

OVERVIEW & SCRUTINY BOARD SUPPLEMENTARY AGENDA

7 May 2024

5 CALL-IN OF EXECUTIVE DECISIONS (Pages 3 - 6)

Response of Council officers to call-in grounds now attached.

Zena Smith
Head of Committee & Election
Services

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Meeting of the Overview & Scrutiny Board - 7th May 2024.

1. Purpose

1.1 To consider the call-in of the following proposed Key Decisions:

- *Disposal of Council-owned sites to Mercury Land Holdings*
- *Authorisation to provide additional equity funding to Mercury Land Holdings Ltd to enable the purchase of sites in accordance with the approved 2023-26 MLH Business Plan.*

2. Context

2.1 Both of the above Key Decisions relate to the proposed disposal of 6 Council-owned sites to Mercury Land Holdings (MLH) as part of a wider, long-term asset disposal programme, adopted as part of the Council's Capital Strategy.

2.2 The proposed decisions are taken in the Council's roles as vendor and funder of MLH respectively and follow earlier Cabinet decisions arising from the reports set out below:

- Cabinet - 9th February 2023 - Asset Disposal Programme 2022-2028
- Cabinet - 19th July 2023 - Mercury Land Holdings – Update to Business Plan 2022/23
- Cabinet - 9th August 2023 - Site Disposals under the Asset Disposal programme 2022-2028
- Cabinet - 7th February 2024 – 24/25 Budget and 2024-28 Medium Term Financial Strategy.

2.3 The above decisions have determined the approach for this phase of the disposal programme. The recent Key Decisions that are the subject of the current call-in seek to exercise the delegated authority granted by Cabinet at the above meetings.

3. Response to grounds of call-in:

3.1 To understand the implications of disposal of the sites to MLH as opposed to the sale on the open market.

The Asset Disposal report to Cabinet in February 2023 set out the rationale for the adopted approach and other options considered.

The nature of the transaction with MLH is intended to benefit the Council in a manner that would either not be available in the open market, or would result in a lower capital receipt due to the risks and conditions placed upon the purchaser.

These include:

- Enabling a two-stage payment to the Council that aligns with the needs of the Council's capital programme.
- Achieving a final receipt that recognises the full benefit of planning permission
- Enabling the car parks within the transaction to remain operational (via a leaseback agreement) and generating revenue until the point at which redevelopment is due to commence.
- The Council will benefit from interest income earned from funding advanced to MLH
- Given that MLH is the Council's wholly owned company, the Council will have a stake in any developer profit earned on units sold by MLH or PRS units retained by MLH in the schemes.

It would be possible to offer the sites on the open market prior to obtaining planning permission but with an overage/clawback provision whereby the site value is reassessed at the point where planning permission is obtained. However the 'market' would factor in the risk of achieving a satisfactory planning consent/viable scheme into their offer and the Council would receive a reduced proportion of any uplift.

It should also be borne in mind that the process to achieve a satisfactory planning outcome, collation of the relevant studies, appraisals etc to support the application and addressing stakeholder comments is taking in the order of 18 months to navigate. The costs and uncertainty posed by this process are likely to restrict interest in the wider market.

3.2 Potential missed revenue opportunities for Havering Council.

The sites at Priory Road and Albert Road have not typically generated revenue and there is little demand anticipated for leasehold disposals of either.

Revenue details of each of the car parks were obtained prior to any disposal decision being taken. The situation for each is summarised below:

- Como St car park generates nominal parking revenue relative to its size and has been unpopular as a car park for some years.
- Angel Way multi-storey car park is running at a loss to the Council and has a limited life span due to its condition/structure, requiring significant capital investment to replace. Current usage, outside of December, is less than 50% and the income profile would not provide an adequate return on the investment cost of re-building the car park.
- For Keswick Avenue and Dorrington Way car parks, the Council is retaining other car parks in Hornchurch (Billet Lane, Appleton Way, Fentiman Way etc) so it is likely that a proportion of the parking demand, and accordingly revenue, will be displaced to the latter where sufficient space capacity exists (confirmed by recent surveys).
- It should be borne in mind that each of the four car park sites intended for disposal incurs expenditure (business rates, utility and management costs) so a consolidation of the existing car parks portfolio will reduce expenditure for Parking Services.

3.3 To understand how these sites would contribute towards Havering's housing needs, given MLH inability to develop social housing.

Planning applications for these sites, as with any site, will be determined in accordance with planning policies, including the provision of affordable housing, where required and subject to viability assessment. MLH's primary purpose is to provide PRS housing. MLH can build social housing as part of its developments, providing there is an end user such as a RSL or the Council.

The precise scale, mix and tenure of housing provision for each site (with the exception of Priory Road) has yet to be determined by the planning process.

3.4 To understand the full ownership of the land in question.

Havering Council holds the freehold title to the sites within scope of the Key Decisions. Title checks have been carried out as part of the due diligence process leading up to any asset disposal.

Any third party rights that may exist on these sites will be addressed as part of the appropriation process and compensation paid where an entitlement is established.

A small area on the periphery of the Angel Way car park site requires the resolution of a possible boundary discrepancy with an adjoining owner. A number of options are under review to ensure an acceptable long term position and a dialogue between the parties has commenced.

3.5 The council seems to have not considered all options available. Namely, to use the funds it intends to loan MLH to develop social rented housing on the land it owns.

The Council funds MLH via the General Fund. The development of social rented housing would need to be funded via the Housing Revenue Account. Consequently the option, as suggested in the question, would not be appropriate.

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