second half 2019.

### **5.2 Former Gorseinon Business Park, West Street, Gorseinon**

- Outline planning application submitted and registered, Ref 2018/2724/OUT.

### **5.3 Land at Mynydd Newydd Road / Milford Way, Penplas**

- Target Pre-Application estimated second quarter 2019.
- Finalise discussions with Pobl.
- Possible outline application for a discount foodstore only, with development proposals being phased reflecting occupier requirements and demand.
- Planning consultancy advices will be required in order to formulate the planning approach for the whole site.

### **5.4 Land at Milford Way, Llansamlet**

- Target Pre-Application third quarter of 2019.

### **5.5 Land at Mynydd Garnllwyd Road, Morriston**

- Target Pre-Application third quarter 2019.

## **6 Financial Context**

Feasibility layout plans will need to be prepared and preliminary cost advice obtained in order to properly inform meaningful development appraisals.

## **7 Consideration of setting up an at arms-length property development company versus an in-house model**

APSE Solutions have been consulted concerning the options for an appropriate 'vehicle' for the Council to take forward its aspirations for direct property development:-

- setting up a development company
- establishing a joint-venture
- managing in-house, potentially with a streamlined business model in order to expedite commercial dealings to the Council's advantage

A copy of the finalised APSE Solutions report is awaited, however in summary they identified that the taxation position is most advantageous to the Council under an in-

house model. A joint venture model offers a similar position with an arms-length model the least advantageous.

In conclusion, whilst officers would be minded to conclude that an **in-house business model** with streamlined protocols would place the Council in the most advantageous economic position, it is not expected that the financial commitment required and the extended payback period would be possible/practical. Therefore the proposed course of action would be to seek expressions of interest from potential development partners by way of a Prior Information Notice. Whilst APSE advised that this would be the most expensive option in the short term due to the difficulties/costs in arranging short term finance, informal/non-committal discussions with potential partners will assist in clarifying that option as a way forward.

## 8 Governance

The current reporting of progress on the project is to the Property Investment Board, however, this was more by way of convenience than suitability and at this important stage, appropriate governance arrangements need to be put in place. It is proposed that a strategic development board is convened with the following representatives:

- Leader – Cabinet Member for Economy and Strategy
- Deputy Leader - Cabinet Member for Business Transformation & Performance
- Cabinet Member for Investment, Regeneration & Tourism
- Cabinet Member for Homes & Energy
- Cabinet Member for Delivery
- Director of Place
- Head of Property Services
- Head of Housing
- Head of Building Services
- Chief Finance Officer

This strategic board can receive regular project update reports and matters that require direction by exception. Formal terms of reference can be discussed and agreed at the first meeting.

## 9 Delivery Proposals

The council commissioned APSE to carry out a review of the options for delivering the development sites and whilst the recorded option was direct delivery, as stated above, this is likely to be unaffordable in relation to the additional short term borrowing costs.

As such, it is proposed for the council to retain an element of control but deliver the programme via a Joint Venture agreement in conjunction with a suitable private sector partner. This is a common method of delivery for such sites and will align with the emerging process for the Phase 1 programme for Housing revenue account land reported to cabinet on the 21<sup>st</sup> February 2019.

In addition to the five sites listed in this report, further sites may become available around the city and city centre and these can be added into the programme.

It is proposed to advertise a Prior Information Notice via the Sell 2 Wales portal to seek initial expression of interests in soft market testing prior to the full procurement process being initiated. The benefit of the PIN is that it engages the market early to ensure that the proposed letting strategy is likely to attract the maximum amount of interest and give visibility to local developers interested in the sites. Subject to a satisfactory response to the PIN then it is proposed to follow with a final procurement process.

This process will align with the emerging City Centre strategy where a similar process is being progressed with the ideal scenario of a single PIN, with various proposed lots, maximising visibility to the market and minimising duplication of efforts.

## **10 Equality and Engagement Implications**

The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above. An EIA has been carried out for this project (**Appendix 2**) with the impact determined as low priority. As such, a full EIA is not required at this stage.

## **11 Financial Implications**

The cost of carrying out the process referred to in this report including the costs of undertaking the procurement process are contained within existing budgets. Once tender are received any future costs will be set out in subsequent Cabinet reports for consideration.

## **12 Legal Implications**

All procurement will be carried out in accordance with the prevailing legislation and the council's contract procedure rules.

**Background Papers:** None

**Appendices:**

Appendix 1 – Site Plans

Appendix 2 – EIA Screening Form