

## ROTHERHAM BOROUGH COUNCIL – CABINET

1.	<b>Meeting:</b>	<b>CABINET</b>
2.	<b>Date:</b>	<b>4 February 2015</b>
3.	<b>Title:</b>	<b>Developer Selection to build on Multiple HRA Sites</b>
4.	<b>Directorate:</b>	<b>Environment and Development Services</b>

### 5. Summary

Following a review of Housing Revenue Account (HRA) land it has been identified that there are advantages in clustering sites suitable for residential development and presenting them to the market as a more significant development opportunity than would otherwise happen if released in isolation.

This report sets out the case for marketing 7 HRA sites identified in the report, the advantages gained in taking such an approach, the preferred option for delivery and the necessary steps the Council would need to take.

If the proposal is supported the associated development programme would represent an important component of the Council's housing growth ambitions, provide new housing that meets local needs, have a positive regeneration impact and receive New Homes Bonus grant funding associated to the new housing.

### 6. Recommendations

**It is recommended that:**

- **The Council procures a development partner via the Home and Communities Agency's Developer Partner Panel to undertake residential development across seven Housing Revenue Account sites.**
- **That the tender documents give developers the opportunity to set out their preferred working arrangements with the Council that meet local housing needs and provide best consideration for the Council**
- **That a Tender Evaluation Report is presented on completion of the tender process setting out recommendations to appoint a developer partner.**

## **7. Proposals and Details**

### **7.2 Background**

Following a review of Housing Revenue Account (HRA) land it was identified that there were over 150 sites across the Borough of various sizes, suitable for delivery of a variety of house types and tenures over the next 3 years. The sites represent an important component of realising the Council's Housing Growth ambitions and to maximise this opportunity the Council has carried out a 'Site Sifting' process to determine the most suitable shape and form of housing for each site.

Analysis of the site sifting has identified there are 31 sites which should be sold on the open market, as they are commercially viable for developers to build housing for sale. In addition to this 49 sites were identified as being suitable for Specialist Social Housing or General needs Social Housing. All these sites range in size and are spread geographically across the Borough. The Council's Land and Property Team have developed a strategy around market release of the sites on the open market, to ensure the Council gets best consideration for its assets and the sites get redeveloped for housing rapidly.

The Council has soft market tested the principle of releasing multiple sites to a developer. The outcome of this has helped the Council understand market interest in this approach and the advantages it would bring and how best to present the opportunity to the market.

### **7.3 Multiple site release**

The principle behind this approach is to identify a series of sites that are not connected in any way and bring them to the market collectively. The aim would be to identify a developer who is willing to work across all the sites and deliver a range of housing, whilst meeting the Council's wider regeneration objectives. The sites collectively would need to deliver in excess of 100 homes but no more than 300 to gain market interest and achieve economies of scale.

The benefits of such an approach to the Council are:-

- It can place unviable sites with viable sites to achieve an overall viable development programme.
- Create the potential to maximise asset values through a deferred receipt basis and sharing uplift in values
- Meet local housing needs by agreeing tenure mix and design
- Get more homes delivered by speeding up the development process
- Share profits on an agreed ratio
- Delivers 'Social Value' such as local employment, supply chains and training. Profits can be recycled into community projects

The approach offers developers the chance to:-

- Utilise economies of scale
- Give certainty of delivery and strong market presence
- Improve training, local employment and local supply chain outcomes
- Share risks and rewards
- Unlock Social Value by having a longer term presence in the community

## 7.4 The Sites

The site sifting process undergone by the Council has helped to classify the HRA sites in relation to their potential financial viability, deliverability and strategic significance. The sites were classified in 3 categories:

- Sites with high residual land value. These sites will provide the necessary margins to attract developers' interest
- Brownfield sites with a challenging financial viability profile requiring additional financial support or located in low value housing market areas
- Brownfield sites earmarked for new council housing.

On this basis, we suggest the following shortlist of sites:

- 1 High Residual Value site

Keeton Hall Road is a large site formerly used as agricultural land. The site is on the edge of a well-established residential area at Kiveton Park with no known planning constraints. Our viability appraisal indicates that £1.4m residual land value could be achieved (129 units). This site is the anchor site that will support the development of 6 other strategic sites.

- 4 Brownfield sites in need of additional financial support

We selected 2 strategic sites on Rotherview Road/Canklow to consolidate the regeneration impact of the new council housing development that was completed in 2012. These sites require extensive drainage and landscaping interventions. Without £0.6m additional financial support these sites would remain stalled. In addition 2 small infill sites (<14 units) in East Herringthorpe will be presented for open market sale. There are no known remediation problems or planning constraints but low market values in the area will inhibit rapid development if the sites were released in isolation. These sites may take longer to sale and their development is exposed to the risk of a market downturn.

- 2 Sites in the New Build Council Housing programme

We identified two small infill sites in Maltby and Dinnington. The schemes will cross-subsidise 11 council units to be acquired at 55% of their open market value.

The Housing Cluster scheme can be summarised as follows:

Ref	Address	Ward	Hectares	Approx. house numbers
1	Keeton Hall Road, Kiveton Park	Wales	3.90	129
2a	Rother View Road (146-170), Canklow	Boston Castle	0.52	16
2b	Rother View Road	Boston	0.96	29

	<b>(opposite 16-98), Canklow</b>	<b>Castle</b>		
<b>3</b>	<b>Farnworth Road (East Herringthorpe)</b>	<b>East Herringthorpe</b>	<b>0.28</b>	<b>8</b>
<b>4</b>	<b>Conway Crescent</b>	<b>East Herringthorpe</b>	<b>0.31</b>	<b>9</b>
<b>5</b>	<b>Gaskell Close</b>	<b>Maltby</b>	<b>0.21</b>	<b>6</b>
<b>6</b>	<b>Shakespeare Drive</b>	<b>Dinnington</b>	<b>0.17</b>	<b>5</b>
		<b>Totals</b>	<b>6.35</b>	<b>202</b>

## 7.5 Enabling the opportunity

There are two approaches that could be adopted:-

The first is the simplest and quickest route and involves a straight forward disposal of multiple assets. It is a market led approach and the main advantage is speed of release and a modest capital receipt in return. The disadvantages are the Council loses control of the development programme and in all probability the good sites would get developed out first and we may not see the less viable sites developed until the housing market fully recovers. This option is not recommended when disposing of multiple sites.

The second approach is to tender the development and allow the market to respond to the opportunity offering best consideration to the Council. The procurement would need to be OJEU compliant. There are existing procurement frameworks which are compliant and could be used to speed up the process. To complete the selection of a developer, using a compliant framework, it would take a number of months. However once selection is made the Council can enter into a development agreement, which sets out how the sites will be developed and how overages are divided. Perhaps most important of all is the social value such a partnership approach can bring. This is the recommended approach.

## 7.6 Guiding Principles

The Council will need to be very clear about what its main aims and ambitions are in developing out the sites. It will set these out in principle in the advertisement to enable developers to express an interest and then in more detail in the invitation to tender documentation following shortlisting

Principles to be considered include

- Return to the Council for land or deferred receipt
- How development surpluses are shared
- The quality of development e.g. environmental credentials of new homes
- The level of development risk exposure
- Deliverability and pace of delivery
- Meet local housing needs
- 'Social Value' created

## 7.7 Procurement Timetable

The Procurement Service has confirmed the most appropriate OJEU compliant route to market would be through the Homes and Communities Agency's (HCA's) Delivery Partner Panel (DPP2), this is a prequalified OJEU compliant Framework which is open to all Local Authorities at no cost.

Activity	Timescale	Comments
Soft Market Testing with one or more panel members (Contractors)	2 – 4 weeks	Panel members can provide FOC early stage advice on the viability of a specific proposal prior to Rotherham MBC taking it to market.
Advertise via the DPP Portal seeking Panel members to express interest in the 6 sites	1 week	The HCA team will provide support and guidance free of charge
Issue a Sifting Brief to those Panel Members who have expressed an interest Panel members who have expressed an interest complete and return the Sifting Brief	2 weeks	This Sifting Brief Should comprise 4 to 5 questions with very specific word limits (usually a maximum of 500 per answer) and should focus upon the relevant experience of the Panel Members and not on any Financial information e.g. <ol style="list-style-type: none"> <li>1. Provide 2 case studies of where you have delivered new housing across multiple sites as part of a single project.</li> <li>2. Describe how you have led the community consultation process successfully on 2 other similar schemes</li> <li>3. Give examples of how you have maximised community investment on 2 similar schemes</li> </ol>
Assess the Sifting Brief responses and select a shortlist of 3 to 5 bidders to invite to Tender	1 week	Robust shortlisting at this stage reduces time and cost at ITT assessment stage
Issue the Invitation To Tender (ITT) Shortlisted Bidders develop & return Tenders	8 weeks	ITT needs to have clear questions with word limited responses, as well as clear and transparent scoring criteria e.g. 70% finance (the best land offer) and 30% Quality (split for example between deliverability of the developments, achieving successful planning permission, approach to the Considerate Contractors scheme , approach to sustainability and employment creation)
Evaluate Tender returns inc clarification meetings and identify preferred bidder	3 Weeks	Allow sufficient time to evaluate and have face to face clarification meetings with bidders where appropriate.
Intent to award Letters and de-briefs / 10 day Standstill period	Minimum 11 days	
Award		

## 7.8 Next Steps

- Commission full Valuation Appraisal of selected sites via EDS
- Engage Planning, Procurement and Legal Services to understand any development constraints and key contractual considerations
- Draft Expression of Interest Document for DPP2
- Draft ITT documents and issue to shortlisted developers
- Establish a task and finish officer group

## 8. Finance

It is recommended that the audit and asset management team is commissioned to prepare a valuation. This information will inform the council in the selection of the preferred bid and help to secure the best outcomes from the development of the sites. The review may conclude that other sites should be considered to secure the desired outcomes.

For the purpose of this report we have conducted a desk top appraisal of the sites to provide an analysis of the economics of the sites presented for residential development and estimate an overall residual land value. The methodology used is recognised nationally and known as Housing Zone Viability Appraisal (HZVA)

A robust assessment of viability was performed to consider the overall deliverability of the scheme and to take into account the combined impact of different calls on development for each location:

- Local housing market trends
- Affordable housing requirements
- Council Housing requirements
- CIL charge
- Residual value – Land value expectation

The HZVA has been undertaken using an established residual value approach, using information provided by the Strategic Housing Investment Services and by private developers who are prospective partners for the development of residential sites in Rotherham.

The Housing Cluster scheme is estimated to deliver 202 new homes as follows:

- 144 new homes for sale on the open market across 4 sites,
- 58 social homes (affordable and/or council houses) across 4 locations.

The residual value for the scheme was assessed by deducting scheme costs from scheme revenue to arrive at a gross residual value. In this appraisal, scheme costs assume a return to the developer:

- 18% on Open Market units
- 9% on Affordable Housing units.

Development costs include build costs, abnormal costs and other costs such as professional fees, finance costs and marketing fees. The key assumptions are set out as follows:

- Building Costs Industry Standards (BCIS) and abnormal costs where applicable

- 55% of Open Market Value for affordable housing contribution
- 55% of Open Market Value for additional Council Housing
- 12% on costs
- 1.95% Interest
- £10 per m2 CIL contribution in Sheffield
- £15 per m2 CIL in Rotherham.

The results of the financial viability appraisal are summarised as follows:

Housing Cluster	£m
Sales Value	£25.5m
Development Value	£24.9m
Net Residual Value	£0.6m
<i>Land Value per OM unit</i>	<i>£4,377</i>
<i>New Homes Bonus</i>	<i>£1.7m</i>

Financing	£m
HRA (on the basis of 58u)	£4.3m
Private Sector	£21.2m

The project will generate over £1.7m NHB over 6 years.

Fees and Charges – These will be incurred mainly by the Audit and Asset Management Team and the Legal team, they will be attributed to a Strategic Housing Investment Service cost centre as an interim measure, but a budget will need to be identified to cover these costs.

Overages – The primary aim of the scheme is to bring residential developments to brownfield sites in council ownership and consolidate the regeneration activities that have taken place in previous years. An overage agreement for sharing profit will be included in the Development Agreement to ensure any uplift in value is shared. Overages would be apportioned between the council and the developer on an open book accounting basis.

## 9. Risks and Uncertainties

No support for the project scheme would result in a loss of £24.9m investment in the immediate term and the lost opportunity to create 58 new affordable homes in areas of housing needs.

The value of assets can fluctuate and is very much dependant on market conditions at the time of sale. It is uncertain at which point in the future our most difficult sites would become viable and generate a land receipt without further public funding support. The proposal to cluster sites with highly marketable sites that provide certainty of rapid sales is seen as a way of mitigating this and also ensuring that we achieve physical activity on the sites within the next three years.

An important driver for the scheme is to meet the demand for affordable housing in Rotherham and offer the opportunity for the council to acquire 11 new dwellings that are of the size and type that meets local demand. In addition, Rotherham will have

the opportunity to acquire 47 section 106 dwellings at 55% of market value if HRA funding is available.

The financial viability appraisal gives an indication of the potential residual land value that can be generated by the development of a cluster of sites. Detailed site investigations will need to be undertaken to produce informed cost estimates and confirm the development value of each location. Site abnormal costs, values and build costs will need to be subject to assessment by the Quantity Surveying Service when development proposals are received and a preferred partner is selected. This will provide the Council with an accurate cost risk analysis.

The combination of sites selected for the Housing Cluster may not deliver the project outcomes within the expected timescale. A detailed valuation and appraisal report by the Audit and Asset Team will assess the market potential of the sites and their deliverability more accurately. The project may need to substitute sites if the overall development appraisal is unviable.

The developer partner may go in to financial difficulties and abandon the project, leaving the council with a stalled development. The development agreement will ensure that the land reverts back into council's ownership when sites are stalled. The phasing of the development will be designed to reduce to a minimum the financial exposure of the council if sites are stalled.

The private sector is expected to assume all development and commercial risks in exchange of 6.35 hectares of land and the guarantee of 58 affordable homes to be acquired by the council in a phased building programme. This should be reflected in the overage agreement to be negotiated with the preferred bidder.

## **9.1 Main Assumptions**

The Site Sifting Process and Open Market Sale Pipeline have been based on the following basic assumptions and parameters;

Assumptions:

- Planning position based only on UDP and Local Plan positions – no formal consultation with planning
- No legal restrictions
- No formal valuations – Estimated Market Value Methodology
- Potential unit numbers have been based on local averages and soft market testing information
- No site investigations – only known site constraints have been considered
- Construction costs and developer margins based on similar schemes and soft market testing information

Strategy parameters:

- Avoid overlapping sites for disposal in the same area
- Blend scale and locations
- Consider benefits of consolidating sites
- Three year programme – incl this year
- Consider disposal methods – auction – informal tender

## 10. Policy and performance agenda implications

If the recommendations are supported they will contribute to:

The following Corporate priorities

CP 1 - Stimulating the local economy and helping local people into work

CP2 - Protecting our most vulnerable people and families, enabling them to maximise their independence

CP3 – Ensuring all areas of Rotherham are safe, clean and well maintained

CP 4 - Helping people to improve their health and wellbeing and reducing inequalities within the Borough

The Housing Strategy commitments:

- Commitment 1: We will deliver Council housing that meets people's needs
- Commitment 2: We will increase and improve the supply of affordable rented housing in Rotherham
- Commitment 5: We will work with partners to ensure everyone can afford to heat their home
- Commitment 8: We will engage with communities and individuals so that we have a better understanding of how to meet their needs and aspirations
- Commitment 10: We will help people who wish to own their home

## 11. Background papers and consultation

Various officers with the Strategic Housing and Investment Team have been involved in the preparation of this report.

The report has been reviewed by the Procurement Team, Land and Property and Corporate Finance have carried out a financial appraisal.

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