

CABINET



| | |
|-------------------|--|
| Report subject | Holes Bay, Poole (former power station site) acquisition strategy |
| Meeting date | 27 May 2020 |
| Status | Public with confidential appendices |
| Executive summary | To seek agreement for the Council to purchase the former power station site according to the defined terms set out in the report. A potential purchase is proposed based on negotiations with the landowner and with support from both Homes England and the Dorset Local Enterprise Partnership (DLEP). |
| Recommendations | <p>It is RECOMMENDED that Cabinet:</p> <ul style="list-style-type: none">(a) Agrees that the site is acquired on the acquisition proposal set out in this report for the consideration detailed in the confidential part at appendix 1 of this report (site indicatively edged red on the plan attached at appendix 2);(b) Agree in principle to accept the £5m Dorset Local Enterprise Partnership (DLEP) grant (with its associated terms and conditions) to part fund the acquisition of the site, with delegated authority to the Section 151 Officer;(c) Agree that plans are developed promptly following acquisition to bring the site forwards, with a further report to Cabinet/Council seeking approval on the associated investment decisions, revenue implications and proposed detailed delivery model;(d) Agree that a project team for this site be formally established as part of the Poole Regeneration Board framework within existing resources to drive the project forward and ensure appropriate governance; and(e) Delegate authority to the Corporate Property Officer to complete the acquisition and all associated property transactions to prepare the site for development. <p>That Cabinet recommends to Council to:</p> |

| | |
|----------------------------|---|
| | Amend the Capital Programme to include provision for this purchase, to be funded by prudential borrowing, on the basis set out in the confidential report. |
| Reason for recommendations | To facilitate the acquisition of this key brownfield site in order to ensure the timely delivery of much needed housing and create a new and vibrant community in Poole. |
| Portfolio Holder(s): | Councillors Kieron Wilson, Portfolio Holder for Housing Mark Howell, Portfolio Holder for Regeneration & Culture |
| Corporate Directors | Bill Cotton, Corporate Director, Regeneration and Economy |
| Contributors | Lorraine Mealings, Director of Housing Kerry Ruff, Housing Enabling Manager Julian McLaughlin, Director of Growth and Infrastructure Chris Shephard, Director of Development Stephen Dunhill, Corporate Estates Rebecca Bray, Senior Estates Management Surveyor Sian Ballingall, Head of Legal Services Adam Richens, Head of Financial Services Shirley Haider, Management Accountant |
| Wards | Hamworthy |
| Classification | For Decision |

1. Background

- 1.1 Holes Bay (the former Power Station site) is Bournemouth, Christchurch and Poole Council's largest housing regeneration opportunity and is one of the largest brownfield sites in the wider region. It is allocated in the Poole local plan to bring forward 850 homes and associated uses
- 1.2 Levels of unmet housing demand in Poole and across the wider BCP area are very high, where housing demand outstrips housing supply. The new government methodology indicates the need to complete approximately 2,500 new homes every year to address unmet housing demand across BCP, which is significantly higher than current delivery. Net delivery of new homes for 2018/19 was just over 1,500 for the year so it is clear that the delivery of around 850 homes on this site will make a major impact on current unmet housing demand.
- 1.3 There is a clear link recognised nationally between housing delivery and the economy. The delivery of new homes on this site will therefore bring much

wider benefits to the BCP area in terms of jobs, inward investment and overall economic growth.

- 1.4 The Power Station site is part of the strategic supply of housing in the Poole area and has remained undeveloped since the authority allocated this site for development over 20 years prior. Delivery of the site is an integral part of wider plans to revitalise the Town Centre.
- 1.5 In order to help unlock this significant area of brownfield land the Borough of Poole delivered the Twin Sails Bridge project by 2012. The Bridge was also built to unlock housing within the wider Hamworthy area which has progressed at pace in recent years with circa 1000 homes built in this area since that time, adding confidence to the context of bringing this site forward.
- 1.6 Following this an application was submitted by the joint landowners Gallaghers Estates and Lands Improvement Holdings in 2011 for 1,350 dwellings and commercial development (including a superstore). The application was withdrawn. In 2017 London & Quadrant acquired Gallagher Estates and together with Land Improvement Holdings submitted an outline planning application (still pending) for up to 850 dwellings with 1,000sq.m of community and commercial uses.
- 1.7 During this time, the Council and the Planning Authority had been assisting and negotiating with the owners to deliver the site, as well as facilitating input from key public sector funding partners. Ongoing viability concerns however resulted in their application not progressing.
- 1.8 Discussions during the planning application identified that the viability of the site is constrained by a range of exceptional costs such as ground conditions, contamination, removing the electric switching station, suitable highway infrastructure, flood defences as well as resolving planning requirements relating to parking, traffic impact and scale, bulk and mass. Redevelopment of the site will require a new quay wall with walkway for flood protection of this site and the surrounding area. The Port of Poole is a key location for economic growth and a port link road has been designed to improve the port's accessibility and enhance traffic flows. It passes through the site and under a dedication agreement between the landowner and the Council the landowner is required to construct and dedicate the road as public highway. On acquisition those responsibilities will pass to the Council as landowner.
- 1.9 As part of the Council's commitment to unlocking the site, the Council applied for the land to be designated as a Government Housing Zone, which was confirmed in March 2015. This focused on a joint approach with Homes England and the Dorset Local Enterprise Partnership (DLEP) working with the landowners; a joint venture between Land Improvement Holdings and Gallaghers Estates. Gallaghers Estates is now fully owned by London and Quadrant (L&Q). The current landowners therefore are Land Improvement Holdings (LIH) and London and Quadrant (L&Q).
- 1.10 Following an independent study of site viability, the case was made for gap funding. With Ministerial support for the site the Council successfully secured £5million Growth Deal 3 funding in 2015 but the existing landowners still felt unable to bring this site forwards.
- 1.11 Cabinet and Council agreed in July 2019 to develop a site acquisition strategy for the site to help prompt delivery and agreed that a subsequent full business

case for acquisition would be developed, including the use of a Compulsory Purchase Order (CPO) as a contingency.

- 1.12 Negotiations have subsequently progressed with the landowners to secure an acquisition strategy for the site and this report presents a proposal for bringing this forward which has been agreed in principle with the landowners.

2. Corporate Strategy

- 2.1 The Council's Corporate Strategy sets out its key objectives as follows: -

- Sustainable Environment
- Dynamic Places
- Connected Communities
- Brighter Futures
- Fulfilled Lives

- 2.2 The purchase of this site will significantly help to deliver the Council's Strategy in many ways. Primarily it will help by ensuring valuable investment in the homes the BCP area needs, it will create a place which is sustainably designed, it will create a new, vibrant and connected community, will ensure fulfilled lives and add value for many of our residents. The Local Plan planning policies will apply as they do for all other sites. It will deliver much needed affordable housing and it will help address our climate emergency by creating a sustainable town centre development both in terms of the site construction itself but also in terms of the wider infrastructure and transport issues.

3. DLEP funding

- 3.1 The Outline Business Case and decision to accept the Growth Deal 3 DLEP funding was approved by the Borough of Poole Council in September 2017 and the DLEP Board in September 2017. This funding is for the period to March 2021 and the DLEP are held responsible by Government for delivery of their programme and budget within that period.

- 3.2 A Full Business Case was since presented to the DLEP Board in January 2020 to secure the £5m funding for the purpose of part funding the whole site acquisition by the Council.

- 3.3 The DLEP agreed to award this funding at their Board meeting on 26 March 2020 and approval is therefore sought to accept this funding as to assist the Council with acquiring the site. The following sets out the basis and conditions relating to the funding award: -

- 127 number of homes delivered
- Completion of homes by 2025
- Grant to fund the acquisition of site by Council to be completed by July 2020

4. Acquisition and Council funding proposal

- 4.1 Negotiations with the landowners for the Council to potentially buy the site were based on instructing an external valuation of the site as part of that process. The District Valuer Services (DVS) were instructed to carry out this

work on behalf of the Council and by agreement and in discussion with the landowner.

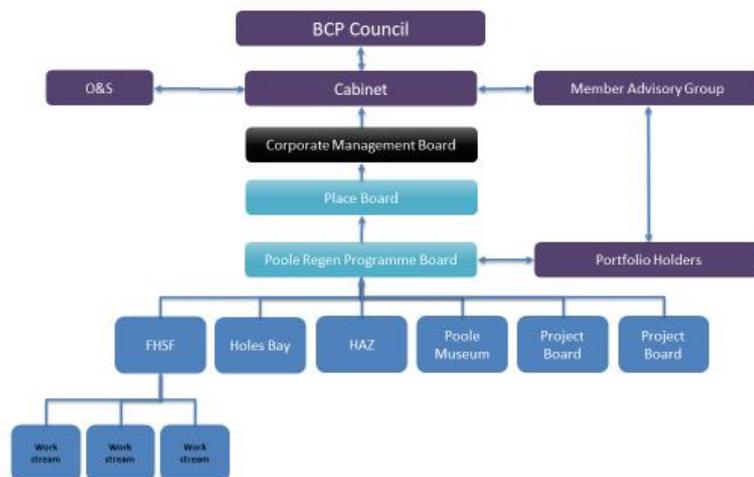
- 4.2 The acquisition price proposed within the valuation is included in the confidential part of this report
- 4.3 The purchase is conditional on the following: -
- Satisfactory title
 - Satisfactory results from the legal and estates due diligence
 - Subject to due diligence all environmental liabilities will pass to the Council as landowner on completion of the sale other than those that are the responsibility of third parties (i.e. anyone other than the Vendor and their group companies). All site investigation information to be passed to the Council prior to exchange
 - The landowner is released from their obligations under the deed of dedication dated 31 July 2009 to construct the port link road
- 4.4 The purchase is not conditional on the following: -
- Planning consent
 - The Council's site investigations but the Council will review the landowner's site investigation information as part of its due diligence prior to purchase
- 4.5 The acquisition proposal includes an overage agreement encompassing the following: -
1. Overage applying to the property, excluding the switching station
 - (i). When the Council obtains planning consent, if the permission results in a higher land value than assessed by DVS then the increase will be shared equally with the current landowner. The overage payment will be capped at a sum outlined in the confidential report.
 - (ii) The overage clause will be for a term of 30 years from the purchase date
 - (iii) Any grant money or uplift in land value arising from grant money will be disregarded when assessing the market value of the land
 - (iv) If the Council disposes of the site prior to a planning consent being granted the overage will be 75% of the increase in value.
 2. There will be a separate overage agreement with regard to the switching station due to the fact that it is currently assumed it is not viable to develop this area and so is included in the DVS valuation at a nil value. Details are: -
 - An overage payment of 50% of the difference between (i) £1 and (ii) the market value of the site on grant of planning permission or (iii) the sale price (if sold before (ii) occurs)
 - This overage is separate and in addition to the capped overage.
 - The overage clause will be for a term of 50 years from the purchase date

- 4.6 Legal and Estates have agreed Heads of Terms with the landowners and work is now progressing on the necessary legal and estates due diligence to conclude the acquisition with a target completion date of 30 June 2020.
- 4.7 With £5m secured in principle from the DLEP, the Council is required to fund a further sum for the site acquisition spend through Prudential Borrowing. The Section 151 Officer will determine how this borrowing is facilitated, in consultation with the Portfolio Holder for Finance. Provision for repayment of the Prudential Borrowing has been included within the Medium Term Financial Plan (MTFP) as approved by Council in February 2020.
- 4.8 It will be necessary to recruit a dedicated and specialist Development Project Manager resource to bring this site forwards. Up to £135k of Council earmarked reserve is available to help fund this requirement. Additional funding will be required for staffing resources (including finance and legal services) to support regeneration projects within the Regeneration and Economy Directorate. Clearly, these will need to be considered in light of the budget restraints brought on by the Covid 19 pandemic.
- 4.9 A specialist masterplanning design team will also need to be procured to help bring the site forward to delivery. This will need scoping and funds sourced accordingly.

5. Proposed project governance and project management

- 5.1 Effective and robust project management is clearly essential to help manage this high value acquisition, make sure that it progresses at pace and ensure that associated risks are minimised. It is proposed that the resulting site would be project managed as a key project with a Project Board within the overall Poole Regeneration Programme Board (see diagram below). The Board is already in place and comprises the three Directors of Housing, Development and Growth and Infrastructure to ensure a joined up approach to regeneration in the Poole area.

Poole Regeneration Programme Governance



- 5.2 The Programme Board has Terms of Reference in place stating that it will provide strategic oversight and take executive responsibility for driving forward all regeneration programmes in Poole, receive monthly Highlight Reports from the various Project Boards, be responsible for making decisions regarding the resolution of resource and dependency conflicts, risks, issues, challenges or opportunities within the delegated authority of the Board and bring to the attention of the Council's Corporate Management Board and Portfolio Holder(s) any strategic risks, issues, challenges or opportunities that require attention.
- 5.3 The Programme Board will fit within the Council's overall governance structure, feeding into the proposed new BCP Place Board, the Council's Corporate Management Board, Cabinet and Council.
- 5.4 The Member Advisory Panel has been established as part of the overall governance framework. It will provide a forum for shaping emerging proposals for the regeneration of Poole town centre area.
- 5.5 Meetings of this Members Advisory Panel will be facilitated and chaired by the Portfolio Holder for Regeneration and Culture. The Deputy Chair will be the Portfolio Holder for Housing. This will help ensure a joined up approach within Cabinet. A range of Councillors will be members of this group across all parties. Terms of Reference are in place stating that members will report to their political groups and fairly reflect the views of their political group, respond promptly to e-mailed consultation, keep confidential any matters of a commercial or sensitive nature discussed within or ancillary to Advisory Panel meetings, drive forward and champion regeneration in Poole Town Centre and bring to the attention of the Council's Corporate Management Board and Portfolio Holder(s) any strategic risks, issues, challenges or opportunities that require attention.
- 5.6 The Corporate Director for Regeneration and Economy will attend the Advisory Panel, as will the Director of Development, to ensure robust and joined up conversations across the governance framework.
- 5.7 Project planning is already in place to manage the immediate priorities relating to this site and will be used as the basis for developing robust project management going forwards.
- 5.8 The project governance will build on close partnership working which has taken place over the last few years between the Council, Homes England and DLEP. This approach will be built upon as we move forwards.
- 5.9 The Project Board for this site is yet to be convened but will be formally established prior to acquisition to ensure momentum after this date.
- 5.10 The Project Board will drive delivery forwards, approve spending and assist in monitoring and steering key milestones. The Board will need to include a range of officers across specialisms including the appropriate technical financial and legal input. It will need to include officers from a numbers of teams; housing, legal, estates, highways, planning and finance. It may also involve key external agencies.
- 5.11 A dedicated and specialist Development Project Manager (DPM) will be formally recruited to help manage the site specifics and ensure momentum. This DPM resource will ensure a joined up approach amongst specialisms

within the Council and also importantly mobilise timely delivery with many external partners.

- 5.12 Additional project management support will be secured within the Council to maintain an excellent project management discipline. The Council has a well established team in place corporately to help oversee significant projects such as this.
- 5.13 The Council has a strong track record in developing residential housing, both developing and building new homes internally and through contractor and joint venture arrangements. This puts the Council in a good position to deliver this site effectively and robustly.

6. Proposed delivery of site

- 6.1 An initial consideration of options has identified one possible proposal to establish a joint venture arrangement with a development partner to deliver the site through to completion. The establishment of this arrangement could be at different points through the project. The following section sets out our current expectations for delivery of the site but is likely to evolve as we progress. Consideration has been given to the following factors to help guide the choice of delivery model: -
- Ability for the Council to provide strategic direction through to the development phase
 - The Council's aspirations to retain long term ownership for some elements of the site e.g. homes, public space
 - The Council's appetite for further financially investing and sharing profits for this site
 - Appetite for risk
 - Ability to maximise the use of in-house skills, capacity and expertise within the Council e.g. in-house development skills, project management expertise
 - Assurance around the timely completion of the site
- 6.2 The later of these points is critical and there needs to be a very real focus on the delivery milestones, including the need to deliver the residential development in phases, starting in 2023.
- 6.3 In the context of significant unmet housing demand across the BCP area, a full assessment of market demand including a strategic housing needs assessment will be undertaken. This will guide the preferred housing mix in terms of property type, specialist needs and tenure mix. This will include identifying local housing needs and local private rental and sales values.
- 6.4 The Council has declared a Climate and Ecological Emergency. As such, careful consideration will need to be given throughout to ensure the delivery of sustainable development that is fit for the future. Subject to consideration of overall site viability, it may be appropriate for all or part of the site to be developed as a national exemplar scheme in terms of sustainability, perhaps piloting new and emerging sustainable technology.
- 6.5 The Council will continue to work closely with Homes England to enable this site to achieve the outcomes we need. This will include detailed discussions

- to assist in funding the necessary remediation and infrastructure works as well as maximising grant funding opportunities for the construction costs.
- 6.6 One option might be to recruit a professional multi-disciplinary design team through the Homes England Delivery Partner Panel 3 (DPP3) framework. This framework is already set up nationally and helps accelerate the timeline. This team would guide the design work which will inform the development process.
 - 6.7 Another option would be to procure a JV development partner that has experience in placemaking at the start of the process to help master plan the development. This will give the JV partner an early stake in the process and ensure a planning application is submitted that is deliverable and commercially viable.
 - 6.8 Whichever option is chosen it will involve a high degree of community engagement whilst retaining the need to provide a commercially viable development. Innovative and exemplar design will be sought for the site due to its scale and importance locally. This will help create an exemplar, well designed development on what is the largest brownfield site in South West of England.
 - 6.9 Councillors will be engaged to help guide the development brief and help set the overall vision for the site.
 - 6.10 Delivery through a joint venture partner provides the balance between sharing risk and reward and ensures access to timely, specialist capacity and expertise. It also brings access to additional funding for the development phase.
 - 6.11 There may be land assembly options beyond the red line of the Former Power Station site boundary. The joint venture partnership would consider flexibility to extend as appropriate.
 - 6.12 When securing a joint venture partner, it is proposed that the Council considers its role in potentially funding an element of the development phase as an investment opportunity whilst sharing risks.
 - 6.13 The Council could seek to acquire some of the affordable housing units on the site or directly develop the homes itself. These homes would be added to the existing c10,000 Council homes already in ownership. The management of these resulting homes would be undertaken within the existing Council housing neighbourhood teams.
 - 6.14 The Council may also seek to acquire (or develop itself) an element of the private homes on the site. The Council has a wholly owned company in place which provides a vehicle to rent resulting private sector homes on assured shorthold tenancies. Work is currently underway to expand this company to build private homes for sale and rent.
 - 6.15 A Special Purpose Vehicle (SPV) could be set up to consolidate the joint venture partnership on this particular site. It is suggested that a bespoke negotiated approach to profit share and risk share between the Council and a partner is needed going forwards. Due to the mixed-use nature of the site, delivering homes, commercial space and community facilities, a partner will need to be selected who has significant experience of developing large scale place making regeneration schemes such as this.

- 6.16 Site remediation works will be a key element to the site due to its former use. The current land owners have agreed to provide the site investigation information they already have. One option may be to undertake some of the remediation and infrastructure works upfront before securing a delivery partner where this will be needed whatever the eventual design and layout of the overall site. This would remove some risk and possibly make the site more attractive to potential JV partners.
- 6.17 Discussions are being progressed with Homes England to help secure funding for the remediation and infrastructure works on the site that might be undertaken early in the development process.
- 6.18 Much more detailed work is required to develop the delivery option for this site including a more detailed associated timeline as well as preparing the mobilise resources for the necessary site investigation works, technical input, remediation and starting construction of the site. The following sets out the key expected activities/workstreams and the current expected associated timescales over the short/medium term: -

| Activity | Date Completed |
|--|----------------|
| Site acquisition | Summer 2020 |
| Appointment of Development Project Manager | Spring 2020 |
| Appointment of Design team and community engagement to start | Autumn 2020 |
| Or selection of JV partner and gaining Cabinet approval for approach and associated investment decisions | December 2020 |
| Non design specific remediation works commissioned and works commence | 2021/22 |
| Planning application submitted and determined | 2021/22 |
| Design specific remediation and construction start on site | 2022/23 |

- 6.19 The timing for completion of homes on the site is yet to be determined but will occur incrementally and in a phased way. It is not expected to be fully complete for 15 to 20 years.
- 6.20 A proposal will be presented in due course to Council setting out the delivery approach in more detail, including any proposed additional investment decisions. This would aim to be completed within the next 9-12 months. It is likely to involve a request for additional funding to help bring the site forwards to the next stage, including costs of submitting a planning application, legal agreement with a partner etc.

7. Consultation

- 7.1 As a Housing Zone recognised by Government this site has already been subject to a strong partnership approach with the landowners, Homes England, Dorset LEP and previously the Borough of Poole. This Housing Zone delivery team had been primarily focused on ensuring an effective response to the planning process, the securing of the DLEP grant funding and management of this allocation from the DLEP to the Council and on to the landowner.

- 7.2 All of Cabinet have been fully briefed as have the current ward councillors who are supportive of the proposed approach.
- 7.3 The following internal teams have all been engaged to develop the proposal presented here: Corporate Estates, Housing, Development, Finance, Legal and Planning.

8. Alternative Options

8.1 The Cabinet report in July 2019 set out plans for the Council to develop an acquisition strategy for the site, using a CPO as a contingency. This was based on the site not coming forward with the current landowners and the need to secure an alternative approach. Negotiations since July 2019 with the landowners have explored different options for delivering homes in a timely way on the site. Options that have been considered but discounted are as follows: -

- Current landowners progressing with their planning application through to timely completion of the site
- Entering a joint venture with the current landowners to help deliver the site
- Entering a joint venture with Homes England to help deliver the site
- Splitting the ownership of the site to aid delivery
- Landowners to dispose of the site to another developer
- Progress a CPO for the site

8.2 The current landowners have formally stated that they do not want to develop the site. It was therefore considered that direct acquisition by the Council would be preferable in order to help drive delivery of the site.

9. Summary of financial implications

9.1 These are set out in the confidential appendices.

10. Summary of legal implications

10.1 There will be the need to complete the title due diligence and review and report on searches and enquiries.

10.2 There will be negotiations on the detail of the overage deeds for the main site and sub-station site.

10.3 The State aid implications of the DLEP and any grant funding will need to be set out in detail to ensure that the proposed development complies with the regulations. This will be part of future Cabinet approvals as set out in recommendation 3 of this report.

11. Summary of human resources implications

11.1 There are implications in terms of funding additional Development Project management staff and project resource to help drive forward the delivery of this site. This additional resource is essential to move this complex project forward robustly and effectively. The expected staffing implications are noted in this report.

12. Summary of environmental impact

- 12.1 Whilst a planning application of this scale and complexity will be required to be supported by an Environmental Impact Assessment and for the Authority to undertake an Appropriate Assessment, any such assessment is only relevant to the plan or project that is proposed and is of relevance upon implementation. In the absence of any firm proposal to develop the land there remains ecological issues both on the site and surrounding, as well as areas of contamination that are uncontrolled. Any acquisition of this site will need to take these into account

13. Summary of public health implications

- 13.1 Bringing this major brownfield site into public ownership will support the ultimate creation of a sustainable good quality housing development that benefits the current and new community and brings many benefits to the residents and the wider area.

14. Summary of equality implications

- 14.1 An equality impact assessment has been carried out based on the proposals of this report and there are no protected groups that will be disadvantaged as result should the decision be approved.

15. Summary of risk assessment

- 15.1 The DLEP has been provided with a copy of our initial risk assessment prior to approving the loan. This assessment focusses on the acquisition of the site. A copy of the risk assessment is included in the appendices.
- 15.2 Covid-19 risks have been added to the Financial section in the risk register. Covid-19 does provide a risk to the acquisition of the site as market conditions are uncertain. The RICS has advised that market activity is being impacted in many sectors therefore valuations should be considered with a higher degree of caution as there is less certainty in the market. Notwithstanding this, valuations are based on historic comparables but with advice on any anticipated changes in the market.
- 15.3 There has been a reduction in new house sales agreed of around 90% since the beginning of March 2020 and it is anticipated this will result in a 50% fall in house sales over the year. It is hard to forecast how long the market will take to fully recover; however, the development of this site will be a 15 to 20-year project with the first new homes not anticipated for completion before 2023/24. There will be fluctuations in the market during the period of the Holes Bay development and this is a standard development risk. These uncertainties should be considered in the light of the unmet housing demand set out in para 1.2 above.
- 15.4 The landowners have made it clear that they are not prepared to negotiate further on the current HOTs and so the only alternative would be to withdraw from the purchase until more certainty returns to the market. This will delay bringing the site forward for development and risks needing to use CPO powers in the future. In turn this will impact on our obligation to meet the government's housing targets with related consequences.

15.5 The value of the site in the future could be more or less than the current valuation. There is some mitigation within the current HOTs as a discount on the market value has been applied to allow for uncertainties in acquiring a site without the benefit of a planning consent. Also, not proceeding at this time would result in the loss of the £5m DLEP funding.

15.6 Homes England have indicated their support in bringing forward the development of this site. They are keen to enter into detailed discussion regarding financial support from the Housing Infrastructure Fund once we have formally made a decision to proceed with the acquisition.

Appendices

Appendix 1 - Confidential report – **CONFIDENTIAL – Please note should Cabinet wish to discuss the contents of Appendix 1 the meeting will need to go into confidential (Exempt) session.**

Appendix 2 - Site map

Appendix 3 - Site acquisition risk assessment

Background papers

- BoP Council Report: 'Financial & Legal Arrangements for the Holes Bay Site (Former Power Station Site)', 26 September 2017
- BCP Cabinet Report July 2019 'Holes Bay, Poole (former power station site) acquisition strategy', 10 July 2019