Our ref: BF/Q30195
Your ref: Draft New London Plan
Email: ben.ford@quod.com
Date: 28 February 2018

Sadiq Khan (Mayor of London)
New London Plan
GLA City Hall
London Plan Team
Post Point 18
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By email: londonplan@london.gov.uk

Dear Sadiq

DRAFT NEW LONDON PLAN (MARCH 2018)
WRITTEN REPRESENTATIONS
SCOTIA GAS NETWORKS (SGN) – SURPLUS UTILITIES SITES

On behalf of Scotia Gas Networks (SGN) I am pleased to enclose our representations to 'The London Plan – The Spatial Development Strategy for Greater London: Draft for public consultation December 2017' (hereafter referred to as the "Draft London Plan").

1. About SGN

SGN are the second largest gas distribution company in the UK and manage the network that distributes natural and green gas to 5.9 million homes and business across Scotland, the South of England and London. We own 132 gasholders across 86 sites.

As a result of OFGEM requirements to decommission obsolete above ground gas storage facilities in favour of a subterranean pipe network, we are undergoing a strategic review of our land portfolio.

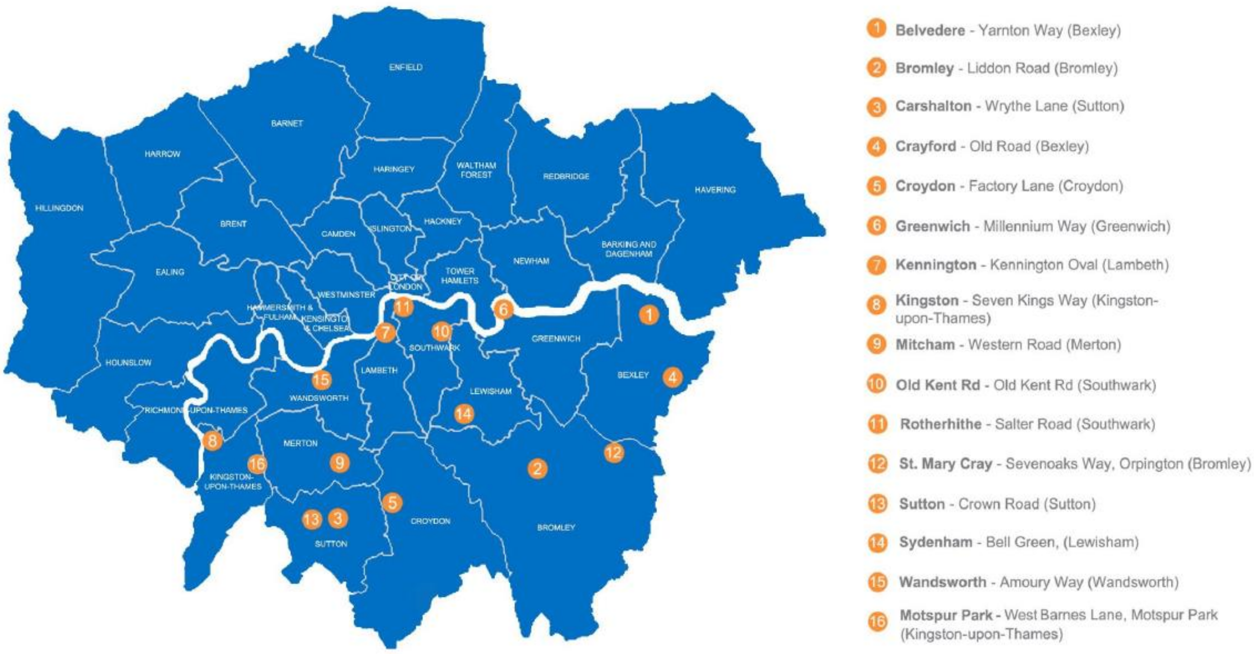
Legally our gasholder sites are classified as "Sui Generis". They store large cubic volumes of low pressure gas. Our gasholder sites vary in size, but contain very limited built floorspace. They support very few jobs as most of our workforce is located off-site in offices. By 2021, we expect to decommission, remediate and dismantle 55 gasholders with a further 55 gasholders to follow during the period 2021 – 2029.

2. Our Land Portfolio in London

Our strategic portfolio review could result in a number of gasholder sites in London becoming available for development.

We estimate that our 16 London sites could deliver 6,000 new homes and 2,000+ jobs during the London Plan period. We enclose at Figure 1 a map of our London sites.

Figure 1: SGN London Sites

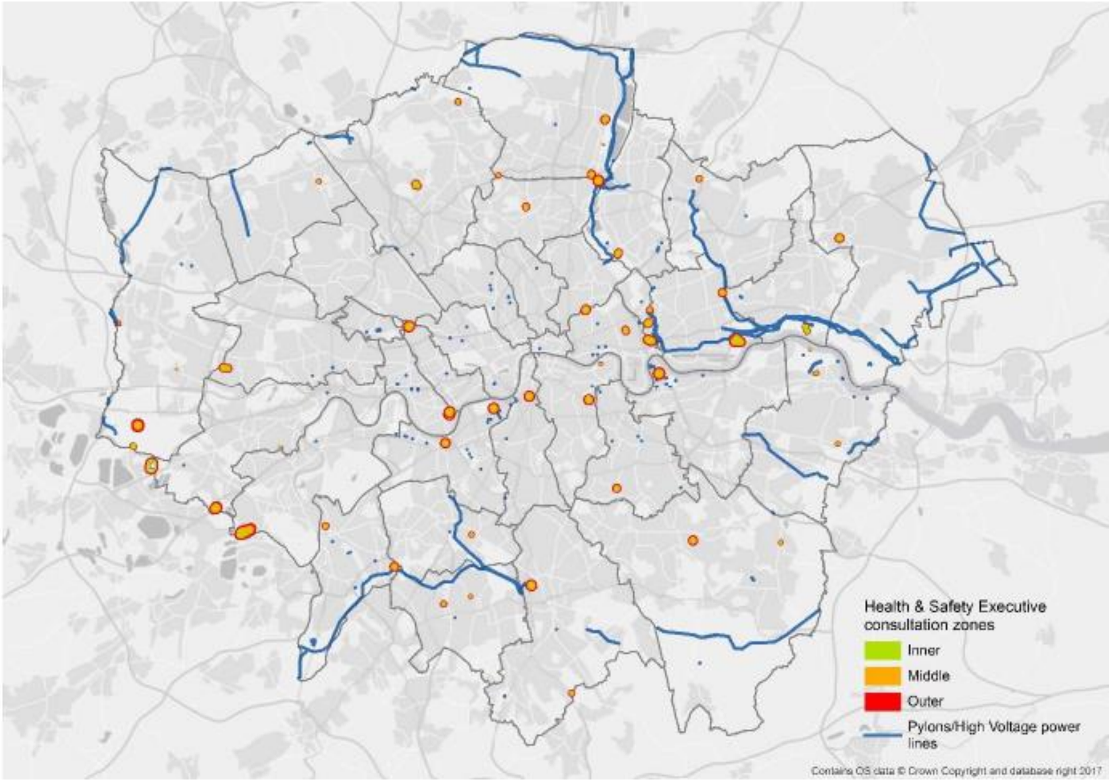


The cumulative effect of developing our portfolio would result in a greater contribution towards housing and employment targets in London. As existing, the gasholder sites are of low environmental value, low employment and, by virtue of their nature, do little for the surrounding areas.

Owing to the operational requirements of our sites, each one is subject to a Hazardous Substances Consent granted by the local planning authority and administrated by the Health and Safety Executive. Each Hazardous Substances Consent limits development, in particular for residential uses, around our sites. This effects housing supply in London. Figure 2 below (extracted from the Strategic Housing Land Availability Assessment (SHLAA) (2017)) shows the location of the Hazardous Substances Consent consultation zones covering gasholders and hazardous installations across London.

Positively, the Hazardous Substances Consent can be revoked once we are certain that there are no longer operational requirements for the site (including green energy initiatives) and where we have clarity that an alternative use is acceptable in a form and function which viably funds decommissioning and remediation works. By virtue of releasing the constraints of the Hazardous Substances Consent, substantial benefits to the wider area can be realised including new homes, economic, environmental and community benefits, place making and extensive public realm improvements.

Figure 2: Health & Safety Executive (HSE) constraint layers



The potential challenges that we face as landowners are best summarised as follows:-

- Operational requirements to provide gas to our customers.
- Cost and risk of gasholder dismantlement.
- Environmental risk and substantial upfront cost to prepare the site for redevelopment.
- Heritage – we have recently been the subject of statutory listings at Oval, Kennington (Gasholder no. 1 Grade II listed in 2016) and Old Kent Road (Gasholder no. 13 was Grade II listed in June 2017).
- SGN requirements to retain and provide on-site gas infrastructure through accessible underground gas pipelines and operational pressure reduction stations (PRS).
- Planning.

3. Our Developments in London

SGN has already commenced redevelopment of some sites under the framework of the current London Plan.
We have been working extensively across London to dismantle gasholders, rationalise operational infrastructure, remediate sites to make them available for development where the planning climate allows us.

Our former gasholder sites at Sutton and Kingston are currently being redeveloped for mixed use purposes. We also have a live planning application at our site in Oval Kennington in partnership with Berkeley Homes. A summary of these projects is enclosed below.

SGN London Development Sites	Description
SGN Sutton Town Centre	Redevelopment for homes, retail and commercial floorspace by LXB. The proposals include a 9,300m² foodstore pre-let to Sainsbury's, 186 residential units and 2,750m² Class A1 Retail and A3 uses. Linden Homes have completed the residential element of the scheme. In December 2016, Sainsbury's opened the supermarket.
SGN Kingston Town Centre (Queenshurst)	Redevelopment for 322 new homes within buildings up to 9 storeys and 408m² of commercial and community floorspace.
SGN Oval, Kennington	An application was submitted in November 2017 for the temporary disassembly of listed gas holder no.1 and its restored re-erection and the provision of 738 residential units, Class B1 office and shared working space incorporating for community use.

Some of our other sites in London are significant in size and we have started to review their development potential in more detail. These sites are:-

SGN London Sites	Description
SGN Greenwich Peninsula	Our site is now subject to Greenwich Council Development (Site GP3) for up to 1,200 homes, public open space, up to 10,500m² of commercial floorspace and tall buildings.
SGN Wandsworth	Our site has been proposed for deallocation from Wandsworth's Local Plan Locally Significant Industrial Area allocation. A new allocation for residential led mixed use development is proposed and capacity exercises suggest that the Site could deliver 900 new homes as part of the new Site allocation Ref: 41.
SGN Old Kent Road, Southwark	Draft allocation within the Southwark Plan and the Old Kent Road AAP as part of a wider allocation for 1,925 homes.
SGN Rotherhithe	Proposed residential allocation within the New Southwark Local Plan.

4. Our Portfolio outside London

Outside of London, we own 70 sites across Scotland and South of England. We have had an active presence in each local planning authority having submitted representations to promote our sites and continue to monitor further opportunities within local plans.

Our former gasholder site at Nursery Way, Station Road East Oxted for example recently gained planning permission for residential development. Tandridge Council recognised the overall benefits of the proposal and the high costs of redeveloping a gasholder site including the impact on viability. As a result it was agreed that the scheme could not viably provide an affordable housing contribution. We are also considering development proposals for other sites including Tunbridge Wells, Epsom, Brighton and Southampton.

In essence London is in competition with these out of London sites. As land owner, we have no geographical hierarchy for the release of our sites. Where policies allow for it, where it is viable, where it is less complex and risky and where environmental effects can be mitigated, we release sites for redevelopment. We have to programme development and prioritise funds where necessary. We have no requirement to make sites available for development in London. Ultimately the resistance or support for development dictated by development plan policy will influence whether we bring forward sites in London. Clearly the London Plan is as the forefront of that policy.

5. <u>SGN and the adopted London Plan (March 2016)</u>

SGN has worked extensively with the Mayor of London to ensure that the policy framework established by the London Plan encourages development of our sites in a positive and proactive manner. The adopted London Plan (March 2016) reflects these discussions. Decommissioning, remediation and redevelopment for higher value uses are currently policy objectives expressed within the adopted London Plan.

London Plan Policy 5.22 Hazardous Substances and Installations confirms that in preparing LDFs, boroughs should:

> ***"(a) identify the locations of major hazards (including pipelines carrying hazardous substances)***
>
> ***(b) consult and give due weight to advice from the Health and Safety Executive to ensure that land use allocations take account of proximity to major hazards***
>
> ***(c) consult utilities to ensure that the timing of decommissioning and the implications for development are reflected in proposals***
>
> ***(d) ensure that land use allocations for hazardous installations take account of the need to incentivise and fund decommissioning".***

Part (d) of Policy 5.22 is important. It identifies the need to "incentivise" and "fund" decommissioning. This means planning for land use allocations that are viable.

The Mayor's commitment to "prioritising decommissioning" to contribute to the "provision of new homes and jobs" on and around our sites is set out in paragraph 5.31H:-

> ***"There are numerous low-pressure gasholders in London. Only a few are still operational and both gas distribution companies pursue de-commissioning strategies, which will result in brownfield land becoming available for development. The Mayor will work with them to prioritise de-commissioning of those gasholder sites which have significant potential to contribute to the provision of new homes and jobs on and around them."***

We have found strategic Policy 5.22 and supporting text in the adopted London Plan to be very important in facilitating the release of two of our sites for residential led mixed use development. The adopted London Plan recognises that gasholder sites have bespoke requirements as Hazardous Substances Installations and it is this benchmark that we consider the draft London Plan against, and whether in our view, the draft policies are sound.

6. <u>Draft London Plan (2018)</u>

We are concerned that the draft London Plan sets a different tone for our sites. Policy 5.22 is deleted. Much of the supporting text supporting decommissioning has been deleted. Paragraph 5.31H of the adopted London Plan is reworded as paragraph 9.3.10 albeit without reference to new homes and jobs and the significant potential that our sites can offer.

Notwithstanding this we do broadly welcome the new approach that the draft London Plan takes to former gas holder sites encompassing them within the broader heading "surplus utility sites". We feel that with some additional clarifications, to draw out the underlying policy approach and the evidence base supporting policy, our concerns will be sufficiently addressed. We set out our proposed revisions at the end of this submission.

Policy H1 is the principle housing delivery policy for the Mayor of London. Its purpose is "Increasing Housing Supply". Part B(2) states that "boroughs should optimise the potential for housing delivery on all suitable and available brownfield sites through their Development Plans and planning decisions, especially the following sources of capacity". It then lists six strategic sources of capacity (a-f). The first part of (d) relates to gasholder sites:-

> ***"d) the redevelopment of <u>surplus utilities</u> and public sector owned <u>sites</u>"***

Surplus utilities are distinguished from other categories of sites. For example industrial sites planned for release under Policies E4, E5, E6 and E7 are a separate sub category H1(b)(2)(f).

Policy H1 is important as it underpins the housing objectives of the draft plan which are significant. The objectives propose to "double" average completion rates. The Mayor's approach is summarised at paragraph 4.1.3:-

> ***"To achieve these housing targets the overall average rate of housing delivery on both large and small sites will need to approximately double compared to current average completion rates. The Mayor recognises that development of this scale will require not just an increase in the number of homes approved but also a fundamental transformation in how new homes are delivered".***

Utility sites are considered in the Strategic Housing Land Availability Assessment (SHLAA) which forms part of the evidence base for the draft London Plan. The SHLAA confirms that "surplus utilities sites" have been retained within the 10 year housing target (2.5.8 and 5.5.2) where promoted for redevelopment unlike "designated industrial sites".

This approach is also reflected within the economic policies of the draft Plan at Chapter 6. Paragraph 6.4.5 of draft Policy E4 (Land for Industry, Logistics and Services to Support London's Economic Function) confirms that the principle of no net loss of floorspace capacity does not apply to sites previously used for utilities infrastructure which are no longer required e.g. surplus utility sites.

> ***"Based upon this evidence, this Plan addresses the need to retain sufficient industrial, logistics and related capacity by seeking, as a general principle, no overall net loss of industrial floorspace capacity across London in designated SIL and LSIS. Floorspace capacity is defined here as either the existing industrial and warehousing floorspace on site or the potential industrial and warehousing floorspace that could be accommodated on site at a 65 per cent plot ratio (whichever is the greater). <u>The principle of no net loss of floorspace capacity does not apply to sites previously used for utilities infrastructure or land for transport functions which are no longer required".</u>***

The draft Plan recognises the opportunities that exist for "innovations" within Strategic Industrial Locations to make more effective use of land in SILs. Boroughs should take into account the potential to rationalise SILs. In particular land that is not in industrial and related uses "or" land that contains "surplus utilities sites" should be considered for release (paragraph 6.5.3):-

> ***"Innovations to make more effective use of land in SILs are encouraged and should be explored in Local Plan reviews and Opportunity Area Planning Frameworks. This includes collaborative working with other planning authorities in the relevant property market areas including authorities in the Wider South East (see also Policy E7 Intensification, co-location and substitution of land for industry, logistics and services to support London's economic function). This should take into account the potential to rationalise areas of SIL that are currently in <u>non-industrial and related uses</u> <u>or contain transport or utilities uses which are surplus to requirements</u>."***

The approach to "surplus utility sites" in the draft Plan in our opinion is clear, and we support this. Surplus utility sites are one of six strategic sources of housing supply which will enable the Mayor to double his completion rates. The SHLAA relies upon them for its 10 year housing target and they are quite separate from industrial sites released for development under Policies E4, E5, E6 and E7. The economic policies exclude surplus utility sites from the "no net loss of floorspace" test. Supporting text to Policy E5 also categorises surplus utility sites separately to industrial sites. As the draft Plan makes these important distinctions, we would welcome greater clarity within the current drafting. We suggest a revision to footnote 78 of Policy E4 to achieve this.

We note that Policy E4 A(4) seeks the provision of utilities infrastructure to support land and premises for industrial and related functions. We support this objective as gas, water and electricity is required to support land and premises of all land uses within the London Plan. However its inclusion only within Policy E4 may suggest a presumption in favour of utilities supplying industrial premises at the expense of office, residential, leisure or other land uses. We would not support this. To avoid confusion we propose the removal of E4 A(4).

We consider it important that the evidence base to the draft London Plan which does recognise the viability constraints of developing surplus utilities sites, is reflected within the main body of the draft London Plan. The analysis within Section 9.2 (page 149) of the London Industrial Land Demand Study 2017 is explicit in this regard and refers to the need to incentivise decommissioning and decontamination through higher residential land values:-

> ***"Land contamination can constrain the future of such land (e.g. for former gas holder sites): decontamination works are costly and can require the incentive of higher land values (e.g. from residential developments)"***

The London Plan Viability Study (December 2017) forms part of the evidence base which supports the Draft London Plan. This tests the policies of the plan and identifies the approach which best achieves the Mayor's objectives whilst being deliverable and supported at Examination in Public (EIP). It is at the heart of whether the policies of the draft Plan can be considered to be sound.

Overall, the case studies on which the viability conclusions are based are 'typical' development sites. It is not apparent that the conclusions could be fairly applied to gasholder sites or to have factored in exceptional abnormal costs that these sites are subject to. The abnormal cost assumptions listed in the study do not include contamination, and the assumed costs appear relatively low in the context of a gasholder site (£183/sqm). The study concludes that “scenarios with very substantial costs are atypical and lie outside the scope of this testing” (5.6.13).

These abnormal costs have been considered recently by Tower Hamlets as part of their Local Plan Strategy Sites Viability Study (2017). This considered three gasholder sites within its borough concluding that decontamination costs of £3.2M/ha (twice the cost assumption used in the London Plan Viability Study of £183/sqm) would have a direct impact on deliverability, and in particular the provision of affordable housing. Development was only viable with 0-5%; 25% and 35% affordable housing on these three sites. To achieve 35% affordable housing provision on one of the sites densities needed to be 179% and 95% greater than the other two sites.

To provide further context on this point, we enclose a bespoke SGN open book development appraisal as a case study for the redevelopment of one of our former gasholder sites. The site has recently been allocated for residential development by the Council with an indicative capacity of 137 units however we have reviewed this and believe it too low for a number of reasons. In order to maximise development value, we have therefore increased density at this location to 210 units.

The gasholder site is located in South London and is available for redevelopment. The site extends to 0.95ha and is vacant brownfield land. The existing gasholder occupies the northern part of the site with cleared hardstanding to the south. The holder is of no heritage value. The site has a PTAL rating of 4 and falls in Flood Zone 3 (area benefiting from flood defence). The site does not provide any permanent employment opportunities and its appearance does not make a positive contribution to the appearance of the area. The surrounding properties comprise semi-detached and terraced housing and the area is categorised as suburban, albeit to the east is the boundary of a London Plan growth area.

To bring this site forward SGN will need to consider the upfront costs of development. These relate to each of our sites irrespective of where they are located, and the larger the site the greater the cost. In this case they include decontamination (£1.5M), holder demolition (£1.25M), plant rationalisation (£2M) a new pressure reduction system, the removal of ground structures and underground obstructions (£0.5M). In addition there is a cost associated with the Arqiva telecoms mast removal/relocation. Arqiva masts with protection under the Telecoms Act exist on most gasholders and can result in a £1M cost for a temporary and permanent relocation solution. These upfront costs equate to £6.25M.

We have used as far as is practical the viability assumptions set out within the Council’s Viability Assessment (2017). Build cost assumptions are in line with Councils assumptions based on BCIS Data and external QS advice to support the local plan. In the case of revenues, we have modelled £850psf for private sales, this is the medium value assumed within the Council’s Viability Assessment and has been reviewed by Cushman Wakefield Sales Team as a reasonable assumption given the sites’ location and current market conditions. Furthermore this value is also higher than that assumed within the London Plan Viability Study, taking into account a more localised approach to scheme viability. Affordable housing values have also been calculated in accordance with the Council’s Viability Assessment taking into account the Council’s affordability criteria to ensure these values are appropriate. Whilst the values are slightly lower than assumed within the London Plan Viability Study the total appraisal output (noting the higher sales values) is the same if not more optimistic than that considered in the London Plan Viability Study.

Profit assumptions have had regard to current market conditions and recognise the client risk with bringing the site forward. Given the high upfront abnormal costs, we consider 20% profit on GDV for private sale and 6% profit on affordable housing units to be appropriate, this equating to a blended rate of 18.56% profit on GDV. We have also tested profit thresholds aligned with the London Plan Viability Study and this does not alter the conclusion of the financial appraisal, which would still indicate a deficit. All other development assumptions are industry standard assumptions e.g. professional fees, sales and marketing etc.

CIL assumptions are based on the chargeable floorspace for new residential development within CIL Zone 2 (Local CIL at £218 per square metre and Mayoral CIL at £35 per square metre) taking into account affordable housing relief. Of note, from April 2019 MCIL2 will supersede the current Mayor's CIL with an expected proposed rate of £80 per square metre in this location. S106 has been calculated having regard to the Council's Viability Study and estimated planning requirements e.g. carbon offset payments, therefore totalling £1m which we consider reasonable given the scheme size.

On the basis of a policy compliant level of affordable housing of 35% by habitable room with a tenure spilt of 70% social rent and 30% intermediate, the scheme derives a negative land value of £1.5m. A copy of this appraisal is attached to this letter.

Our analysis evidences that 35% affordable housing is in excess of the viable maximum amount, given that this is not generating any land value in excess of the Existing Use Value for the site. As the site does not meet our basic financial hurdles (or indeed the industry standard planning viability hurdles) we would look outside of London before releasing this site for redevelopment. The only scenario where we would consider redevelopment is where we are confident that a reduced affordable housing provision was acceptable, or that more development could be accommodated on the site to fund increased affordable housing.

As set out in national planning policy (NPPG) it is clear that to ensure viability and deliverability, planning viability assessments should ensure that a proposed scheme "*provides sufficient incentive for the land to come forward and the development to be undertaken*" (NPPG paragraph 16). The NPPG provides further clarification on this matter in stating "*A competitive return for the land owner is the price at which a reasonable owner would be willing to sell their land for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that compiles with planning policy*" (paragraph 24). In this case the site could be maintained under its current use realising some rental income (including that from telecoms equipment) therefore it would not be released for redevelopment for less than a nil land value.

7. <u>Proposed Revisions to the draft London Plan (2018)</u>

We have considered the soundness of the Draft London Plan having regard to the guidance set out in paragraph 173 of the NPPF which states that sites and the scale of development identified in the plan should not be subject to such a scale of obligation and policy burdens that their ability to be developed viably is threatened. We have also considered whether the draft policies have been positively prepared, are justified, are effective and are consistent with national policy.

We appreciate that other stakeholders will be making representations on the soundness of the draft Plan to achieve the housing targets in respect of design policies, tall buildings, carbon offset tax, design standards, open space and other development obligations set out within the plan. We reserve the right to make such comments at a later date.

To address our specific concerns we propose that the following revisions to the draft London Plan to make it sound.

Policy	Revision	Comment
Policy E4 Land for industry, logistics and services to support London's economic function	Delete A(4) Utilities Infrastructure	Utilities infrastructure is required for all land uses within the London Plan. By including reference to it at E4 might incorrectly suggest that it is only required for industrial land and premises and not other uses such as housing, leisure, offices, community premises etc.
Policy E4 Land for industry, logistics and services to support London's economic function - Footnote 78	Add the following text "*They do not include surplus utilities sites or land for transport functions which is no longer required* " after "Sites containing industrial and related functions that are not formally designated as SIL or LSIS in a Local Plan"	Policy H1B(2)(d); paragraph 6.4.5 of Policy E4; paragraph 6.5.3 of Policy E5; SHLAA 2.5.8 and 5.5.2; and Section 9.2 of the Industrial Land Demand Study confirm that "surplus utilities sites" will perform a separate role from other sites in the draft Plan. They are a separate category of site; are one of six strategic sources of housing delivery; are excluded from the Policy E4 'no net loss' test; are classified separately from industrial and related uses under supporting text Policy E5 SIL and Policy H1; and are subject to specific viability considerations.
Paragraph 9.3.10 – new text	*"National Grid and Southern Gas Networks operate London's gas distribution network. Both companies are implementing significant gasholder de-commissioning programmes, replacing them with smaller gas pressure reduction stations. The Mayor will work with key stakeholders including the Health and Safety Executive to achieve the release of the resulting brownfield sites for redevelopment and will prioritise de-commissioning of those surplus gasholder sites which have significant potential to contribute to the provision of new homes and jobs on and around them. Planning guidance for hazardous installations should ensure that land use allocations for hazardous installations take account of the need to incentivise and fund decommissioning. Land contamination can constrain the future of such land: decontamination works are costly and can require the incentive of higher land values (e.g. from residential developments)"*	For clarity and to reflect existing text within the evidence base to the draft London Plan
Paragraph 9.3.10	Delete last paragraph 9.3.10 of Draft London Plan	Addressed by changes proposed above.

Please can you ensure that we remain on your data-base and are kept informed, through Quod (ben.ford@quod.com), of the outcome of this consultation process and moving forward.

We would be pleased to discuss our draft response with officers ahead of the Examination to establish where there is common ground and to gain clarity where we have raised queries on the proposed approach.

Ben Ford
Director of Quod on behalf of SGN

Document 1: Case Study Appraisal

SGN Case Study
35% AH by habitable room
March 2018

Development Appraisal
Licensed Copy
27 February 2018

APPRAISAL SUMMARY	LICENSED COPY

SGN Case Study
35% AH by habitable room
March 2018

Summary Appraisal for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Private	136	107,174	850.00	669,838	91,097,900
Intermediate	21	16,548	309.00	243,492	5,113,332
Affordable Rent	53	41,249	128.00	99,620	5,279,872
Totals	**210**	**164,971**			**101,491,104**
NET REALISATION				**101,491,104**	
OUTLAY					
ACQUISITION COSTS					
Residualised Price (Negative land)			(1,546,375)		
				(1,546,375)	
CONSTRUCTION COSTS					
Construction	**ft²**	**Build Rate ft²**	**Cost**		
Private	133,685	270.71	36,189,866		
Intermediate	20,641	270.71	5,587,725		
Affordable Rent	51,453	270.71	13,928,842		
Totals	**205,779**		**55,706,433**	**55,706,433**	
Contingency		5.00%	3,097,822		
Holder Demolition			1,250,000		
S106			1,000,000		
CIL			3,500,000		
				8,847,822	
Other Construction					
Contamination cost			1,500,000		
Plant rationalisation on site			2,000,000		
Arqiva mast - temp & permanent			1,000,000		
Underground Obstructions			500,000		
				5,000,000	
PROFESSIONAL FEES					
All Professional Fees		10.00%	6,195,643		
				6,195,643	
MARKETING & LETTING					
Marketing		2.00%	1,821,958		
				1,821,958	
DISPOSAL FEES					
Sales Agent Fee		1.00%	1,014,911		
Sales Legal Fee	210 un	750.00 /un	157,500		
				1,172,411	
FINANCE					
Debit Rate 7.000%, Credit Rate 0.000% (Nominal)					
Land			(433,941)		
Construction			5,372,688		
Other			517,715		
Total Finance Cost				5,456,463	
TOTAL COSTS				**82,654,355**	
PROFIT					
				18,836,749	
Performance Measures					
Profit on Cost%		22.79%			

APPRAISAL SUMMARY	LICENSED COPY

SGN Case Study
35% AH by habitable room
March 2018

Profit on GDV%	18.56%
Profit on NDV%	18.56%
IRR	25.26%
Profit Erosion (finance rate 7.000)	2 yrs 12 mths