

Cabinet Meeting

26 April 2017

Report title	Heath Town Regeneration Project	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Peter Bilson Housing and City Assets	
Key decision	Yes	
In forward plan	No	
Wards affected	Heath Town	
Accountable director	Lesley Roberts	
Originating service	Place	
Accountable employee(s)	Sangita Kular Tel Email	Housing Development Officer 01902 553362 sangita.kular@wolverhampton.gov.uk
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Report to be/has been considered by	Housing Board Place Leadership Team Corporate Landlord Board SEB	22 March 2017 27 March 2017 19 April 2017 11 April 2017

Recommendation(s) for action or decision:

The Cabinet is recommended to:

1. Approve the amended delivery proposals for the Heath Town regeneration project through a combination of:
 - a. direct development of the affordable units through the HRA (Housing Revenue Account),
 - b. disposal of sites by competitive tender or through direct disposal with District Valuer valuations to private developers for market housing development.

2. Approve the delegation of authority to the Cabinet Member for Housing and City Assets together with the Director of Governance or Strategic Director: City Housing to agree the details of disposal of sites at Heath Town at a value to be determined by the District Valuer or by competitive tender.
3. Approve the delegation of authority to the Cabinet Member for Housing and City Assets together with the Strategic Director: City Housing to agree the details of appropriation of General Fund sites within the Heath Town Masterplan area to the HRA for delivery of Council housing, at a value to be determined by the District Valuer.
4. Delegate authority to the Director of Governance to execute legal agreements in respect of the Heath Town Regeneration as required.
5. Delegate authority to the Cabinet Member for Housing and City Assets in conjunction with the Strategic Director: City Housing for the approval of any minor variations to the project required for its delivery.
6. Require that a minimum of 25% of the houses within the Heath Town development will be affordable and that the existing Multi Use Games Area (MUGA) and the Grosvenor Street open space will be upgraded.

Recommendations for noting:

The Cabinet is asked to note:

1. Progress on Phase 1 of the demolition works, and enabling works for Phase 2 of the demolition works.
2. Improvements proposed for the green field at Grosvenor Street.
3. Progress on Wolverhampton Homes' £35 million Investment Programme for the Heath Town estate.
4. The on-going discussions with Black Country Make Community Investment Company around providing access to a small site on a leasehold basis for the development of community build homes on the Heath Town estate.

1.0 Purpose

- 1.1 The purpose of this report is to provide an update on the activity undertaken to deliver the regeneration of the Heath Town estate so far and seek approval of specific proposals which will progress the delivery of new build homes for the Heath Town project.

2.0 Background

- 2.1 Cabinet Resources Panel on 4 October 2016 approved the procurement of a developer to deliver the Heath Town Masterplan proposals for the redevelopment of sites around the Heath Town estate. The process was initiated in 2016 and a number of developers expressed interest. However, after the pre-qualification stage, all but one developer withdrew from this process. The reasons given were that the property values in this locality do not support the potential risks associated with a scheme of this size on a brownfield site. Employees have now reviewed the alternative routes for delivery of the Masterplan vision for Heath Town.
- 2.2 The Heath Town estate regeneration proposals have been through a lengthy refinement process. This has included land and property surveys, financial viability studies, phasing plans, engagement with residents and stakeholders, decanting, demolition and estate investment. In addition, soft market testing was undertaken with developers, and legal documents drafted.
- 2.3 This supported the procurement process to select a developer to deliver 362 units, of which just over 25% would be affordable. However, on the Council issuing its invitation to the market, interest from developers proved inadequate to allow the process to proceed. Of eight initial expressions of interest, a single bidder remained. This leaves the Council without a competitive process.
- 2.4 Investment is being considered in the green field at the end of Grosvenor Street. Previous consultation exercises have highlighted the need for a small football pitch for young children, and officers will be consulting with the local community on this further.
- 2.5 The planned works to enable targeted demolition are continuing on the estate. The first phase of enabling works is complete and the demolition works are near completion. Designs for the second phase of enabling works have been approved and contractors are on site. The process to appoint the demolition contractor for Phase two will start shortly.
- 2.6 Investment works to improve the retained blocks on the estate have been designed, and the first phase submitted for planning approval by Wolverhampton Homes. These will see the appearance of the estate transformed over the next four years, with the safety and security of blocks upgraded, external improvements to deck access blocks and 10-storey tower blocks. Work to improve the stair towers, lift enclosures and take away the upper level link walkways is also included in this programme. This programme of works will invest £35 million to improve the existing buildings and areas of the estate.

2.7 Officers are continuing discussions with Black Country Make Community Investment Company regarding their aspirations to develop community build homes. A small site has been identified subject to BCM providing details, including a business plan, of their proposals. If this information is not forthcoming and the work is not programmed in the timescales required, this site will be brought back into the overall masterplan proposals.

3.0 Options

3.1 Employees have reviewed the potential options available to continue the programme of regeneration on Heath Town, addressing the issues of risk and value that have prevented a traditional procurement approach from succeeding.

3.2 Continue with a single bidder

The Council could progress with the sole bidder remaining in the procurement process. Guidance covering market failure requires a switch to a negotiated procedure, with the validity of scheme costs to the Council based upon benchmark data in the absence of a competitive process. This would require many inputs broken down in detail, to test value for money. Best consideration for land disposals would be assessed through the District Valuer valuing the land. This is likely to be a complex and time consuming process to conclude. It also carries a risk that the final position of the sole bidder may not be acceptable to the Council, as they are likely to seek full commercial advantage.

3.3 Seek a Joint Venture arrangement

Joint Venture (JV) partnerships deliver development through parties putting in their land assets, finance and expertise into a scheme, and then sharing the risks and profits arising. As low property values and below ground risks have led to the limited interest in this scheme, risk and cost sharing may be of interest to developers. However, there are no guarantees that this will lead to an arrangement that delivers the best scheme, and reduces costs to the Council. It is also likely that the legal agreements required to establish a JV will be complex to negotiate to conclusion.

3.4 Deliver directly through the HRA and disposal of sites to private developers

The original proposal divided the development into tranches for delivery but with just one developer, spreading the activity over five years. The planned development can be split between direct delivery of Council housing on HRA land by the Housing Development Team, and disposal of some sites for private development to more than one developer.

3.5 This approach allows private developers to take on some of the more marginal sites along with other sites on the estate that are more viable. Any affordable housing requirement would be delivered by the Council and funded through the HRs making the private sale element more attractive to developers.

3.6 The more viable private sites can be disposed of, with conditional contracts of sale to ensure that development proceeds in a timely fashion. This option allows delivery of the Masterplan to progress with similar assumptions and layouts to those anticipated through the previous procurement process, and which have been subject to extensive

consultation. The Council and other developers will benefit from the detailed information and layout plans already prepared.

- 3.7 The Council's capital investment proposals for block improvements have been designed. Some works to improve the front of the deck access properties has been undertaken at Hobgate Road and residents have provided very positive feedback. The first phase of this work will start on the maisonettes on Wednesfield Road in April 2017. Council employees are working closely with Wolverhampton Homes to ensure that once the phasing has been agreed on the new build, this work complements the investment programme on the retained blocks.

4.0 Planning

- 4.1 The advice from Planning is that a single application could be made for outline planning permission covering the whole of the Heath Town development area. As the Council will be landowner when the planning permission would be granted, there cannot be a S106 in place to secure affordable housing. There will be planning policy requirement for open space enhancements and provision of a minimum of 25% affordable housing. These can be required by conditions on the planning permission. However, because conditions are less robust than a S106, Cabinet is requested to pass a resolution requiring that:

- a minimum of 25% of the houses within the Heath Town development will be affordable, and that;
- The existing MUGA and the Grosvenor Street open space will be upgraded.

5.0 Phasing and Timescales

- 5.1 The masterplan proposals will be reviewed, altering the proposed phasing of development across the estate. Previously, the project was broken down into tranches to allow a developer to start on the cleared sites whilst the enabling works were taking place. As the project has progressed, the enabling works on Hobgate Road will complete within the next two months which means this site will be clear for housing development. This site can be brought forward for development earlier than programmed.
- 5.2 Subject to approval of the new delivery approach, detailed delivery timescales for the project can be established. These will be designed to dovetail with the investment programme in the retained stock, following on from the first phase of works planned to start on the deck access blocks on Wednesfield Road in April. It is proposed that the Duke of York site also starts early, as a visible site facing a main arterial route into the city. This is also where Wolverhampton Homes delivery starts the programme of stock investment works. It is anticipated the entire Heath Town development programme be delivered over five years with a later commencement, due to extending the timing of the delivery and sale of some of the market units, to assist in reducing the sales risk on the market sales units within the Chervil Rise location.

6.0 Masterplan Review

- 6.1 Council employees have reviewed the Heath Town Masterplan proposals in response to feedback from developers. It is proposed to alter the tenure mix of the development, and focus more keenly on areas with greater sales potential. This assumes the delivery of a larger proportion of affordable homes on the estate, including Council homes and Shared Ownership. The total number of new homes has been revised downwards, removing some units located in more marginal sites, for example neighbouring tower blocks. This ensures that sales risk and costs are reduced.
- 6.2 While the demolition of garages and walkways is opening up the estate, the impact of the 21-23 storey blocks imposes upon some areas, potentially overwhelming the proposed new houses. Originally, Hobgate Road site proposals included market sale housing, but further consideration has concluded that this is not a good site for market sales resulting in a change to some of the house types and tenure now proposed on this site. Housing will be delivered by the Council, which will include bungalows in the unit mix. As part of the review, it is likely that Qualcast Road will be sold separately to a private developer for market sale housing as this is a more viable site. This is a site that can be delivered quickly as it is a cleared site and ready for housing development.
- 6.3 Following the unsuccessful outcome of the procurement process, the Council has commissioned advice from Faithful and Gould, and an associated architectural firm, to provide an additional commentary on the Masterplan and its commercial implications. This advice, funded by DCLG grant, will be used to further refine and finesse the overall approach.

7.0 Viability analysis

- 7.1 A financial analysis of the proposed development has been broken down into the three tranches of proposed delivery for review, as shown on the plan at Appendix 1. They are as follows:
- Tranche 1 Council development
 - Tranche 2 Third Party Developer
 - Tranche 3 Third Party Developer

7.2 Tranche 1 Council Development - Hobgate Road and Chervil Rise

- 7.2.1 To meet any planning conditions for affordable housing, it is proposed that the Council uses HRA capital to develop the Hobgate Road and Chervil Rise locations, with the profile of units shown in the table below totalling 126 units.

Table 1 Profile of HRA Units

Masterplan Location	Number of units	Unit type
Hobgate Road	21	Two bed two storey terrace units
	6	Four bed three storey terrace
Chervil Rise	26	One bed flats
	55	Two bed two storey terrace
Across the site	18	Two bed bungalows Level two and three
TOTAL	126	

7.2.2 The proposal to concentrate any affordable housing requirement with these areas maximises the development potential and viability of the other sites to make them more attractive to private developers.

7.2.3 Construction of the Council homes will commence around September 2018 after the demolitions and ground works have been completed.

7.2.4 Construction costs are estimated to be around £10.5 million based upon the current information on below ground conditions, as well as any planning requirements. It does not include demolition works, professional fees and any appropriations from the General Fund to the HRA.

7.3 Tranches 2 and 3 Third Party Developers

7.3.1 These developments comprise a mix of private sale units and market rent with all the affordable units accommodated within the Council development. There is also potential to include some shared ownership units within one of these tranches. The Council intends to apply to the HCA for grant funding to support the delivery of shared ownership units.

Table 2 – Profile of Tranche 2 Private Development Potential Units

Masterplan Location	Number of units	Unit type
Inkerman Street	9	Four bed three-storey terrace units
Across the site	42	Three bed three-storey terrace units
Duke of York Site	65	Two bed apartments
Chervil Rise	10	Two bed two storey Shared ownership, Chervil Rise, to be built out in Tranche one as shown in Table 2

Chervil Rise	9	Three bed three storey Shared Ownership, Chervil Rise, built out in Tranche one as shown in Table one
TOTAL	135	

Table 3 – Profile of Tranche 3 Private Development Potential Units

Masterplan Location	Number of Units	Unit type
Qualcast Road, Wyrley Street, Alma Street	14	Three bed three-storey terrace houses
Qualcast Road	33	Two bed apartments
Qualcast Road, Wyrley Street, Alma Street	16	Four bed three storeys semi-detached houses
Qualcast Road, Wyrley Street, Alma Street	38	Three bed semi three storey houses
TOTAL	101	

7.3.2 The viability analysis indicates that the sites are marginally viable at current prices, however with little or no land value, taking into consideration below ground conditions, planning requirements and current price construction costs. It is anticipated that the Council would not receive a capital receipt for the land sale.

7.3.3 If the District Valuer, as part of the sale process, determined a higher value for the market sale units, it would still be unlikely to deliver a capital receipt for the land upon transfer, unless various aspects of the expenditure were subject to a value engineering exercise, such as construction costs and professional fees.

7.3.4 The locations for the provision of these units have been determined by attempting to reduce the risk on market sales for the private developers by mixing some of the marginal sites along with the viable areas for sale, but equally to achieve a successful delivery of housing in the locality. Consideration could be given to providing a greater number of market rent units, however this would have an impact on the viability of the proposal.

7.3.5 To reduce the risk for private developers, we will work with the Skills Team and Business Engagement Team based at the Growth Hub who will work with the appointed contractor for Heath town to deliver a skills plan which includes co-ordinating a response to apprenticeships, work experience placements and pre-recruitment training whilst making a local offer to upskill local residents in the area. We will also look to see what offer can be developed for employers linked to the Wolves@Work pledge to provide support with recruitment and retention whilst also ensuring that new staff are provided with up-to-date information on new housing being developed in the North East of the city. The Heath Town Regeneration project will be highlighted as part of this offer.

8.0 Risk analysis

- 8.1 **Financial Viability Risk** - Given that the analysis of the Heath Town estate proposals indicates a marginal position due to static sales values, combined with the continued increase in construction costs, this emphasises the need for consideration of the programming of newbuild proposals for private developers and the mix of market sales to rental assumptions. These must consider the phasing of sites with best and least best viability profiles, to balance and manage cash flow effectively. The programme must also reflect the geographical location of sites to avoid overloading the market in some areas, which may impact upon sale values. This analysis must consider the wider competition in the development market in the city.
- 8.2 **Sales and Marketing Risk** - Heath Town Ward has limited new build activity for the sale market at present, with local newbuild proposals being more focussed upon the affordable housing, such as the Accord development on Woden Road. Co-ordination will be required taking into account the timing of other sale developments in the locality to avoid undermining values.

9.0 Financial implications

- 9.1 The cost for the delivery of Council housing on the Heath Town estate was previously approved by Cabinet, with £10m from the HRA Capital Programme allocated for the new build programme here. An increase to the budget will be required to reflect the larger number of HRA units now proposed. Once the increased budget requirement has been clearly defined the HRA Business Plan will be updated to reflect this. Any required budget approvals will be included in later reports.
- 9.2 The land to be taken forward for disposal for private development has no assumptions made for any capital receipt, further analysis of the financial viability of the site is required. The values achievable for the Council will be low for the sale of any land within the Heath Town area. The Council to date has not placed any values against any of the proposed land for disposal or appropriation, which will be determined by the District Valuer at a later date, but within three months of the land transfer.
[JM/06042017/P]

10.0 Legal implications

- 10.1 The disposal route for Council owned sites to a private developer will ensure that appropriate market value is achieved, and the transfer of assets is appropriately handled.
- 10.2 Appropriation of some sites from the General Fund to the HRA will be required in order to enable the development of the Council housing on some sites, for example the former Longley School site in the centre of the estate.

10.3 Disposal of the Qualcast Road and associated sites (details in Table 4) to a third party developer will be handled by a competitive tender process, to ensure that best consideration is achieved under Section 123 of the Local Government Act 1972.
[RB/05042017/B]

11.0 Equalities implications

11.1 This report has positive implications for the Council's Equal Opportunities Policy as the implementation of the Heath Town masterplan will provide high quality mixed use development for a diverse community. An Equalities Impact Assessment has been developed and this will be reviewed as the project progresses.

12.0 Environmental implications

12.1 The Heath Town estate is located with the Heathfield Park Neighbourhood. A Sustainability Appraisal has been prepared for the whole of the Neighbourhood Plan area. This will inform and influence the regeneration opportunities on the Heath Town estate and maximise sustainability. The newbuild housing created through the masterplan proposals will be of a high level of environmental sustainability, to meet modern standards.

12.2 The Investment Programme being delivered by Wolverhampton Homes includes a programme of environmental improvements across the estate to support and complement the refurbishment work they are delivering on the retained blocks.

13.0 Human resources implications

13.1 The Heath Town Regeneration project work is being managed within existing resources. Investment Programme is being led and managed by Wolverhampton Homes within their existing resources. Progress of both projects is monitored at the Heath Town Project Team meetings.

14.0 Corporate landlord implications

14.1 Corporate Landlord employees support the Heath Town Project Team and provide professional and technical support on the various aspects of the scheme in relation to the procurement, disposal and financial viability aspects of the development proposals.

14.2 All commercial leases have been terminated in the shopping precinct and the GP has relocated to a nearby surgery. Residential tenants have been supported to find alternative accommodation and Chervil Rise is now vacant ready for demolition works. The block will undergo asbestos surveys before the enabling works commence.

15.0 Schedule of background papers

15.1 Draft Heathfield Park Neighbourhood Plan and Heath Town Masterplan – 11 September – Cabinet Report

This report is PUBLIC
[NOT PROTECTIVELY MARKED]

Heath Town Regeneration – 26 March 2014 – Cabinet Report

Seeking authority to declare property surplus to requirements and approval of the disposal strategies – 9 September 2014 – Cabinet Resources Panel

Heath Town Regeneration – Preparation for Procurement – 28 June 2016 – Cabinet Resources Panel