Manchester City Council
Report for Resolution

Report to: Resources and Governance Scrutiny Committee – 8 September 2016

Subject: Council Surplus Land Values

Report of: Strategic Director, Development & City Treasurer

Summary

The following report addresses an issue raised at Audit Committee about the substantial adjustment in the value of the Council's surplus land, the background to this issue and the lessons learnt.

Recommendations

That Committee note this report.

Wards Affected: All

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Background documents (available for public inspection)

Report of the City Treasurer to the September 2015 Audit Committee.

Report from the Council's Auditors (Grant Thornton) to the September 2015 Audit Committee.

1 INTRODUCTION

1.1 The Audit Committee of 24th September 2015 considered a report on the Annual Accounts 2014/15 and the Audit findings of the Council's External Auditors. The minutes from that meeting included six recommendations and one of these requested that the Finance Scrutiny Committee (now Resources and Governance Scrutiny) review the reasons why there was a substantial adjustment in the value of the Council's surplus land values identified during the audit of the Annual Accounts. This report seeks to provide this review.

2 BACKGROUND

2.1 The draft annual accounts were reported to the Audit Committee in their meeting of July 2015. In their report to the September Audit Committee the Council's external auditors highlighted the key matters arising from their audit of the Council's financial statements for the year ended 31 March 2015.

2.2 There was one substantial adjustment which related to the valuation of private sector housing land and properties. This related to the valuation of private sector housing land that was acquired mainly under Compulsory Purchase Orders between 2004 and 2008 when market values were at a peak. These pieces of land were classed as surplus properties within Property, Plant and Equipment on the balance sheet. These schemes typically involved the acquisition of privately owned land and properties piecemeal. These acquisition costs and associated expenditure (such as relocation assistance, compensation, demolition, land remediation and various professional fees) had been shown as assets within the balance sheet. This is in line with accounting practices where initially assets are shown at cost. Having initially shown the assets at cost they should have been revalued each year and the cost replaced with the valuations.. Unfortunately this did not happen and this was picked up by our external auditors in their review of the 2014/15 annual accounts which resulted in the total write down in value being done in one year.

2.3 Following the demolition of the properties acquired and the grouping of individual purchases into development plots the valuation of these assets resulted in a reduction in value of £78m on the balance sheet matched by a reduction in an unusable reserve (the capital adjustment account). There is no effect on the usable reserves available to the Council.

2.4 The costs of these acquisitions were funded from the Government's Housing Market Renewal Fund rather than Council funding and achieved significant regeneration benefits.

2.5 The properties acquired were mostly nineteenth century terraced housing for redevelopment, mostly under the Government's Housing Market Renewal (HMR) Pathfinder initiative, which operated between 2003 and 2010. Although in previous years, the Private Sector Housing Service had implemented a policy of clearing and redeveloping housing that was unfit, obsolete or vacant and in poor condition, the level of resources available significantly restricted the extent of intervention that the Council could make. After the Pathfinders were established, the Manchester and Salford HMR Partnership was able to source substantial sums of funding for much wider scale interventions in failing neighbourhoods in the core of the conurbation through access to the Housing Market Renewal Fund (HMRF). The aim of the Pathfinder in Manchester was to develop new attractive neighbourhoods, containing higher quality predominantly owner occupied housing, employment opportunities, new retail and leisure facilities and better quality public services, particularly schools. A large number of projects were identified for HMR funding, with the majority involving the clearance of existing poor quality and low demand housing and developing new attractive housing and neighbourhoods of choice.

2.6 A Pathfinder Board was established and in Manchester the Housing Department created a number of HMR teams to promote the schemes. These teams worked closely with the Regeneration teams and colleagues in Planning and Valuation and Property.

3 VALUATION OF PRIVATE SECTOR HOUSING ASSETS

3.1 The projects identified as part of the Pathfinder initiative required, in most cases, the acquisition of large numbers of properties and the relocation of the occupants. Most of the property acquired comprised nineteenth Century housing but some commercial property was also acquired. The table below identifies some of the largest HMR schemes, the total costs involved and the subsequent reductions in value following demolition of properties and the grouping of individual acquisitions into development plots.

Area	**Cost to 31/03/2015 £**	**Valuation at 31/03/2015 £**	**Reduction in Value £**
Toxteth St acquisitions	41,454,705	2,175,000	39,279,705
Eccleshall St acquisitions	13,981,918	2,250,000	11,731,918
Moss Side acquisitions	10,964,712	0	10,964,712
West Gorton acquisitions	6,869,323	1,150,000	5,719,323
Former Stagecoach Bus Depot Site acquisitions	5,379,621	3,000,000	2,379,621
Ben St acquisitions	3,271,953	600,000	2,671,953
Bell Crescent and Lower Beswick acquisitions	2,853,027	125,000	2,728,027
Viola St acquisitions	1,456,818	40,000	1,456,818

3.2 The costs of these acquisitions were funded from the Government's Housing Market Renewal Fund rather than Council funding. No grant was required to be repaid despite the reduction in values detailed above. The above table does not include the capital receipts we will have received through land disposals in the different areas since acquisition of the various interests. Using West Gorton as an example, although the surplus land was valued at £1.15m in March 2015, the capital receipt when all land is drawn down is now estimated to be £2.1m plus overage.

3.3 The projects where the acquisitions took place have all reached the stage where the individual acquisitions have been grouped together and where development has not already taken place, the remaining land is held as development plots and identified as surplus land. The value of the development plots however is significantly lower than the costs of acquisition resulting in the reductions in values listed above.

3.4 Many of the sites that were assembled comprised densely developed areas of housing. Acquisition costs included not just the value of the house but also relocation and other disturbance costs where the property was occupied, along with the costs associated with business relocations, and so invariably the cost of acquisition of each individual property vastly exceeded its' land value.

3.5 The cost of delivering transformation change in what were failing neighbourhoods is invariably expensive. Where the market is unable or unwilling to invest the cost is borne by the public sector. Whilst the timing of many of the acquisitions meant that the majority of the properties were acquired at the peak of the market between 2005 and 2008, the do nothing option was not an acceptable one for the Council, either economically or politically.

3.6 It is important to note that without this outlay the transformation of failed neighbourhoods would not have taken place. A major public intervention was required to tackle endemic market collapse, anti-social behaviour and unacceptable housing and environmental conditions. The alternative of leaving the areas to market forces was not a realistic option and may have had implications that would have held back the transformation of big parts of the city, such as East Manchester, which had been a long term regeneration priority for the City Council and the Government of the day.

3.7 It is clear that the private investment that has taken place in these areas would not have taken place at anything like the level that has, and is continuing to take place without the acquisition of these sites by the Council. The schemes have and are continuing to generate extensive private investment both directly in the new housing but also indirectly in new shopping and leisure facilities and from businesses and existing residents who feel more confident about investing within areas that are no longer viewed as failing. The investment in these areas by the public and private sector has also led to the creation of new jobs, both in construction and also in businesses who have invested or moved into the area.

3.8 The other critical point which is not reflected above as part of the transformational change is the numbers of new homes which have been provided and the increase in Council Tax income. Again using West Gorton as an example, on completion this development will comprise:

Re-provision of social homes:	212
Matrix Homes (Market rent):	19
Matrix Homes (Sale):	10
Keepmoat (Private sale):	400

Prior to redevelopment of the area the vast majority of the homes would have been in Council Tax band A, whereas now we are looking at band B or C generating additional income to the Council.

4 LESSONS LEARNT

4.1 Although the costs of intervening in areas of market failure are invariably extremely expensive there are some lessons that should be learnt from the large impairment that has occurred in the Council's accounts.

- Where redevelopment schemes are promoted that involve the acquisition of large numbers of properties then this should not be unnecessarily delayed as it will allow speculators to secure interests within the area that can be used to drive up values and in some cases claim ransom strips. Speed of delivery is therefore critical in minimising acquisition costs along with having a clear and streamlined structure for the development of the project and its delivery.
- The delivery of large scale development projects need to incorporate a greater level of commercial and development expertise which now exists through the Council's Strategic Development Team, which is supplemented as necessary by utilising specialist consultancy support.
- The Council's Development Section has valued all of the Council's land held for development on a fair value basis and these values are now reviewed at least on an annual basis. In this way, the value of any property acquired by the Council and subsequently demolished will be adjusted on a regular basis.