

Purchase of land at Eaton Road, Margate from Southern Housing in the Housing Revenue Account

Overview & Scrutiny Panel 15th October 2024

By	Ashley Jackson (Head of Housing and Planning)
Cabinet Portfolio Member	Cllr Helen Whitehead, Deputy Leader and Cabinet Member for Housing
Key Decision	Yes
Decision classification	Unrestricted
Ward:	Margate Central

Purpose of the Report

This report seeks the approval to purchase land from Southern Housing at Eaton Place, on Eaton Road in Margate. This land is currently owned by Southern Housing and the Council has entered into negotiations with the registered provider to acquire the land in order to keep the homes that are delivered on that site as affordable housing.

The report sets out the context for the purchase, the considerations that councillors need to make to determine their view on the recommendations and the proposed way forward given some of the complexities surrounding the site.

- It is proposed to acquire the land at £600,000 from the approved £100m capital programme.
- It is proposed that the Council contributes towards 50% of the demolition costs, up to a maximum of £300,000. This will ensure joint management of the demolition process.
- It is proposed to appoint a design team to progress redevelopment designs to RIBA Stage 3/4 - Planning Permission/Detailed Design.

More detail on these proposals is contained in the main body of the report.

Whereas many council offers are subject to a formal valuation, a formal RICS (Royal Institute for Chartered Surveyors) redbook valuation has already been obtained from Savills on this site (Southern Housing and Thanet District Council equally shared the cost of this for transparency purposes). The acquisition is of course subject to Cabinet approval. A separate report will come back to both of those committees in due course once costs are known for any revised scheme, which will also be subject to planning consents being obtained.

Recommendation(s):

The Overview and Scrutiny Panel is being asked to note the following decisions being sought from Cabinet and to make any recommendations in relation to these matters that it considers appropriate. The recommendations are:

1. That the Council progresses with the acquisition of the land at Eaton Road, Margate from Southern Housing for £600,000
2. That the Council agrees to pay 50% of the demolition costs to Southern Housing, up to a maximum of £300,000. This will ensure joint management of the demolition process.
3. That the Council appoints a project design team to RIBA Stage 3/4 (planning Permission/detailed design), in order to provide a fully designed and costed scheme to allow the tendering of a main contractor to deliver the works. A follow-up report will be submitted to Cabinet for approval once full scheme costs and funding are known to officers and the appointment of the main contractor to deliver the works is required.

1. Summary of Reasons

- 1.1 The land at Eaton Road would enable the Council to deliver circa 60 properties (subject to planning permission) on the land on which Weymouth House and Stafford House (buildings owned by Southern Housing) currently sit. This could increase the number of dwellings in the council's housing revenue account (HRA) and, through a local lettings plan, enable the council to allocate half of the properties to those housed in temporary accommodation, reducing its spend on nightly-paid accommodation providers and the financial burden to the taxpayer and the council's general fund.

2. Background

- 2.1 Council recently approved Thanet District Council's accelerated affordable housing development programme, which will see at least 400 new homes, constructed or acquired, by 2027.
- 2.2 The Council as part of this strategy is acquiring properties in section 106 (s106) agreements and other off-plan opportunities that sit outside of s106 agreements, representing further additionality. The Council is also looking seriously at land-led options to deliver some of these homes. It is in contract with local main contractor WWMartin to deliver the 49 homes across four sites (the former Dane Valley Arms site, Tomlin Drive, Clements Road and Staner Court) that represent its phase 4 affordable homes new-build programme. The Dane Valley Arms site is a previous example of land acquired by the council for housing development.
- 2.3 As part of its investigations into further opportunities in the market, and through its involvement in preventing the homelessness of those being decanted from the two Southern Housing blocks (Weymouth House and Stafford House) on the Eaton Place site, the Council has the opportunity to acquire the land at Eaton Road. It is worth saying that at the time of drafting the report, just eight residents remain in the two blocks, meaning that Southern Housing is seeking options to dispose of the land.
- 2.4 The land is high in profile as the two buildings are defective and the news that residents were being moved out of the homes for safety reasons was reported in the media before Christmas in 2023. The reason for this has been confirmed to the Council, not only by Southern Housing but also by a respected local contractor.

During construction over a decade ago the original contractor fell into administration and the site was not secured against the elements properly. It was left exposed for too long and the water ingress has interfered with and affected the structural integrity of the building. This has, over a relatively short period of time in building terms, led to the building moving. It is important to state though that this movement is not related to ground conditions but the afore-mentioned issues with water ingress.

- 2.5 Councillors may recall that Registered Providers (RPs) have begun to refrain from bidding on s106 sites because:
- They are predominantly investing in their own stock rather than looking at new homes because of new regulation meaning that there are much stricter rules on compliance issues (fire safety, gas safety, legionella, asbestos, lift maintenance) which is demanding their attention and financial input
 - They are also investing more in estate and tenancy management in light of the new tenant satisfaction measures (TSMs) introduced last year
 - They, like the Council were affected by the recent volatility in inflation and interest rate rises
- 2.6 For the same reasons, many RPs have also moved away from delivering new homes in the short term. This is why Southern Housing does not have the capacity to re-provide homes on this plot and instead are seeking to dispose of the land. They are keen, however, for the land to be sold to a registered provider who will deliver affordable housing on the site, which is commendable as a price for sales on the open market would be far more lucrative. Southern Housing did draw up initial plans to re-provide homes on the site and the Council has seen these plans. Though planning must be autonomous of the council's housing service, colleagues have shared views on the site and it is felt (a formal pre-application advice session will be sought to confirm this through proper processes) that a like-for-like replacement of the two blocks could be acceptable in planning terms. The council is therefore looking to follow something along these lines, though may reduce the height of the building and not provide the 78 homes that currently form these two blocks.
- 2.7 It is therefore proposed to acquire this land in a strong, central location in Margate, close to local amenities and deliver this scheme as part of its Phase 5 of its affordable homes programme.

3. Relevant Issues

- 3.1 The Council has, through its good rapport with Southern Housing and Southern Housing's willingness to ensure that affordable housing is delivered on the site, ensured it is at the front of the queue for capitalising on the willingness of the RP to dispose of the land. It is worth repeating that at this moment in time the buildings are still in situ and a small number of residents remain in the homes and are awaiting placement into alternative accommodation.
- 3.2 The Council has negotiated an offer of £600,000 for the land - this represents excellent value (at £10,000 per plot inc. demolition) for the circa 60 properties it would likely seek to build on the footprint. This falls way below the normal amounts other sites in urban areas would realise on the open market. Given the condition of the buildings, the Council is also keen to secure agreement with Southern Housing

regarding the careful demolition of the building in order to make the construction more cost-effective for the resultant replacement scheme.

- 3.3 Once the buildings are decanted, it is hoped that subject to approval from Cabinet, contracts could be exchanged relatively quickly and that completion could take place in December of this year. The council will not exchange contracts with residents in situ and the contract will ensure that the land is unencumbered. Also important is that Southern Housing lead on the demolition as it knows the buildings in more detail than Thanet District Council. One option was for the Council to perhaps acquire the buildings as they are, with the freehold of the land. This would have perhaps reduced the cost of the land to the council in the short term however it is recommended that the council enter into a joint venture (JVA) agreement with Southern Housing to employ a specialist contractor for this demolition, to learn about the issues with the original building as the demolition progresses and to negotiate about how the land is left.
- 3.4 For example, the ideal situation for the council would be that the building is demolished back to the transfer slab. This would enable the Council to benefit from the existing pilings and the undercroft car parking that is in place. If the Council refused to enter into the process of demolition, it is likely that any demolition contract would seek to remove everything from the site and that the first job the council would have to do as part of the construction process is to excavate the concrete that had been filled in for the car park. For this reason, contributing towards the demolition costs enables the Council to have a say in how the building is demolished. This avoids unnecessary duplication of work and reduces build costs.
- 3.5 It is proposed that the cost of the demolition be shared 50/50 by both parties, with the council's contribution capped at £300k. It is subject to a full and proper tender - a process that would be led by Southern Housing. We would also like to ensure a small additional fee could be included for a consultant to be appointed to safeguard the Council's interests as part of this work.
- 3.6 At this stage, the construction costs of any replacement building are not known and so there are no assumptions made about grant funding at this stage. However, a report in due course would be brought to cabinet to detail these costs and how the project would be funded. For now, the only point to make in terms of risk is that the acquisition would have to be bought through borrowing. If the necessary £900k borrowing was secured at a rate of, for example, 5% that represents £45,000 per annum in interest while the site was being demolished, planned, designed and constructed. This is something for councillors to consider - though work to bring forward a planning application could begin, subject to the capacity of the team, early in 2025.
- 3.7 While full and detailed redevelopment scheme costs would be brought to a subsequent Cabinet meeting should the land approval be agreed, it is anticipated that on basic calculations that the cost of delivering a scheme of circa 60 homes would cost just under £12m, professional fees (pre-contract design fees) are anticipated to be 5% of the construction costs, circa £600k. This is subject to material and build costs, interest rates, inflationary pressures, supplier tender returns, the availability of Homes England grant and any other funds that may be made available - subject to

budgetary announcements by the government. It also assumed delivering the homes as affordable rent, whereas it is possible that social rent may be more highly favoured by the government as a genuinely affordable tenure of homes going forward. It is important to say though with a modest assumption on Homes England grant levels this scheme looks viable in financial terms, coupled with the possibility of a like-for-like replacement of the homes being acceptable in planning terms, though this cannot be guaranteed.

- 3.8 Officers will work with Southern Housing to monitor the procurement of a demolition contractor and the demolition of the building.

4. Recommendations from the Overview and Scrutiny Panel

- 4.1 Recommendations from the Panel meeting will be considered by Cabinet on 24th October 2024.

5. Alternative Options

- 5.1 The Council could choose not to enter into this agreement. However, this would represent a missed opportunity not only to buy land in a really prime location in Margate that would clearly benefit residents on the housing register and in temporary accommodation, but to work alongside an RP who is also invested in the delivery of affordable housing in the district.
- 5.2 The Council could also seek to not engage with the demolition process. As outlined above, that would see some parts of the process needlessly repeated and add to the costs for both sides on the demolition and the re-provision of homes on the footprint.

6. Consultation

- 6.1 There is no public law or statutory duty to consult in relation to the decisions sought in this report. Discussion has, however, taken place with colleagues from Legal, Finance and the Tenant and Leasehold Service. Officers have also discussed with Cllr Helen Whitehead, Deputy Leader and Cabinet Member for Housing, who is also one of the ward members for this site. The other ward member, Cllr Yates, has also had sight of this report. External consultation will take place as part of any subsequent planning application.

7. Corporate Implications

7.1 Finance and Resources

- 7.1.1 The initial land purchase and demolition costs of £900,000 would be funded from the approved capital programme. Consultants will be required, as outlined, to enable the Council to get to RIBA stage 3. Borrowing at a rate of 5% would cost £45,000 per annum with no rental income initially to offset the impact of this purchase in the short-term until the homes are delivered.

- 7.1.2 Finance have modelled a number of scenarios for this site based on various unit mixes and construction values. The initial year 1 impact on the business plan per unit is in line with other sites the Council has brought forward and so there are options to make this site viable
- 7.1.3 What is clear from this modelling however, is that an element of grant subsidy is required to facilitate the build out of the site and future viability will be dependent upon those grant funding streams being available.
- 7.1.4 The key risk in acquiring this site is not the annual borrowing costs, but more the risk of an increase in construction costs during the period of acquisition to that of construction, which may affect viability. We could consider disposal of the site if that were the case.
- 7.1.5 Any delays could see the site sitting empty and as a result there could be a cost of around the figure of £45,000 per annum, if required, this can be covered from the HRA.

7.2 Legal and Constitutional

- 7.2.1 In accordance with the provisions set out in Article 6 of the Council's constitution the Overview and Scrutiny Panel may make reports or recommendations to Cabinet in respect of the discharge of any function. Cabinet must then consider and respond to any recommendations made.
- 7.2.2 The Council has the power to make the proposed purchase in accordance with the general power of competence under section 1 of the Localism Act 2011. Section 120 of the Local Government Act 1972 provides a statutory power for the Council to acquire land, whether situated inside or outside their area, where this is to enable the Council to fulfil its functions.
- 7.2.3 In accordance with the provisions of section 1 of the Local Government Act 2003, the council may borrow money for any purpose relevant to its function or for the prudent management of its financial affairs. Section 3 of the same Act provides that a local authority must determine and keep under review its borrowing limit, how much money it can afford to borrow. All borrowed money must be spent in pursuance of the public duty of the local authority
- 7.2.4 Detailed legal advice and support should be sought in relation to the purchase of land and the drawing up of any agreement between the Council and Southern Housing in respect of demolition. Procurement and legal advice should be sought in respect of the appointment of a consultant.
- 7.2.5 The proposed purchase of land is to be funded from the approved capital programme already agreed by Full Council.

7.3 Council Policies and Priorities

- 7.3.1 This proposal supports the Council Corporate Statement 2024-2028
- To deliver the housing we need

7.4 Risk

- 7.4.1 Any acquisition or development activity has inherent risks. Officers work hard to identify and manage risk at each stage of projects and a monthly steering group that looks at the Council's new-build and acquisitions programme flights these risks as officers horizon scan in the light of political, economic, social, technological, legislative and environmental factors. The acquisition project will have a risk register that is reviewed throughout the lifecycle of the project by the Housing Strategy & Projects Team. Risks around acquisition activity are sought to be mitigated through regular review and the appointment of professional expertise to provide legal due diligence, and accredited valuation advice to ensure value for money, in terms of the cost of the project.
- 7.4.2 The main risk is that acquiring the site through borrowing - more so if the demolition contribution is uncapped - sees the council paying for the site sitting empty, of around the figure of £45,000 per annum. Councils are now having to act more commercially and accept this level of risk in their construction programmes, but it is right that the risk itself is flagged to councillors to inform their decision-making.

7.5 Climate Change and Biodiversity

- 7.5.1 The new homes would be designed to the highest level of energy efficiency budgets allow, helping to reduce the cost of hot water and space heating for residents and reducing carbon emissions from domestic heating. Full costs would be known in due course once contracts were tendered and plans were approved.

8. Equality, Equity and Diversity Implications

- 8.1 Cllrs are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.
- 8.2 Protected characteristics: age, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.
- 8.3 This report relates to the following aim of the equality duty: -
- To eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act.
 - To advance equality of opportunity between people who share a protected characteristic and people who do not share it
 - To foster good relations between people who share a protected characteristic and people who do not share it.

8.4 An Equalities Impact Assessment has been completed in respect of this proposal. The new homes will be let in line with the council's allocations policy, which has had an Equalities Impact assessment completed, attached to this report at Annex 1

9. Crime and Disorder Implications and Community impact

9.1 The decisions sought in this report will not have any implications for crime and disorder within the borough. Ultimately the decisions sought could have a positive impact on the community by the building of new homes.

9.2 The housing department does handle issues relating to Anti-Social behaviour. Despite often being described as 'low-level crime', existing evidence suggests it can result in a range of negative emotional, behavioural, social, health and financial impacts. People's understanding of what constitutes anti-social behaviour can be very different and can affect people in very different ways. For some people it means living next door to nuisance neighbours, for other people it's about litter and dog fouling or graffiti on the street. Often it can include people acting in an aggressive, intimidating or destructive manner.

9.3 The Community Safety department and the Tenant and Leasehold team have policies and procedures to deal with issues which arise due to ASB. As previously stated these homes will be managed carefully in order to ensure a community feel is created and that the area is a nice place to live.

10. Subject History

10.1 The accelerated affordable housing programme was agreed by Full Council in July 2023.

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Appendices

Annex 1 - EQI

Report Sign Off

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