

THURSDAY, 26 NOVEMBER 2015

REPORT OF THE PORTFOLIO HOLDER FOR ECONOMY AND EDUCATION

TINKERS GREEN AND KERRIA REGENERATION

EXEMPT INFORMATION

n/a

PURPOSE

To agree procurement of a developer for the regeneration of the Tinkers Green Estate and Kerria Centre

RECOMMENDATIONS

- That Cabinet agree to the commencement of a procurement exercise for a developer for the regeneration of the Tinkers Green Estate and the Kerria Centre
- That Cabinet agree the requirements of developers shown at Annex One of this report including that 100% of the homes to be replaced will be Council owned properties for rent
- That the Director of Housing and Health in consultation with the Portfolio Holder for Economy and Education be authorised to agree the final specification prior to the commencement of the procurement
- That the Director for Housing and Health in consultation with the Portfolio Holder for Economy and Education and Solicitor to the Council be authorised to appoint a developer by May 2016

EXECUTIVE SUMMARY

Cabinet have received a number of reports regarding the delivery of ambitious regeneration plans for the Tinkers Green Estate and Kerria Centre the most recent of which was received on the 9th July 2015.

The Council is now in a position to procure a developer via a competitive process and it is intended that this process will commence during January 2016. It is anticipated that the process will allow for confirmation of the appointment of a developer by May 2016.

In preparation for the procurement a draft document identifying requirements of developers is has been prepared attached as **Annex One**. This provides the outline specification against which developers will be required to bid. It is proposed that the final specification is agreed by the Director of Housing and Health in consultation with the Portfolio Holder for Economy and Education.

In preparing the above the Council has undertaken consultation regarding the proposals. This has included input from local residents, the Tenant consultative group and a cross party working group including ward members. This adds to previous consultation undertaken earlier in the year and ongoing opportunities for comments to be registered via the Council's web site and free phone telephone number. A report detailing this consultation is attached at **Annex Two**.

The specification reflects the outline planning permission with the exception that the specification states that 100% of the homes to be replaced will be Council owned properties for rent. The issues relating to tenure mix are explored further in the Background section below.

In addition developers will be requested to submit separate costing for completion and submission of Detailed Planning permission. This will enable the Council to assess the most appropriate and economically advantageous method of completing this work.

The proposed procurement method is via the Homes and Communities Agency (HCA) DPP2 route. HCA panels have been successfully used by the Council in the past and more detail on this can be found under Background below.

An updated project risk assessment is attached at **Annex Three**. A project timeline is shown at **Annex Four**.

OPTIONS CONSIDERED

Option	Risks	Benefits
Do nothing	If a developer is not procured then the planned regeneration will not progress	None material
Procure a developer via the Homes and Communities Agency panel	Non material	HCA have already undertaken an OJEU process A quicker process Developers have the right skills and experience as evidenced by inclusion on the panel
Procurement via a full OJEU process	Process will be more complex and will take longer Contractors will not have proven skills and relevant experience Greater risk of challenge to the process	May provide a wider range of contractors

RESOURCE IMPLICATIONS

The Council has made budgetary provision of c.£20m for the development of which budgets of c.£18.5m remain within its housing capital programme 2015/16 – 2019/20. Until a developer has been procured the final cost of the scheme can not be confirmed. However the Council has taken advice through out the project to ensure that budgetary estimates are robust.

LEGAL/RISK IMPLICATIONS BACKGROUND

A risks assessment is attached at **Annex Three**.

SUSTAINABILITY IMPLICATIONS

Housing regeneration is a key tool in the achievement of a range of corporate objectives and there is a wealth of evidence to support the benefits of regeneration. Tamworth continues to have an undersupply of affordable rented housing and the supply is diminishing. This scheme increases the numbers of properties on both sites, will provide local amenities and provide new and sustainable housing for those who need it.

BACKGROUND INFORMATION

Tenure Mix

As identified above the specification requires that all properties will be affordable homes for rent within Council ownership. The outline planning permission obtained by the Council identified that at a minimum 80% of the dwellings would be affordable rent. This is in excess of the requirements of local planning policy and there is no planning restriction which would prevent the development being 100% affordable rent.

In considering the tenure mix a number of factors have been considered.

Mixed Communities

There is evidence to suggest that communities where there is a mix of tenure will be more sustainable. Key to this is the case that occupants of affordable homes will be more likely to be on lower incomes or have other vulnerabilities. Therefore too great a concentration of affordable housing can lead to a concentration of social problems or economic vulnerability.

However it is important to note that the concentrations of affordable housing in these cases will be relatively small and that the two regenerated areas will form part of a wider area which already includes a good mix of tenure and high levels of owner occupied housing.

It is also considered that the high quality design, provision of well thought out layouts with provision of defensible space and effective management will mitigate historical issues associated with concentrations of affordable housing.

In addition the Council will have the opportunity to consider the implementation of a local letting policy as the scheme nears completion to seek to avoid a concentration of tenants with high needs.

Financial Impact

Financial modelling has been carried out to show the impact on the Council's Housing

Revenue Account of providing 20% Market sale compared to providing 100% social rented housing.

Modelling has been carried out with future rent increases of 3% (model 1), 2.5% (model 2) and 2% (model 3) following a reduction of 1% per year from 2016/17 to 2019/20 in line with the guidance set out in the Governments Summer Budget 2015.

Capital costs have been reduced under the 20% market housing model to reflect the sale of dwellings at an average receipt of £117k per property.

The financial modelling is detailed in figures 1 to 3 below:

Figure 1: 100% Social rented housing

100% Council Housing			
	Tinkers Green £	Kerria £	Total £
Model 1			
Revenue Costs / Rent income (+3% p.a.)	-16,590,674	-6,912,452	-23,503,127
Capital Costs	13,278,196	6,875,916	20,154,113
Net	-3,312,478	-36,536	-3,349,014
Model 2			
Revenue Costs / Rent income (+2.5% p.a.)	-15,522,087	-6,458,958	-21,981,044
Capital Costs	13,175,794	6,796,720	19,972,514
Net	-2,346,293	337,762	-2,008,531
Model 3			
Revenue Costs / Rent income (+2% p.a.)	-14,536,785	-6,040,926	-20,577,711
Capital Costs	13,073,974	6,718,200	19,792,174
Net	-1,462,811	677,273	-785,538

Figure 2: 80% Social rented and 20% market sale

20% Market Housing			
	Tinkers Green £	Kerria £	Total £
Model 1			
Revenue Costs / Rent income (+3% p.a.)	-13,214,676	-5,510,514	-18,725,189
Capital Costs	10,508,679	5,696,307	16,204,986
Net	-2,705,997	185,793	-2,520,204
Model 2			
Revenue Costs / Rent income (+2.5% p.a.)	-12,358,659	-5,147,575	-17,506,234
Capital Costs	10,446,413	5,634,206	16,080,620
Net	-1,912,246	486,632	-1,425,614
Model 3			
Revenue Costs / Rent income (+2% p.a.)	-11,569,289	-4,813,011	-16,382,301
Capital Costs	10,384,342	5,572,615	15,956,957
Net	-1,184,948	759,604	-425,344

Figure 3: Variance

Variance		
Tinkers Green £	Kerria £	Total £

Model 1			
Revenue Costs / Rent income (+3% p.a.)	3,375,999	1,401,939	4,777,937
Capital Costs	-2,769,518	-1,179,609	-3,949,127
Net	606,481	222,329	828,810
Model 2			
Revenue Costs / Rent income (+2.5% p.a.)	3,163,428	1,311,383	4,474,811
Capital Costs	-2,729,380	-1,162,514	-3,891,894
Net	434,047	148,869	582,917
Model 3			
Revenue Costs / Rent income (+2% p.a.)	2,967,496	1,227,915	4,195,411
Capital Costs	-2,689,633	-1,145,584	-3,835,217
Net	277,863	82,331	360,194

Model 1 Summary

There would be an unfavourable impact on the HRA of £828k should 20% of the dwellings be sold on the open market. Payback is achieved for both schemes within 30 years with a net surplus of £3.3m for 100% retained council housing or £2.5m where 20% of the dwellings be sold on the open market

Model 2 Summary

There would be an unfavourable impact on the HRA of £583k should 20% of the dwellings be sold on the open market. Payback would be achieved for Tinkers Green only within 30 years with a net surplus of £2.0m for 100% retained council housing or £1.4m where 20% of the dwellings be sold on the open market.

Model 3 Summary

There would be an unfavourable impact on the HRA of £360k should 20% of the dwellings be sold on the open market. Payback would be achieved for Tinkers Green only within 30 years with a net surplus of £0.8m for 100% retained council housing or £0.4m where 20% of the dwellings be sold on the open market

There is therefore an overall cost to the Council in including properties for market sale rather than a financial benefit.

Developer Views

Although there is some limited risk that developers may prefer a scheme with an element of owner occupation this is considered to be a low risk. During soft market testing the Council received positive responses from developers who expressed an interest in the developments regardless of tenure.

Housing Need

There is an overall need for housing within the borough and this includes owner occupied dwellings. However the need for affordable rented homes remains a key priority. The proposed regeneration represents an opportunity for the supply of affordable homes to be increased. The Right to Buy is leading to a sustained reduction in the number of Social rented properties within borough. Extension of this scheme to Registered Providers will accelerate this loss. With proposed changes to planning regulation in the future and the opportunity for developers to create low cost home ownership options rather than affordable rent the level of new rented homes will fall.

Procurement Methodology

The Homes and Communities Agency DPP2 route is a framework panel of prequalified housing developers established to facilitate the speedy development of homes on land in public ownership.

DPP2 has been procured through a fully compliant two stage OJEU process and as such, can be used to procure quickly via mini competition, as opposed to a full OJEU tender. It is divided into four geographical lots with the Midlands lot comprising of 25 prequalified housing developers.

A three stage process follows for developer selection:

- **Stage 1** – Expression of Interest (a simple yes/no is required to determine interest in the project);
- **Stage 2** – Sifting brief (only required if 6 or more parties express interest); and
- **Stage 3** – Tender

The whole process is managed via an e-tendering system which both the Council and the Council's appointed development consultants GVA have experience of using.

The alternative option would be for the Council to prepare a full OJEU procurement. OJEU would give the Council the opportunity to receive tenders from a worldwide reach of firms but it is a lengthy and involved process and is often used for larger projects where international experience, knowledge and skills are required.

The DPP2 process has already used the OJEU mechanism to identify its shortlist and to do this again would be duplication and not cost effective for the Council. It is also felt that the Tinkers Green and Kerria development sites would not interest an international market given their relatively small size and therefore the majority of responses would likely come from the house builders already represented on the DPP2.

For the reasons identified above it is proposed that the Council procure a developer via DPP2.

Detailed Planning

Outline planning permission has been secured for both sites based on their illustrative master plans. As an application for detailed or 'Reserved Matters' planning permission will be required in order to commence development.

The preparation of submission for detailed planning permission will be a key task to be undertaken prior to commencement of works. The specification requires developer to price separately for completion of this work. This will enable the Council to consider the most economically advantageous method to commission and complete these activities.

Developers will be invited to submit views on the master plans and propose minor changes where appropriate. However the master plans have resulted from considerable community and technical input and developers will not be invited to rethink the overall master plan as part of their submission.

In addition developers will be asked to submit proposals against achievement of a range of 'social value' ambitions. These will be priced separately.

REPORT AUTHOR

Robert Barnes. Director Housing and Health

LIST OF BACKGROUND PAPERS

APPENDICES

Appendix One: Draft Specification

Appendix Two: Consultation report

Appendix Three: Project Risks Assessment

Appendix Four: Project timeline

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