

Cabinet – 17 March 2010

Strategic Regeneration Framework 1: Outline Business Case

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| Portfolio: | Councillor Andrew, Deputy Leader and Regeneration |
| Service: | Regeneration – Development & Delivery |
| Wards: | Brownhills, Darlaston South, Bloxwich East and Blakenall |
| Key decision: | Yes |
| Forward plan: | Yes |

1. Summary of report

- 1.1 The report describes and seeks endorsement of the Strategic Regeneration Framework 1 (Brownhills, Moxley and Goscote Lane Corridor) – Phase 1: Outline Business Case (OBC) submitted to the Homes and Communities Agency (HCA). The SRF1 OBC, prepared jointly by the Council and Walsall Housing Group (whg), follows on from the collaboration agreement entered into by the Council and whg as agreed by Cabinet in February and September 2009, and the in-principle agreement from Cabinet in April 2009 to establishing a joint venture development agreement, to deliver the SRF1 programme.
- 1.2 Over the last 6-12months, since reporting to Cabinet on the Collaboration Agreement and the principle of establishing a development model to deliver the SRF1 programme, the financial modelling work undertaken to produce the OBC has identified a number of changes as a result of the economic climate and housing market. The key impacts of this on programme's delivery as outlined in the OBC and this report are:
 - Council and whg land still to be placed into the joint venture agreement at nil value as previously agreed in principle by Cabinet (September 2009) (section 4.1.1). This may also involve an increased quantity of Council land in the event that a proposed land exchange at Goscote is progressed (section 4.2.3)
 - Significant funding gap due to low site values and high abnormal costs requiring a high public subsidy to make the programme viable, particularly from the HCA (section 4.1.2 and 4.1.3)
 - Significant reduction in the likelihood of obtaining both community benefits and overage (section 4.1.4)
 - Proposed phased action plan to deliver development across the 21 sites, with Phase 1 including 8 sites across the three areas (Section 3.9 and 3.10) whereby sites at High Street, Brownhills and Barracks Lane and Well Place, Goscote will be delivered first due to the possible availability of grant funding in 2010/11 and 2011/12 respectively

(Section 3.12). This will be undertaken in conjunction with masterplanning to determine the most appropriate land use configuration (Section 3.3)

- A private sector partner(s) (PSP) to be jointly procured by the Council and whg as previously agreed, however it is proposed that the PSP for Phase 1 will be procured via the HCA's consultancy and delivery partner panels. Legal advice is being sought for using this procurement approach of the PSP for the subsequent phases (Section 4.2.2)

- 1.3 The delivery of the SRF in Brownhills, Moxley and Goscote Lane Corridor is being pursued in conjunction with the HCA, who are keen to participate in this comprehensive regeneration programme as part of the 'single conversation' approach. The HCA have prioritised Walsall as both a strategic priority and a first phase single conversation in the region's emerging business plan, and remain committed to helping to provide the solution and support needed to deliver the project. This will however depend on the HCA process for assessing that support in the context of Walsall's Local Investment Plan (LIP) – the subject of a separate report to this Cabinet meeting - as the HCA do have limited budgetary headroom for investment of the scale required to deliver the programme. However despite the limitations in funding that may be available from the HCA, Walsall Council and whg remain confident that the SRF1 regeneration proposals can still eventually bring about:
- The re-use of 43.22 hectares of brownfield land
 - Investment in excess of £110million in the three areas of the next ten years.
 - Creation of 1524 new homes of which approximately 45% will be affordable homes
 - Support to deliver community benefits and improvements to community infrastructure such as open space improvements
 - Support to existing strategic priorities such as Transforming Learning and Housing 21 and act a catalyst for other regeneration activity such as retail and leisure redevelopment in Brownhills.
- 1.4 This process will be assisted by the SRF1 OBC that was submitted to the HCA in January 2010. There was some initial uncertainty between the HCA and the Council as to the final date for submission and the content of the OBC that ultimately led to it being necessary to submit the final draft at short notice and before a Cabinet resolution to do so could be obtained, however the document's submission was done in agreement with the Portfolio Holder.
- 1.5 External advice has been jointly commissioned from Ikon Consultancy Ltd on the SRF1 OBC which forms the basis of this report.
- 1.6 An executive summary of the Outline Business Case is attached to the report at Appendix A. Cabinet members have previously received a copy of the full document. A copy has been deposited in the Members' Group rooms and is available on the Council's Committee Information Website (CMIS).

2. Recommendations

Cabinet is recommended to:

- 2.1 Endorse the Outline Business Case for the Strategic Regeneration Framework 1 Programme in Brownhills, Moxley and Goscote Lane Corridor – Phase 1 submitted to the Homes and Communities Agency (HCA)

3. Background information

- 3.1 The SRF plays a major role in the regeneration of the Borough complementing the initiatives being delivered in the Walsall Regeneration Company (WRC) area and within the strategic corridors. The SRF was agreed by Cabinet in March 2006 and the first tranche of area-based priorities was approved at Cabinet in October 2006. The SRF is being pursued jointly with whg and other key partners and is based around housing-led regeneration with the objective of securing sustainable communities. Geographically the thrust of the SRF is dominated by the key district and local centres and their surrounding neighbourhoods and Cabinet has previously agreed the first tranche of priorities as Brownhills, Willenhall, Bentley, Moxley and Goscote Lane Corridor. Framework Studies to guide regeneration have or are being prepared in these areas through extensive engagement with local communities; a process that is managed through a Project Reference Group (PRG) comprising ward Councillors, local residents and key stakeholders. The delivery of the SRF in these areas is aimed at achieving social, economic and environmental regeneration and maximising the widest community benefit. The comprehensive regeneration of these neighbourhoods is also reflected in the approach to the Transforming Learning (TL) programme which aims to link the learning transformation with a broader delivery of services by both the Council and partner organisations.
- 3.2 Due to the nature of issues and opportunities that exist across the areas of Goscote Lane Corridor, Brownhills and Moxley these areas have been given priority within the SRF programme as approved by Cabinet in April 2008, particularly as the Council and whg own major areas of land equating in total to approximately 43 hectares (11% and 89% land ownership respectively) identified as being suitable for residential redevelopment through the Framework Studies. As detailed in previous Strategic Partnering Arrangement cabinet reports (see Section 11: Background Papers), achieving such comprehensive regeneration demands an innovative approach and Government has encouraged local authorities and their partners to adopt more strategic solutions in working with the private sector particularly where significant public sector landholdings are involved, as per the 2007 Housing Green Paper, Callcutt and Barker review recommendations. Therefore the establishment of a contractual joint venture delivery structure jointly with whg, as agreed in principle by Cabinet in April 2009, represents a strategic solution for delivering the SRF1 programme and regeneration in the priority areas of Brownhills, Moxley and Goscote Lane Corridor.
- 3.3 Work to progress the delivery across the three areas has included continued dialogue between the Council, whg and the Homes and Communities Agency (HCA) to determine the shape and content of early activity with a particular focus on the following activities:

- A significant programme of demolition and decanting of homes transferred from the Council to whg, to pave the way for new housing led regeneration;
 - Quantifying the investment requirement in terms of National Affordable Housing Programme (NAHP) and Gap funding support across the three areas;
 - Consideration of suitable structures to secure partnership with the private sector to secure effective housing led regeneration in particular the need for private sector housing market expertise;
 - The continued work to determine and appraise an appropriate housing mix to support the wider SRF objectives;
 - Partnership working between the Council and whg to carry out site due diligence and a range of activity to facilitate the early availability of sites which can be developed in reasonable timescales;
 - Consideration and quantification of a range of associated community benefits which the programme should deliver;
 - Market testing proposals with the private sector and engagement with the HCA in terms of likely availability of funding to support the programme; and
 - A masterplanning process to determine the most appropriate land use configuration.
- 3.4 Subsequently, the Council and whg are now in the position to submit a more detailed proposal on the structure and investment required to deliver the SRF1 programme to the HCA to consider as part of their single conversation approach and future LIP.
- 3.5 The Homes and Communities Agency (HCA) are currently engaging with the Local Authority and partners as part of its single conversation approach. This new business approach aims to 'to create affordable, well served, enjoyable and attractive places where people want to live', and will therefore have a much broader remit than just housing. This process consists of the stages outlined below:
- Single Conversation Strategic Report (already submitted and approved by HCA)
 - Local Investment plan (LIP) (the subject of a report elsewhere on this agenda)
 - Individual Outline Business Case (OBC) for each priority area (the SRF1 OBC the subject of this report)
- 3.6 The Single Conversation report sets out the broader strategic context for Walsall. This is underpinned by the Local Investment Plan (LIP) which will set out the investment required to deliver the agreed vision and economic purpose for the area by detailing local investment priorities and funding requirements. It will cover the period 2010 to 2014 in detail to reflect the next Local Area Agreement (LAA) time period, and will also have an indicative investment programme up till 2021, in line with Walsall's Sustainable Community Strategy. The LIP is due to be completed and submitted to the HCA by the end of February 2010.
- 3.7 The LIP will be supported by Outline Business Cases (OBC) for the priority areas identified. The first OBC will be for the Strategic Regeneration Framework 1 (SRF1) Programme (Brownhills, Moxley and Goscote Lane Corridor) – Phase 1,

which is a jointly prepared document by Ikon on behalf of the Council and whg. The purpose of the OBU is to:

- Set out the role, purpose and contribution of the Strategic Regeneration Framework
- The strategic and delivery benefits that may be delivered.
- Provide guidance on the proposed delivery structure and proposed method of partner procurement.
- Provide options analysis, comparing the SRF proposal against that of an indicative 'do nothing' scenario.
- To inform investment requirements, value for money considerations and timescales.
- Provide a timescale for implementation for activity in the first three SRF areas.

3.8 The OBC concludes a number of pre-development work streams that have been jointly undertaken by the Council and whg to prepare the programme for further consideration by the HCA and to be ready when the opportunity presents itself to secure a private sector partner (PSP) and the investment required. The preparation of framework studies for each area led to the partners:

- agreeing the quantum of homes to be build and the tenure type;
- a phasing programme for the delivery of new homes and associated infrastructure improvements;
- undertaking of due diligence work into each site;
- developing a development model through a contractual joint venture development agreement;
- commencing (and continuing) the prioritisation of possible 'community benefits';
- an emerging masterplan and design guide for Goscote and pre-planning application discussions for the first phase of delivery; and
- a financial model identifying the levels of intervention and investment required

3.9 All of this is expressed in the OBC and sets out a proposed phased action plan to deliver 1524 new homes across 21 sites in the three areas, as shown in the table below.

| <i>Phase</i> | <i>Sites</i> | <i>Duration (construction)</i> | <i>Homes</i> | <i>Phase Total</i> |
|-----------------------------|---------------------------------|------------------------------------|--------------|------------------------|
| Phase 1 | Goscote D, D Extension, G, H | 2010-2014 | 258 | 361 |
| | Brownhills M | 2010-2012 | 73 | |
| | Moxley J, K, L | 2010-2011 | 30 | |
| Phase 2 | Goscote A, F | 2013-2016 | 259 | 468 |
| | Moxley A | 2013-2017 | 209 | |
| Phase 3 | Goscote B, C | 2014-2018 | 404 | 565 |
| | Brownhills A, B | 2014-2016 | 111 | |
| | Moxley C, GHI | 2014-2016 | 50 | |
| Phase 4 | Brownhills A2, C, EFJ, I | 2015-2017 | 84 | 130 |
| | Moxley B, D, MNO | 2015-2017 | 46 | |
| Total all phases | | | | 1524 |

- 3.10 Phase 1 of the partnership is the redevelopment of 8 sites in Goscote Lane Corridor, Moxley and Brownhills between 2011 and 2014 to deliver 361 new homes, as shown below:

| <i>Site</i> | <i>Owner</i> | <i>Homes</i> | <i>Homes for Sale</i> | <i>Homes for Rent</i> | <i>Proposed phasing</i> |
|--------------------------------------|--------------|--------------|-----------------------|-----------------------|-------------------------|
| Goscote D & D Extension (Chaucer Rd) | whg | 154 | 81 | 73 | Oct 2010 to Mar 2015 |
| Goscote G (Well Place) | whg | 30 | 12 | 18 | Oct 2010 to Jun 2012 |
| Goscote H (Barracks Lane) | whg | 74 | 37 | 37 | Oct 2010 to Dec 2012 |
| Moxley J,K,L (Curtin Drive sites) | whg | 30 | 0 | 30 | Jan 2011– Jun 2012 |
| Brownhills M (High Street)* | whg | 73 | 0 | 73 | Jun 2010 – Dec 2011 |

* N.B The tenure mix for Brownhills site M is currently under review to include homes for sale

- 3.11 The programming of sites is based upon:

- Goscote sites D, D Extension, G, H are Gateway sites, development of which will have an immediate impact on the area, and may contribute to improved viability for later sites.
- Moxley sites J, K, L is a cleared site
- Brownhills site M already has planning consent.

- 3.12 Within Phase 1 it is intended that Brownhills site M and Goscote sites G and H will be subject to early delivery due to planning consents that are already approved and the availability of grant funding from the HCA allocated for 2010/11 and 2011/12 respectively. These sites will be delivered along the same principles as the SRF1 programme; however legal advice is currently being sought as to whether whg's existing developer contract framework could be used for the procurement of a delivery partner on these three sites: The delivery of these three sites will help maintain the momentum of delivery across the SRF1 programme.

- 3.13 In terms of the initial focus for investment support for Phase 1, the specific activity envisaged can be summarised as follows:

- Opportunity to bring forward 361 homes, of which 231 would be affordable rent and 130 market sale homes.
- It is anticipated that the affordable tenure mix will change over time as the housing market recovers and through the positive impacts of regeneration investment. This is likely to result in a reduction of affordable rented homes in favour of intermediate home ownership and rented products.
- The delivery of 9 ha of brownfield land for redevelopment purposes.
- The use of land which is majority owned by whg and which has benefited from significant pre development investment.

- The injection of Council owned land at nil value to support the programme.
- The provision of approximately 36% market homes, in terms of re-provision, into areas of Walsall currently dominated by affordable rented dwellings and which, without gap funding investment, would not be viable in terms of private sector market sale activity.
- The wider contribution towards broadening the areas economic base, increasing housing choice and providing good quality open space and linkages with surrounding areas.

3.13 The endorsement of the SRF1 OBC by the HCA is reliant on, and forms part of, the consideration of the Walsall LIP; timescales for endorsement are to be announced but an initial response is expected by April 2010. During this time the Council, whg and the HCA will continue to work with HBJ Gateley Wareing legal team to develop and refine the draft development model structure before any procurement process takes place to appoint the PSP. Additionally, work on due diligence, masterplanning and planning applications for Phase 1 will also be on-going.

4. Resource considerations

4.1 Financial:

4.1.1 The financial modelling undertaken to inform the OBC has assumed that the land in the ownership of the Council (approx. 11% - 4.73hectares - of the total land) and whg will be placed into the private sector partner (PSP) agreement at nil value. The principle of this was approved by Cabinet in September 2009 with an understanding that any value in the sites would be realised by the delivery of community benefits (community infrastructure projects) by the PSP as part of the development agreement, and that any overage from the sale of open market homes would be paid back to the partners - the Council and whg who agreed to reinvest any overage into further community benefits, and HCA in return for any Gap Funding Agreement to the programme. However, whilst the principle of placing the land into the PSP agreement at nil value has not changed, the current housing market conditions have had a negative impact on the financial model for the SRF1 programme, and the once considered favourable value of any return in the way of community benefits and overage is now significantly less.

4.1.2 The financial modelling in the OBC identifies that the impact of low values and high abnormal costs means that total costs substantially exceed Gross Development Value. For example, across the development sites in Goscote anticipated outstanding abnormal costs equate to £14.15m or £15,386 per unit (excluding £12.7m already invested by the Council and whg in bringing the sites forward) which coupled with low site values means that costs are in excess of 140% of value. The resultant impact is that a high public subsidy is required to support both housing for sale and affordable housing to make the project viable. Additionally, low entry costs for purchasers, together with high costs of remediation and build, renders intermediate tenures as particularly non-viable in early phases. For SRF1 to proceed, and to launch the initial phase across the eight sites, therefore requires support from the Homes and Communities Agency (HCA). Since April 2008 detailed discussions and joint working with the HCA have taken place, particularly through the SRF1 governance arrangements, and they have given support to the process proposed to deliver the SRF1 programme

and to becoming project and investment partners. It is assumed investment from the HCA will take two forms:

- Social Housing Grant – via the NAHP to fund the affordable housing delivered via whg. Social Housing Grant required to fund the affordable rented housing provision averages out at £67,598 per dwelling across the 3 areas. These indicative rates are higher than the regional efficiency target of £49,000 NAHP per rented home provided by HCA.
- An investment to meet the viability shortfall for the homes for sale. Subject to a State Aid assessment and availability of funds, this could take the form of infrastructure investment or “Gap Funding”.

4.1.3 The Gross Development Value associated with the SRF1 programme is therefore a key driver for bringing forward the OBC and prioritised under Walsall’s Local Investment Plan.

4.1.4 The OBC seeks initial investment for the complete SRF1 programme of £42.3m gap funding to deliver 691 market sale homes in the areas where market sale housing would not otherwise be viable. In addition £67.6m is sought to deliver 833 affordable rented homes. For Phase 1 development across the eight sites, the OCU seeks investment of £8.4m gap funding to deliver 130 market sale homes and £16.9m to deliver 231 affordable rented homes.

4.1.5 The delivery of community benefits are therefore only likely to be achieved through s106 agreements (that are currently subject to district valuer assessment, and will additionally need to be reviewed subject to the proposed introduction of the new Community Infrastructure Levy Regulations, whereby Planning and Legal advice will be sought) and not through additional overage. The likelihood of obtaining both community benefits and overage in the current economic conditions are limited. Despite this financial position there is still additional value and marketability in the joint venture approach as it is understood that without this comprehensive arrangement the attractiveness of the individual sites to a PSP would be lessened particularly given the location and size, and additionally may not attract the level of investment required from the HCA, which would result in the programme being unviable. The wider regeneration at the heart of the programme, including delivering and rebalancing tenure and type, re-use of brownfield land, high-quality housing and environmental improvements, is however significant and positive in itself particularly given the current economic climate.

4.1.6 However, any overage gained will be subject to arrangements imposed on the PSP in relation to the open market sale units in favour of whg on a phase-by-phase basis, whereby the Stakeholder Agreement with the Council and the Gap Funding Agreement with the HCA will then contain appropriate overage sharing arrangements. The Council and whg subsequently agreed to invest any overage in further community benefits.

4.2 Legal:

4.2.1 In April 2009 Cabinet agreed, in principle, to a contractual joint venture delivery structure to deliver the SRF1 programme, and subsequently HBJ Gateley Wareing have been jointly appointed to develop the structure in readiness for the

procurement of a private sector partner(s) (PSP). The proposed draft structure involves:

- a Stakeholders' Collaboration Agreement between the Council and whg;
- a Master Development Agreement (MDA) between whg and the preferred private sector partner(s) (PSP); and
- a Gap Funding Agreement between HCA and whg (and / or the PSP)

- 4.2.2 The Council and whg as partners of the HCA are currently seeking legal advice from HBJ Gateley Wareing on not only the use of whg's developer framework contract for Brownhills site M and Goscote sites G and H, but also on the use of the HCAs consultancy and deliver partner panels (namely its Public Land Initiative) in order to procure a PSP for the remainder of the programme. The HCA maintains a number of panels that have already been procured through the OJEU and competitive dialogue procurement process and are available for use by their partners to deliver regeneration and development programmes. The advantage of using this procurement method is to avoid the increased costs and time of undertaking the full OJEU and competitive dialogue process whilst still being able to complete a 'mini' competition between a number of high profile and well regarded developers/ house builders on the panel. Additionally, the method also represents an innovative, joined-up approach to procurement and strengthens the links and partnership working with the HCA. The procurement of the PSP through the HCA panel would not affect the draft structure as stated above, and be undertaken in line with the Council's Financial and Contract rules.
- 4.2.3 The Council and whg are not intending to set up separate corporate joint venture vehicle either themselves or with the PSP. The programme is intended to be undertaken through a series of Phased Development Agreements/Building Leases for each separate phase, whereby the Council's will transfer its freehold interest in each phase at the appropriate time to whg to unify the landholdings under whg's ownership. Any future disposals / transfers of the Council's land will be subject to future Cabinet reports.
- 4.2.4 The Council's land equates to approximately 11% of the total land in SRF1 programme. However, proposals within the Goscote Lane Corridor Masterplan Design Guide, which are currently being consulted on and progressed, identify a potential land swap exchange between cleared land at Goscote Estate and green belt land north of Swannies Field that are currently in the majority ownership of whg and the Council respectively. In the event that the land exchange is supported the amount of Council land within the SRF1 programme at nil value would increase to 24%. Any development on green belt land would require obtaining approval from Development Control Committee and subsequently Government Office.
- 4.2.5 Following each phase achieving unconditional contractual status, it is intended that the Building Lease will be granted to the PSP for the footprint and curtilage of the open market sale units only. This Building Lease will contain the necessary cross-rights to use common and adoptable infrastructure outside the curtilage of these units.
- 4.2.6 The freehold to the affordable housing plots and the common and adoptable infrastructure will be retained by whg.

- 4.2.7 On completion of the open market sale units in accordance with the terms of the Building Lease and their sale to a purchaser, whg will enter into a Freehold Transfer of the unit direct to the plot purchaser with the proceeds of sale being paid to the PSP.
- 4.2.8 Details on the supporting legal documentation are contained within the full OBC.
- 4.2.9 The Council, whg and the HCA continue to work with HBJ Gateley Wareing team to develop the draft development model structure and it will be refined over the coming months to ensure it is as robust as possible before any procurement process takes place to appoint the PSP. Any form of agreement with a PSP will be subject to a future Cabinet decision.

4.3 Staffing:

- 4.3.1 The project will continue to be led, in conjunction with colleagues in Estates and Assets, Strategic Housing, Finance and Legal, and at whg and HCA, by the established SRF Team within the Regeneration and Housing. The delivery of the SRF is one of three strategic priorities for the Directorate particularly within the Development and Delivery service and staff will be deployed to support whg, HCA and the PSP.
- 4.3.2 Since April 2008 detailed discussions with the HCA have taken place. They have given support to the process proposed by the Council in the joint delivery with whg of the SRF programme and, in principle, to becoming both project and investment partners. In accordance with the collaboration agreement, a steering group involving the Council, whg and HCA operates to progress the project to which a number of separate work streams report. The HCA's role as a critical partner in shaping the programme is reflected in the governance arrangements that involve them playing a key role on the Executive Board, steering group and working groups, and fundamentally through the joint working towards the single conversation and Local Investment Plan that contributes to the strategic context for the SRF1 project in their spending profile. Discussions with AWM have also taken place to begin to embed the project in future funding programmes.

5. Citizen impact

- 5.1 The SRF1 project will assist in the successful delivery of:
- Major redevelopment projects in each of the areas;
 - Rebalancing of tenure through an increase of owner occupation (approx. 45%) and lower proportion of social rented households;
 - A significantly larger property type choice;
 - Approx. 1524 new dwellings on surplus, primarily brownfield, public land
 - A higher quality local environment in each area;
 - Improved community facilities for the area including significantly improved areas of open space.
- 5.2 SRF1 has the potential to make significant 'inroads' into tackling issues such as:

- Worklessness (46% and 41% economically inactive in Goscote Estate and Moxley), particularly through supporting procurement and creating jobs and training opportunities for local people through Think Walsall;
- Low educational achievement (62% and 54% have no qualification in Goscote Estate and Moxley);
- Health inequalities (limiting life long illness 46% and 45% of households in Goscote Estate and Moxley);
- Disengagement particularly by younger members of the community.

5.3 By focusing on the economic and social outputs in addition to the physical and environmental regeneration the maximum positive impacts and enhanced areas for citizens of Brownhills, Moxley and Goscote Lane Corridor is anticipated. In partnership with the local community and other agencies this will also lead to greater local pride and citizen involvement.

6. Community safety

6.1 The SRF1 OBC aims to ensure that the Council and whg jointly manage and bring forward land assets within the three SRF areas, the majority of which are currently vacant sites and under-used green spaces that are subjected to vandalism and related anti-social activity including littering and fly tipping. The redevelopment of such sites for a new positive use will create safe and attractive environments, which is at the heart of the SRF strategy.

6.2 New buildings and estate layouts will also offer the opportunity to incorporate Secured by Design standards and the Council's approved Design Guide to ensure that crime is designed out of new developments. This is incorporated into the Goscote Lane Corridor Masterplan Design Guide that has been developed through a consortium of architects with the remit of setting out and including high design principles, which has been subject to wider community consultation and will subsequently inform the residential planning applications, focusing on:

- Local identity
- Legible streets
- Links to wider community
- Streets as spaces
- A safe, secure environment
- High quality homes

7. Environmental impact

7.1 The SRF1 project will transform the environment of the areas by redeveloping vacant sites, creating high quality new dwellings, improving streets and legibility, removing eyesores and improving open spaces. Fundamentally the project aims to deliver transformational improvement to the environment of these priority neighbourhoods.

7.2 The chosen PSP(s) will be expected to sign-up to the Council's Think Walsall strategy and support innovation in the delivery of the regeneration projects including creation of environmentally sustainable, low carbon communities through development models that are also environmentally friendly.

8. Performance and risk management issues

8.1 Risk:

The principle risks are:

- 8.1.1 Risk 1 – The Walsall Local Investment Plan is not supported by partners or endorsed by Cabinet for submission to the HCA (Risk Level Low)

The Council and its partners have been given the opportunity to develop an early single conversation based upon its ability to deliver large scale regeneration across the borough. With this opportunity will be the requirement to progress and agree the investment plan to ensure that Walsall remains a priority. Officers are working to progress this work and have completed consultation workshops to gauge partners' views and input and broader consultation with Walsall Partnership.

- 8.1.2 Risk 2 – The Walsall Local Investment Plan and corresponding SRF1 OBC are not approved by the HCA or not enough money is available to fund the project (Risk Level Medium)

- 8.1.3 Risk 3 - The process of selecting a Private Sector Partner to deliver the project through the joint venture development model is delayed (Risk Level Medium).

Given the current economic conditions a decision will need to be taken through the partnership on the most appropriate timing for offering this development opportunity to the market. It is important that there is momentum around the delivery of the project, and particularly in respect of any HCA investment, which could result in its early exposure to the market to enable the inevitably lengthy discussions with that developer partner on the development agreement to be concluded when some market recovery exists.

8.2 Performance management:

- 8.2.1 The delivery of the SRF projects is a priority within the 2009 / 2010 Regeneration Service Plan, and managed through established performance arrangements and Mantix project management system. Technical project teams reporting to the Project Reference Groups will drive and monitor delivery of the Strategic Partnering Arrangement.

- 8.2.2 The redevelopment of large former housing areas such as the Harrowby Road, Poets and Goscote estates and the High Street / Lindon Drive area of Brownhills will make a contribution to future brown-field housing completions. The provision of the right type of new housing and affordable housing will contribute to National Indicators; 'Net additional homes provided' (NI154) and 'Number of affordable homes delivered' (NI155).

- 8.2.3 The Black Country's growth proposals have been prepared by the joint planning team producing the Joint Core Strategy for the sub-region, including Sandwell, Dudley, Wolverhampton and Walsall. Based on the Joint Core Strategy (which builds on the Spatial Strategy set out in the recently approved Regional Spatial Strategy (RSS) Phase One Revision), the Black Country Consortium is leading a

sustainable Growth Programme focused on four Strategic Centres and up to 16 Regeneration Corridors. The growth programme proposes an increase of 32,850 dwellings between 2007 and 2016 - 19 per cent more than the minimum required by existing RSS. The SRF1 will therefore assist in meeting these growth point proposals.

9. Equality implications

- 9.1 The delivery of the SRF1 as set out in the OBC will bring benefits to the whole of the Brownhills, Moxley, and Goscote Lane Corridor communities. The redevelopment of sites, the enhancements to the local environment and the provision of new housing will present opportunities to engage with many sectors of the community and ensure issues of equality and accessibility are taken into account.
- 9.2 As part of the comprehensive tendering process the equality and diversity practices of the prospective private sector partner(s) will be fully assessed and the appointed PSP(s) will need to have demonstrated a commitment to this agenda.
- 9.3 The Council is seeking to achieve the highest possible level in the Equality Standard for Local Government. As part of this we are seeking to ensure that wherever possible our activities ensure a positive impact is made on people / communities using the 6 equality themes / strands. The companies who tender to become a PSP(s) will be expected as a minimum to support both the Council and whg's equality and diversity policies. They will be required to highlight how their company will ensure the regeneration benefits for people based upon:
- Gender
 - Ethnicity
 - Age (i.e. young and old)
 - Sexuality / sexual orientation
 - Religion and or belief
 - Disability

10. Consultation

- 10.1 The SRF1 OBC embeds the joint commitment of the Council and whg to deliver the SRF1 project.
- 10.2 Project Reference Groups (PRGs) in Moxley, Goscote Lane Corridor and Brownhills have been formed from representation from the local community, key stakeholders, and ward members through the Local Neighbourhood Partnership. The role of the PRGs is as an overall project steering group, who have helped appoint a consultancy team and assisted officers in developing and consulting upon the proposals within each of the Framework Studies, and subsequently the residential development sites that form the SRF1 package of sites.
- 10.3 As the SRF1 project takes on a delivery agenda the role of the PRGs will be important in continuing to represent local interests. Recently, the Goscote Lane

Corridor PRG has been involved and consulted on the preparation of the Masterplan Design Guide that will guide and inform the planning applications for the Goscote SRF1 sites. Each PRG has also been fully informed of the intended process of entering into a joint venture development agreement and securing a PSP(s) jointly with whg to deliver the projects within each of the priority areas. Additionally, each PRG has been informed of the HCAs single conversation approach, including the LIP and SRF1 OBC, and are fully supportive of the process.

- 10.4 Additionally, as part of the Goscote Lane Corridor Masterplan Design Guide the Council and whg have jointly instigated and implemented an innovative approach to wider community consultation. This has been done by liaising with key community groups and stakeholders and arranging training sessions provided by CABA (Commission for Architecture and the Built Environment) and West Midlands Planning Aid, which has helped the community interpret the masterplans and contribute informed comments and choices.

11. Background papers

- District Centres Strategic Regeneration Framework – Cabinet report 22 March 2006
- Strategic Regeneration Framework Delivery Priorities – Cabinet report 18 October 2006
- Strategic Regeneration Framework: Strategic Partnering Arrangement – Cabinet report 16 April 2008
- Strategic Partnering Arrangement: Collaboration Agreement with Walsall Housing Group – Cabinet report 04 February 2009
- Strategic Partnering Arrangement: Development Model with Walsall Housing Group – Cabinet report 22 April 2009
- Strategic Partnering Arrangement: Collaboration Agreement with Walsall Housing Group – further report – Cabinet report 16 September 2009

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Walsall Council



Walsall Council working in partnership with
Walsall Housing Group

Business Case

Relating to:

Strategic Regeneration Framework - Phase 1

Issue Date: 15th Jan 2010

Version: Final

EXECUTIVE SUMMARY

Walsall Council and Walsall Housing Group (whg) have set out in this Business Case the requirement and justification for securing the Homes and Communities Agency support for a programme of activity on sites within the Goscote Lane Corridor, Brownhills and Moxley –priority areas within the Strategic Regeneration Framework (SRF) for Walsall. The proposal seeks National Affordable Housing Programme support to provide high quality affordable rented homes alongside gap funding to deliver the significant provision of market sale housing into the areas. This investment will provide the catalyst to begin the transformational change that the SRF partners wish to achieve across the SRF programme.

This partnership will, through housing led regeneration, tackle the indicators of socio-economic decline which underpin the need for investment on the scale proposed. It is clear that without significant interventions, those issues impacting on the areas such as high levels of outward migration, high levels of unemployment, below average house prices, low levels of educational attainment, high levels of the community classified as NEET's (not in education, employment or training), high incidences of anti social behaviour and perceptions of crime, a lack of quality in terms of housing, environment and housing choice will continue, unchecked.

The market interventions proposed will deliver a range of benefits which fit with the wider Regional place making agenda providing much needed income and tenure diversity to ensure that these areas become locations in which people will choose to locate and to stay.

Whg and the Council are able to support this investment programme through activity programmed in the Local Area Agreement. Whg and Walsall Council are working closely together to deliver workless ness initiatives and have aligned funding and activity accordingly. This will enable Walsall residents to take up opportunities that this scale of investment would achieve.

The purpose of the Outline Business Case is to:

- Set out the role, purpose and contribution of the Strategic Regeneration Framework
- The strategic and delivery benefits that may be delivered.
- Provide guidance on the proposed delivery structure and proposed method of partner procurement.
- Provide options analysis, comparing the SRF proposal against that of an indicative 'do nothing' scenario.
- To inform investment requirements, value for money considerations and timescales.
- Provide a timescale for implementation for activity in the first three SRF areas.

The partnership has achieved the following milestones:

- Strategic sites status with the HCA for Goscote Lane Corridor, Brownhills and Moxley.
- A formal Collaboration Agreement established between the Council and whg in February 2009 which includes the HCA in the governance arrangements.
- Walsall Council Cabinet approval secured in September 2009 resolving development claw back on all land in the three regenerations areas to enable development.
- Prioritised community benefits

- The council and whg have included their land in the proposals at nil value.
- Jointly appointed consultants to advise on the proposals realising value for money benefits.
- Obtained legal advice on joint arrangements for the preparation of appropriate development model structures and OJEU compliant selection of consultants and contractor developers.

There has also been significant forward funding from both the Council and whg which includes:

- Whg investment of £250m in Decent Homes since 2003
- £19m demolitions and associated costs (whg)
- £3.1m Regional Housing Board and Evolve allocation, funding land assembly and other associated costs (Walsall Council)

The outcomes proposed in this Business Case will be delivered via non-corporate joint venture structure. The skills of the private sector partner(s) will enable the creation of a vibrant new market for market sale homes, alongside homes for affordable rent. Communities will be properly supported by community infrastructure and through effective master planning will harness the considerable potential offered in the three areas in terms of physical environment.

The Business Case seeks initial investment for a Programme of £42.3m gap funding to deliver 691 market sale homes in areas in which market sale housing would not otherwise be viable. In addition £67.6m is sought to deliver 833 affordable rented homes. The combination and impact of this investment will deliver transformational change and reverse decline, providing 1,524 homes on vacant brown field land largely in whg ownership.

The impact of low values and high abnormal costs means that total costs substantially exceed Gross Development Value –, for example across Goscote, costs are in excess of 140% of value. The resultant impact is that public subsidy is required to support both housing for sale and affordable housing. The Gross Development Value associated with the programme is a key driver for bringing forward this business case and the reason why this programme has been prioritised under Walsall's Local Investment Plan.

The partnership between whg and Walsall Council means a high degree of delivery certainty which will offer the potential to accelerate development of these sites, in line with availability of investment. The deliverability of the sites within this initial proposal have been supported by significant levels of investment by whg and the Council through programmes of demolition, and desk top evaluation to inform the extent of required site remediation and pre development works. The portfolio is therefore deliverable with low risk. Proposals have been tested with the private sector markets, who have responded positively to the prospect of working with the SRF partners across the three areas.

This Business Case continues the partnership between whg and Walsall Council and has been subject to on going dialogue with the Homes and Communities Agency.

1.0 PURPOSE, OBJECTIVES, SCOPE and OUTPUTS

Purpose

- 1.1 Walsall Housing Group (whg) and Walsall Council are seeking the support of the Homes and Communities Agency (HCA) to support and deliver the aspirations and objectives of the Strategic Regeneration Framework (SRF) programme.
- 1.2 This Strategic Business Case, which has been prepared in accordance with Communities and Local Government Guidance (June 2009), and intends to:
 - Set out the role, purpose and contribution of the Strategic Regeneration Framework
 - The strategic and delivery benefits that may be delivered.
 - Provide guidance on the proposed delivery structure and proposed method of partner procurement.
 - Provide options analysis, comparing the SRF proposal against that of an indicative 'do nothing' scenario.
 - To inform investment requirements, value for money considerations and timescales.
 - Provide a timescale for implementation for the first phase of activity.

Strategic Context

- 1.3 Walsall is located in the West Midlands within the Black Country. The population of Walsall totals approximately 254,500 with current projections forecasting continued growth in these numbers over the next 20 years.
- 1.4 Walsall Council became a unitary authority in 1986 when the West Midlands Council was abolished. During 2003 the Council took the decision to transfer all of its 25,000 Council Homes. Some 23,000 homes were transferred into a newly formed Walsall Housing Group (whg) who subsequently became a key partner for the Council.
- 1.5 Economic restructuring within the manufacturing industries over the last 30 years has had an impact on the area which has continued to suffer the effects of continued economic decline. In turn this has created associated issues such as population loss, low levels of economic growth, limited choice in terms of housing, poor housing quality and a poor physical environment. The above factors combined with a relatively low level of income combine to provide a weak market, which underperforms against national and regional averages.
- 1.6 Property values in the area are some of the lowest in the Black Country and continue to suffer within the current market down turn. There are concentrations of poor quality housing in both the public and private sectors across Walsall. Therefore the provision of housing that can attract and retain aspirational households is a key priority together with homes that better meet the needs of lower income groups. These aspirations can be delivered through quality housing across tenures delivered through a series of mixed and integrated neighbourhoods.
- 1.7 In order to tackle the issues outlined above and provide for transformational change, Walsall Council, whg and partners undertook the development of a comprehensive Strategic

Regeneration Framework to act as the catalyst for change and the reversal of the above indicators delivered through a phased programme of housing led regeneration.

Walsall Strategic Regeneration Framework (SRF)

- 1.8 The Strategic Regeneration Framework is a comprehensive and integrated regeneration strategy set in the context of and with clear linkages to, national, regional, sub regional and local policies. The SRF is potentially a 15 year programme of regeneration addressing long term issues through focussing on projects which deliver and combine sustainable social, economic and environmental development.
- 1.9 Five key drivers have been developed based on the principle that the quality of the housing offer is of fundamental importance to wider Walsall objectives. In particular the regeneration of the town centre and the interrelated objective of attracting and retaining young people into the Borough.
- 1.10 The SRF's five defined objectives for regeneration within Walsall are:
 - Housing – renewal and growth of housing within the borough with an emphasis of attracting and retaining 'a' and 'b' social classes, together with the need to better meet the housing needs of defined low income groups.
 - Economy and employment- develop economic growth through the creation of quality employment sites that are linked to training programmes.
 - Town and District Centres – renewal of town and district centres.
 - Transport and accessibility – deliver better links between the district centres, Walsall town centre and other sub regional centres such as Wolverhampton.
 - Environment and Quality of life – build upon the unique features of Walsall including the waterway network, distinctive common and heath land and concentrations of built heritage.
- 1.11 Due to the quantum of issues and opportunities that exist across the areas of Goscote Lane Corridor, Brownhills and Moxley these areas have been given priority within the SRF programme.
- 1.12 Across the remaining sites, an initial phase of regeneration activity has commenced at Bentley and Pleck as a result of a more buoyant housing market and the investment of social housing grant. Willenhall is also being progressed through an Area Action Plan as part of Walsall's Local Development Framework.
- 1.13 The SRF partners have been progressing over the last twelve months, proposals for the second tranche of activity centred upon Brownhills, Moxley and Goscote Lane Corridor. A summary of activity across these areas is as follows:
 - Brownhills – a land use master plan has been completed for key housing development sites together with an environmental strategy identifying opportunities for improvements to the wider primary retail area.
 - Moxley – a masterplan has been prepared proposing significant housing led regeneration including site clearance and remodelling of existing schemes and

larger scale development opportunities. In addition a range of projects to improve connectivity and linkages with the canal and nature reserve are proposed.

- Goscote Lane Corridor – the masterplan supports housing led regeneration to deliver a diversity of housing tenure and property type across the significant development opportunities presented on land primarily owned by whg. New development will enhance and improve open space particularly focussing on the natural resource of the canal in terms of access and establishing a new housing market.
- 1.14 Each of the above strategies has been taken through a lengthy consultation process and pre-planning application advice given alongside endorsement and approval by Council Cabinet.
- 1.15 Work to progress the approach across the three areas has included continued dialogue between the Council, whg and the Homes and Communities Agency to determine the shape and content of early activity with a particular focus on the following activities:
- A significant programme of demolition and decanting of homes transferred from the Council to whg, to pave the way for new housing lead regeneration.
 - Quantifying the investment requirement in terms of National Affordable Housing Programme (NAHP) and Gap funding support across the 3 areas.
 - Consideration of suitable structures to secure partnership with the Private Sector to secure effective housing lead regeneration in particular to offer private sector housing market expertise.
 - The continued work to appraise an appropriate housing mix to support the wider SRF objectives.
 - Partnership working between the Council and whg to carry out site due diligence and a range of activity to facilitate the early availability of sites which can be developed in optimum timescales.
 - Consideration and quantification of a range of associated community benefits which the programme should deliver.
 - Market testing proposals with the private sector and engagement with the HCA in terms of likely availability of funding to support the programme.
 - The submission now of a more detailed proposal focussing on an initial phase of activity focused upon sites D/E, G and H in Goscote, J, K and L in Moxley and M in Brownhills.

Business Scope, Outputs and Objectives

- 1.16 This Business Case quantifies the outputs across the three areas of activity, but with an initial focus on Phase 1 of the programme: cognisant of the likely constraints into the medium term upon public funding.
- 1.17 Across the three areas the project is expected to deliver the following outputs:
- 1,524 new homes on surplus, primarily brownfield, public land
 - Approximately 45% of homes will be market sale.
 - Re-use of some 43.22 ha of brownfield land of which nearly 38ha is in public ownership.

- 1.18 The delivery of an associated range of community benefits are in the process of being agreed between the Council and whg to ensure that new homes are properly supported by community infrastructure and facilities.
- 1.19 The procurement of a private sector partner (or partners) to secure the regeneration of a first phase of redevelopment but providing opportunity, based on performance, to roll those arrangements into subsequent priority areas.
- 1.20 Across the SRF1 programme the delivery of new private and affordable housing within mixed tenure neighbourhoods that will meet current and future housing demands and provide the opportunity to improve the Borough's economic base and the necessary and associated raising of skills and educational standards.
- 1.21 The bringing forward of Phase One initially, to regenerate the use of brownfield sites through the provision of high quality homes which will deliver high standards of environmental performance (current standards of Code for Sustainable Homes, Code 4 are assumed) across all tenures.
- 1.22 The initial focus on Phase One will continue a wider SRF1 objective towards improving Walsall as a location to live and work with a particular focus on the link between new employers coming to the area and the range and choice of housing for the associated workforce.
- 1.23 The wider linkages and opportunities that will be established between the SRF programme and the Council's wider regeneration focus on Walsall town centre and surrounding areas covered by the Walsall Regeneration Company (WRC).
- 1.24 In terms of the initial focus for investment support for Phase 1, the specific activity envisaged can be summarised as follows:
- Opportunity to bring forward 361 homes, of which 239 would be affordable rent and 122 market sale homes.
 - It is anticipated that the affordable tenure mix will change over time as the housing market recovers and through the positive impacts of regeneration investment. This is likely to result in a reduction of affordable rented homes in favour of intermediate home ownership and rented products.
 - The delivery of 9 ha of brownfield land for redevelopment purposes.
 - The use of land which is majority owned by whg and which has benefited from significant pre development investment.
 - The injection of Council owned land at nil value to support the programme.
 - The provision of nearly 34% market homes, in terms of reprovion, into areas of Walsall currently dominated by affordable rented dwellings and which, without gap funding investment, would not be viable in terms of private sector market sale activity.

- The wider contribution towards broadening the areas economic base, increasing housing choice and providing good quality open space and linkages with surrounding areas.

1.25 The specific programme of housing-led regeneration for which investment support is sought comprises initially of 8 sites, which are all in whg or Council ownership and are cleared and have been pre-prepared for development. In summary these sites are as follows:

- Goscote Sites D&E: the re-provision of 154 homes with a projected commencement date of Oct 2010. The site would deliver 73 market sale homes alongside 81 homes for affordable rent.
- Goscote Site G: the delivery of 30 homes again on the basis of a mixed tenure community comprising of 12 homes market sale and 18 affordable rented homes. The site has detailed planning permission.
- Goscote Site H: a site with an existing detailed planning permission to provide 74 new homes, 37 homes each for market sale and affordable rent.
- Brownhills Site M: the delivery of 73 affordable homes for rent. The site has a detailed planning permission and will be ready to start on site in mid 2010.
- Moxley Site J, K, L: these are 3 small sites within one road in Moxley that have been cleared ready for redevelopment. They will provide 30 affordable homes for rent.

1.26 A subsequent programme of sites within the SRF1 areas is detailed within this proposal which indicates the level of potential investment which would be required once the initial programme has concluded. These are:

Goscote Sites

- Site A: a total of 252 homes of which 128 for market sale and 124 for affordable rent.
- Site B: a total of 385 homes of which 175 will be homes for sale and 210 for affordable rent.
- Site C: 19 homes all for affordable rent.
- Site F: 7 homes all for market sale.

Moxley Sites

- Site A: A mixed tenure site which will provide 209 homes, of which 98 will be for market sale and 111 for affordable rent.
- Site B: A small site that will provide 11 homes for market sale.

- Site C: This site will provide 10 homes, 5 of which will be for market sale and 5 for affordable rent.
- Site D: A small site that will provide 4 homes for market sale.
- Sites G, H & I: Three adjacent sites owned by Walsall Council. One of which is a partial conversion of a former primary school. This will be converted to provide apartments. The other sites will provide new housing. 40 new dwellings will be provided, of which 35 will be for market sale and 5 will be for affordable rent.
- Sites M, N & O: These small sites comprise former garage blocks. Collectively they could provide 31 homes with 4 for market sale and 27 for affordable rent.

Brownhill Sites

- Site A: a total of 90 homes with 45 for market sale and 45 for affordable rent
- Site A2: a total of 19 homes all for affordable rent
- Site B: a total of 21 homes, with 17 homes for market sale and 4 for affordable rent
- Site C: a total of 12 homes all for market sale
- Site E, F, J: a total of 28 homes including 12 for market sale and 16 for affordable rent.
- Site I: a total of 25 homes including 16 for market sale and 9 for affordable rent.

Status of the Report

This is a desktop evaluation of the proposal only. No inspections have been undertaken and ikon Consultancy Ltd has relied on cost, value and programme information provided by whg and their consultants. The purpose of the report is not for loan security and no borrowing or financial decisions should be made as a result of the contents without further advice.

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The contents of this report are confidential to Walsall Housing Group. The report may be shared with the following partners of Walsall Housing Group for the specific purpose to which they refer and for their use only:

- Walsall Council
- Homes and Communities Agency

Consequently, and in accordance with current practice, no responsibility is accepted to any party other than whg in respect of the whole or any part of the contents

2.0 Need & Demand Case and Benefits

Strategic Focus

- 2.1 The SRF partners are clear that the programme needs to deliver benefits across the areas identified and the partners have fully debated the merits of a programme which seeks to deliver housing-led regeneration across the 3 priority areas contemporaneously or, as an alternative, to focus initially on a first phase. In terms of strategic priority the SRF partners in discussion with the HCA, have agreed to give initial focus to the Goscote sites named in the phasing programme and the two sites named in Moxley and Brownhills.
- 2.2 In reaching this agreement the partners took their lead from the three land use masterplanning documents drawn up to consider future land use in three areas. These documents noted both the constraints and opportunity presented by the focussed investment into Goscote, Brownhills and Moxley.

For Goscote

- Poor quality of the environment
- Lack of links with surrounding areas
- The lack of natural surveillance offered and consequential links to crime and fear of crime
- Very high levels (despite site clearance programmes) of rented housing

For Brownhills

- The environment in Brownhills remains poor in terms of the streetscape, open areas and quality of buildings.
- The centre is dominated by traffic; suffering from the adverse impacts of through traffic and associated pollution and congestion.
- Lack of pedestrian linkages and movement throughout the area has created community severance.
- The area does not take advantage of, or link to, the surrounding natural assets, including canal and green spaces.

For Moxley

- Poor quality environment through a high level of derelict and under-utilised land within the area as a result of the decline in traditional Black Country industries.
- High levels of unemployment and benefit dependency within Moxley.
- Very high levels of social housing tenure dominating the housing market in Moxley – semi detached houses and maisonettes.
- Despite its 'gateway' location Moxley lacks a clear identity – the area once had a traditionally strong sense of community which has weakened as a result of physical barriers such as the development of the A41 / A4444.

- 2.3 At the same time, the baseline studies highlight the 'great potential' for these sites to act as a catalyst for the regeneration of these areas through housing-led regeneration. This is particularly the case for the Goscote Lane Corridor sites.
- 2.4 The focussed investment in these areas would also compliment the existing and planned investment through New Deal for Communities investment in Goscote and Moxley, the redevelopment of the Goscote Hospital site, the Housing 21 site in Brownhills and the new Tesco development in Brownhills.
- 2.5 The requirement for focussed and further investment in Goscote, for example, is supported by a study supporting Stage 2 of the delivery phase of the New Deal programme. This highlighted the potential of the already cleared sites in the New Deal area and the fact that without further intervention into these markets, particularly through private housing activity, these areas would be unsustainable in terms of becoming increasingly unpopular areas in which people only locate on a 'last resort' basis. The New Deal investment has resulted in private housing activity on several significant sites and this phase of the SRF programme would enable the transformational change that the Goscote Lane area requires, the optimum chance of success.
- 2.6 SRF partners agreed on the basis of the need of the area, the strategic links with existing funding streams and the opportunity to deliver transformational change in a first phase of a wider programme, this would be best served by an initial prioritisation of Goscote Lane Corridor and in the two sites in Brownhills and Moxley- but with clear plans developed for the remaining sites across all the areas.

Socio Economic Summary

- 2.7 All three areas present a challenge to achieve the transformational change envisaged as they all present constraints derived from their socio economic positions. By that same token however, they present excellent opportunities for improving that same position through housing-led regeneration
- 2.8 Goscote Lane Corridor is situated in the Bloxwich District of Walsall and a summary of the socio economic context for the Bloxwich District provides the context for the programme of housing-led regeneration proposed and the need for the resulting outcomes to be delivered. In summary:
 - Bloxwich has lost almost 10% of its resident population over the last 20 years with Bloxwich East contracting by more than 3,000 people over that period.
 - The population of Bloxwich has an increasingly large proportion of older people accounting for 1 in 4 of those living in Bloxwich East.
 - From the basis of consultation with local residents, almost half are of the view that their neighbourhood has 'got worse' over the past 3 years.
 - Youth offending is a key problem.
 - Teenage pregnancy rates are double the Borough average.

- Educational attainment rates in Bloxwich have improved but remain below the Borough average and significantly below the national average.
- In terms of the broader workforce there are a significant numbers of people with no or only basic qualification.
- Health inequalities are significant in Bloxwich with high rates of premature deaths particularly in East Bloxwich.

2.9 Brownhills is situated to the north of the borough. A summary of the socio-economic context of the area is provided below:

- Brownhills is the least ethnically diverse area of the borough, with less than 3% of the population from BME communities.
- Over 90% of all people in Brownhills have no or only lower level qualifications; educational attainment rates remaining below the Borough average and significantly below the national average.
- In terms of employment occupation of the workforce, there is an over-dependency on the manufacturing sector; poor workforce skills with large numbers of residents in low paid occupations.
- One-third of the population aged 16 to 74 are economically inactive
- Almost three quarters of the housing is owner occupied (70%) and consists of almost half being semi detached and a quarter of detached type.
- Almost a quarter of households do not own a car resulting in a higher dependence on public transport.

2.10 Moxley is situated in the Darlaston district to the south of Walsall. A summary of its socio-economic context is provided below:

- General gap between the young and the old population, leading to distrust and dissatisfaction as the two sit uneasily side by side
- Diversification in size and tenure is an important identified objective within the Moxley Regeneration Framework Strategy - there is an over supply of rented 3 bed semi-detached dwellings (just over half of the stock) and 22% are flats or maisonettes.
- There is an over representation of single person households (31.3% of households) with a less than average number of households with two, three and four people (when compared with City and sub regional averages).
- Lack of youth facilities contributes to the incidence of anti-social behaviour. Anti-social behaviour was identified by 63% of the Moxley community as being one of the top three most problematic aspects in Moxley.

- A third of Moxley residents describe themselves as suffering from general poor health.
- 41% of the working age residents are economically inactive
- 54% of the working age population have no formal qualifications
- Paycheck data indicates that the median income for the Moxley area is between £20,000 and £25,000

Housing Need

2.11 Walsall's housing strategy has been a key reference point for the wider regeneration aspiration of the SRF programme. Walsall's Housing Strategy 2008-11 has 3 priorities:

- **Increase housing choice and opportunity:** including facilitating 600 new affordable homes, increasing the number of larger family homes and bungalows and focussing on the priority areas of Town Centre Waterfront, Brownhills, Goscote, Moxley, Willenhall, Darlaston and Birchills.
- **Improve the standard and sustainability of existing and future homes:** including ensuring 100% compliance with decent homes standards by 2010 and ensuring that new homes are built to Code for Sustainable Homes Code 3 or better.
- **Address diverse needs and promote independent living** including older persons extra care units, adaptations and ensuring new homes meet Lifetime Homes Standards.

2.12 Based on Fordham Needs Study (2007), Walsall aim to provide 600 new homes in total over the next 3 years. The affordable provision should focus on larger family homes and bungalows with limited use of flats. The currently limited demand for shared ownership and other intermediate homes is noted as is the potential for increase in this demand in line with market recovery.

2.13 Walsall's target up to 2026 is to build an additional 11,973 new homes across all tenures equating across the period to 568 net new homes.

Benefits

2.14 Focussed investment in the SRF1 areas on the basis proposed will bring a range of benefits which directly link to the overall ambition to deliver transformational change. Investment will:

- Deliver market sale housing of significant scale to an area dominated by affordable rented housing.
- Make use of cleared brownfield land predominantly in whg ownership.

- Bring forward high quality development of homes within a masterplan and funding strategy which will deliver the necessary range of community benefits to ensure that new homes are properly supported by community infrastructure.
- Through the mix and tenure of housing, encourage economically active households to choose to locate and remain in the SRF1 areas as well as providing opportunities for existing residents and their sons and daughters to remain.
- Through this targeted intervention to reverse indicators in terms of outward migration, resident dissatisfaction, educational attainment and health inequalities.
- Make better use, through effective masterplanning, of the natural resources that the SRF1 areas offer to compliment and support the creation of the SRF1 areas as a new successful market for private housing.
- To make viable market sale housing through gap funding investment into areas which would, otherwise, only be suitable for affordable rented housing provision.
- Through this investment, harness and work with the expertise of the private sector to create a new vibrant market in which values will rise as popularity of the areas becomes established.
- Capitalising on the investment made by whg in bringing 1700 homes in the area up to Decent Homes Standards, at a cost of approximately £10m. The total cost across the whole of Walsall for Decent Homes is £250m.
- To realise the value of considerable investment made by whg and the Council in site clearance, site mitigation, buying back homes and demolition of previously poor quality rented homes.
- Ensure that links are created with surrounding areas particularly with more prosperous areas to the East of Goscote Valley and in other parts of Brownhills.
- SRF partners are committed and will require, as part of the selection of a private sector partner, a range of additional benefits to be created for the local community. As a minimum these will include commitments to use local labour, a commitment to favour local supply chains, and a commitment to provide training and apprenticeships for local people.

2.15 The housing-led nature of regeneration also will ensure that investment results in high quality homes within sustainable communities and neighbourhoods which will be managed by whg as a long term stakeholder in the area. In terms of the quality, homes will be delivered in accordance with:

- HCA Design & Quality Standards
- National Affordable Housing Programme 2008-11 Prospectus
- Standards and Quality in Development – A Good Practice Guide (NHF – July 2008)
- Lifetime Homes Criteria

- Building for Life Criteria
- Housing Quality Indicators
- Secured by Design
- Code for Sustainable Homes Level 4
- Walsall Council's Design Standards – Design Walsall SPD
- Walsall's Greenspaces Strategy
- whg's Design Brief
- MADE / CABE guidance

2.16 The West Midlands Region seeks a partnership with Advantage West Midlands and other agencies with objectives to address high quality development alongside community infrastructure, to deliver a focus on successful sustainable places which address:

- The need for additional housing and affordable homes to meet the ambitions of our local authority partners and local communities.
- A commitment to champion high quality and sustainability.
- A focus on place-making, and to develop the link between housing investment and communities, jobs, health and education.
- Assisting the region to 'weather' the economic climate by supporting the maximum employment impact through our investments.

2.17 Linked to achieving the above objectives, Regional priorities include:

- To deliver the government's targets for housing and increase the provision of new affordable homes.
- To be flexible with resources and help unblock key schemes that have stalled in the current market.
- To align resources with those of other public and private sector organisations to support growth, place-making and housing renewal.
- To create innovative ways to increase investment in priority areas, by working in partnership with local and regional stakeholders.
- To develop agreed local investment plans with local authorities through the Single Conversation approach.

2.18 The SRF programme aligns with, and potentially contributes to the achievement of the objectives and priorities through:

- Delivering homes and places which better meet the needs of the local community.

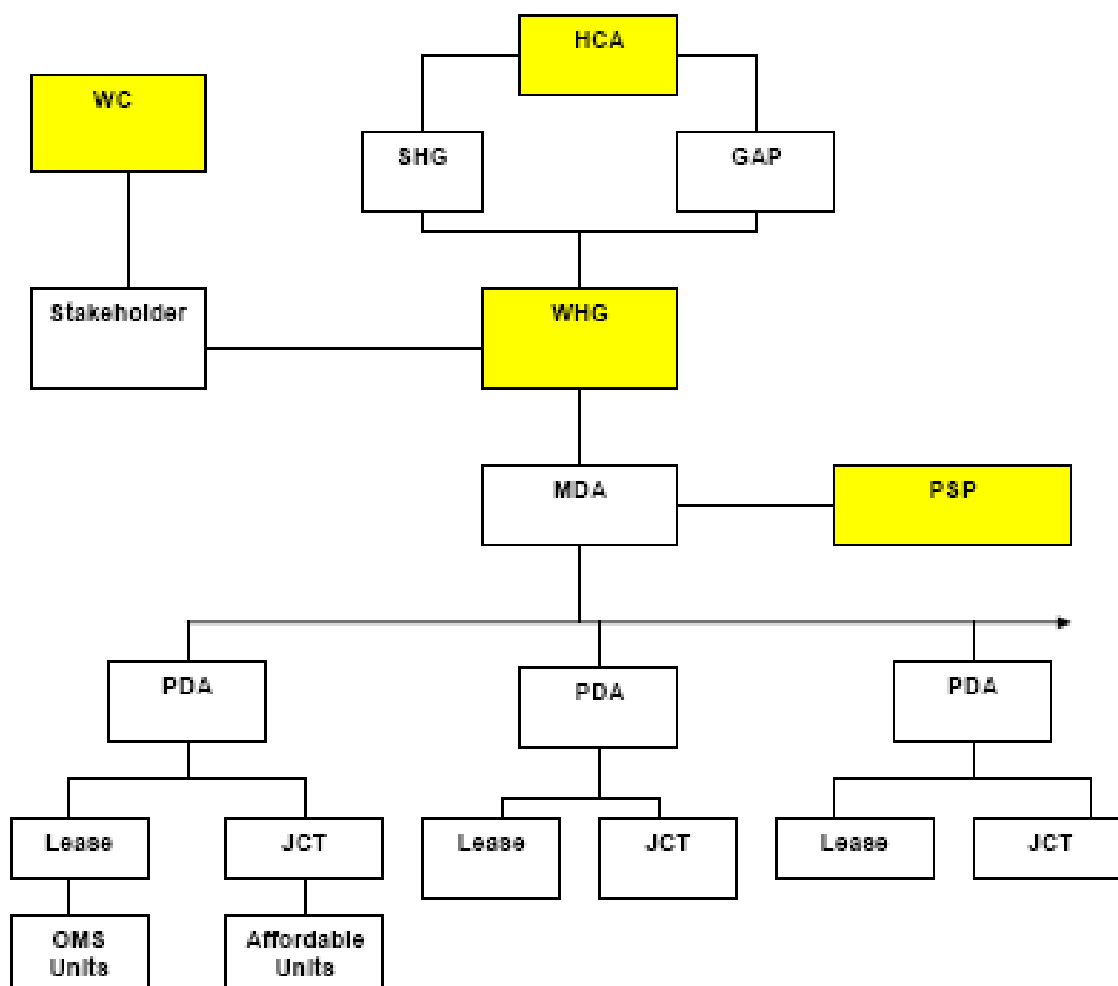
- Placing a high emphasis both on the quality of homes for affordable rent and sale but also the community and physical infrastructure through for example the delivery of an agreed range of community benefits.
- Join, in a strategic way, a range of funding streams and agendas for example complimenting the wider work of the New Deal funding stream.
- Provide a range of associated benefits such as employment and training opportunities which will be delivered through the construction programme.
- Delivering new homes which significantly mix tenures and potentially broaden the areas income base through the introduction of market sale housing.
- Deliver homes which otherwise, due to issues of market viability, would not be delivered with the knock-on impact in terms of the wider stalling of the benefits which housing lead regeneration will deliver.
- The investment contribution made by whg and the Council in terms of pre development works.
- The strategic alignment of whg, the Council and the HCA in the continued working up of SRF proposals.

3.0 Legal Structure and Issues

Structure

- 3.1 The Council and whg have considered a range of options to best deliver the agreed priorities of the SRF1 programme. Options considered included a Local Housing Company structure, a corporate joint venture structure and a contractual joint venture structure. The Project Team (including the Homes and Communities Agency) resolved that a contractual joint venture represented the best structure to deliver the regeneration programme on a range of factors including:
- The effective track record of development between private and public sectors facilitated via contractual Joint Ventures.
 - The lower set up and running costs associated with this type of JV Co compared to corporate JV or Local Housing Company structures.
 - The commensurate time savings through not having to set up and recruit to a corporate JV or LHC structure.
 - In times of market uncertainty, the lower risks of the structure in terms of market appetite and funding risk.
- 3.2 Since the decision to pursue this structure, the Council and whg have via a competitive process, retained the services of HBJ Gately Waring to develop the structure in readiness for the procurement of a private sector partner (PSP).
- 3.3 Walsall SRF1 is intended to be structured as shown on the attached contractual structure chart (see below):

Walsall SRF1 - Contractual Structure



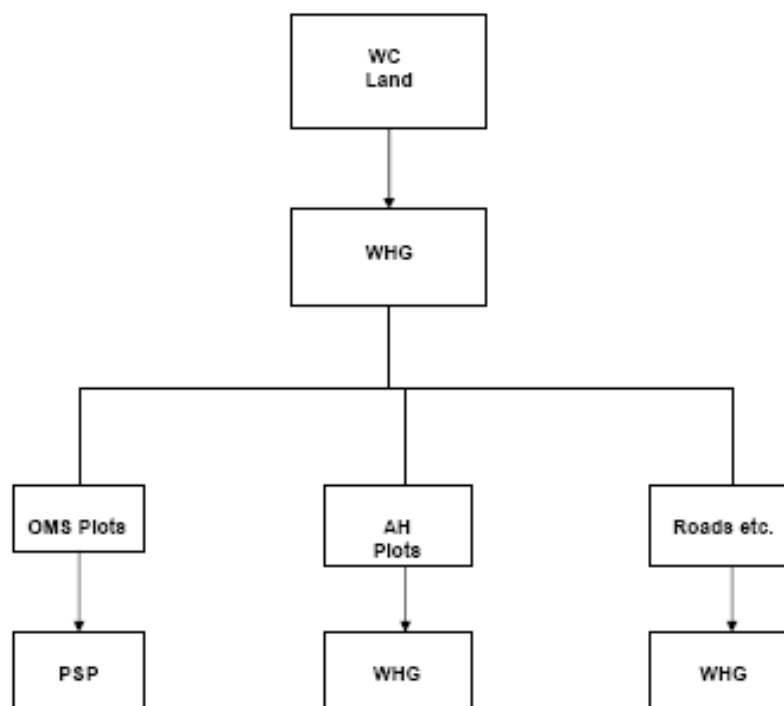
This involves: -

- a Stakeholders' Collaboration Agreement between the Council and whg; and
- a Master Development Agreement (**MDA**) between whg and the preferred private sector partner(s) (**PSP**)
- a Gap Funding Agreement between HCA and whg (and / or the PSP)

3.4 Walsall and whg are not intending to set up separate corporate joint venture vehicle either themselves or with the PSP and the scheme is intended to be undertaken through a series of Phased Development Agreements/Building Leases for each separate part of the Programme.

3.5 The transfer of land interests is shown via the diagram below:

Walsall SRF1 - Land Interests



This shows that the Council will transfer its freehold in each Phase at the appropriate time to whg to unify the landholdings under whg's ownership. The Council's land interest accounts for around 10% of the total land required for the SRF programme. The balance is in the ownership of whg. There are not believed to be any significant third party ownerships which will need to be acquired to enable the Project to go forwards.

3.6 Following each Phase achieving unconditionally (see below), it is intended that the Building Lease will be granted to the PSP for the footprint and curtilage of the open market sale units only. This Building Lease will contain the necessary cross-rights to use common and adoptable infrastructure outside the curtilage of these units.

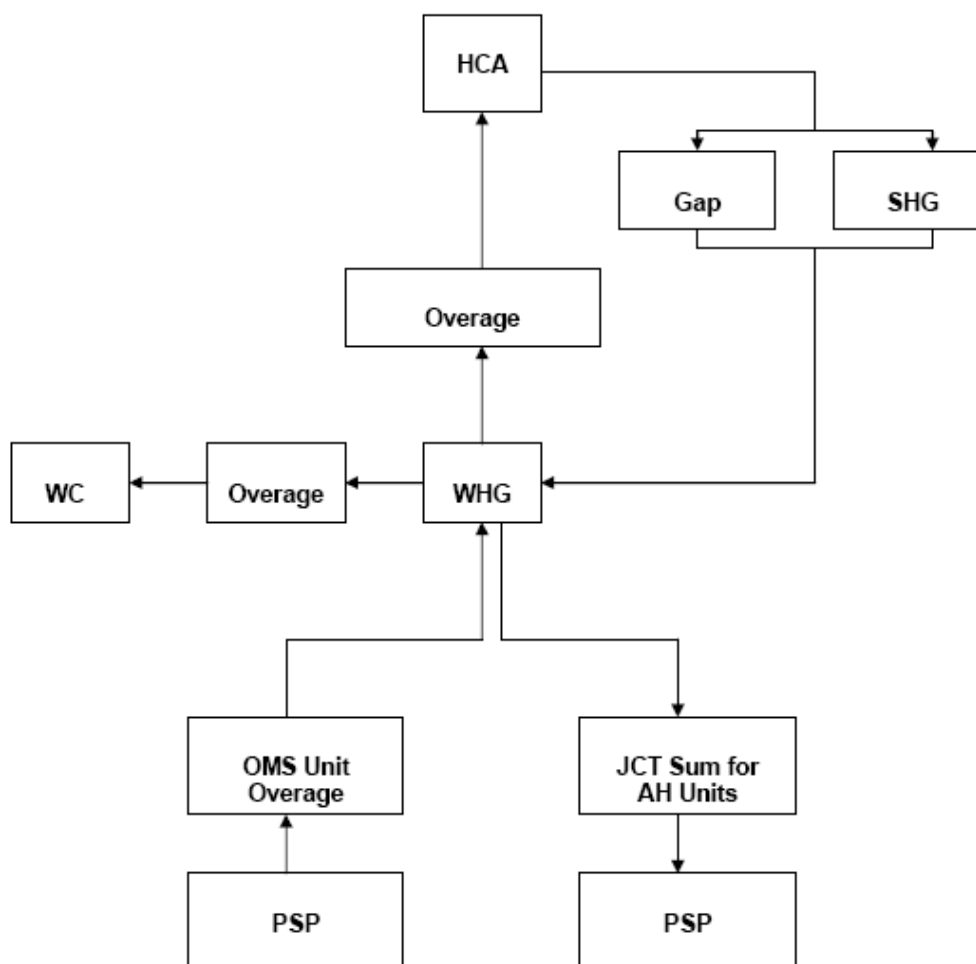
The freehold to the affordable housing plots and the common and adoptable infrastructure will be retained by whg.

3.7 On completion of the open market sale units in accordance with the terms of the Building Lease and their sale to a purchaser, whg will enter into a Freehold Transfer of the unit direct to the plot purchaser with the proceeds of sale being paid to the PSP.

3.8 Overage arrangements will be imposed on the PSP in relation to the open market sale units in favour of whg. The Stakeholder Agreement with the Council and the Gap Funding Agreement with HCA will contain appropriate overage sharing arrangements.

The flow of funds is shown in the table below:

Walsall SRF1 - Funds Flow



Supporting legal documentation

3.9 We anticipate that the following Legal Agreements will be required:-

3.9.1 Stakeholder Agreement

This is the Stakeholder Collaboration Agreement between the Council and whg, which will deal with: -

- The transfer of Council Land to whg in each Phase at the appropriate time (as necessary).
- Release of the Council clawback over the whg Land.
- Council input into design, quality standards, planning etc.
- Overage sharing arrangements etc.

- Delivery of community benefits
- Governance arrangements for the partnership

The Stakeholder Agreement will be entered into before or at the same time as the Master Development Agreement.

3.9.2 Master Development Agreement

This is the over-reaching Agreement for the Project between whg and the PSP, which will contain: -

- Obligations relating to design, quality standards, planning etc.
- Planning promotion and development timescales in relation to each Phase.
- The mechanism for satisfying each of the Pre-Conditions to the grant of a Building Lease in respect of each Phase.
- Arrangements for the grant of each PDA / Building Lease for each Phase.
- Protection of intellectual property rights for whg and the Council etc.
- Confidentiality and Freedom of Information Act provisions.
- Dispute resolution mechanisms.
- Wider Project objectives.

The Pre-Conditions to the drawdown of each Phase will include the PSP satisfying Key Performance Indicators in respect of the current and all preceding Phases.

3.9.3 Phase Development Agreement / Building Lease

It is proposed that once the Pre-Conditions for a Phase have been satisfied, the PSP will be granted a short term Building Lease in respect of the open market units within each Phase. This is subject to negotiation with the market during the procurement process. The Lease would be for the anticipated period of construction with appropriate extensions.

The Lease will contain obligations to develop the open market sale units in accordance with the approved planning permission and to the agreed quality standards in similar form to those used by HCA.

The Lease will be terminable on a material breach by the PSP which is not made good within an appropriate period subject to any necessary mortgagee protection provisions for the PSP. It is anticipated that the premium for the grant of the Building Lease will be £1.00.

Overage arrangements will be imposed on the open market sale units on a phase-by-phase basis.

The Building Lease will contain rights in favour of the PSP over common and adoptable infrastructure to carry out the development as well as an obligation on whg to procure a contractor to construct the common and adoptable infrastructure subject to the appropriate contribution from the PSP towards this cost.

3.9.4 Building Contract

At the same time as the PDA / Building Lease is granted in respect of the open market sale units on each Phase, whg and the PSP will enter into a Building Contract in JCT form for the construction by the PSP of the affordable housing units and the common and adoptable infrastructure for the appropriate Contract Sum.

These works will take place on whg Retained Land.

3.9.5 HCA Funding Agreements

It is anticipated that there will be a Gap Funding Agreement between HCA and whg in respect of each Phase. It is also anticipated that SHG will be dealt with via the normal grant funding agreement. Whg will wish to fully engage with the HCA on the gap funding agreement and ensuring that arrangements for sharing of any betterment which occur over the course of the project are transparent and offer a sound investment position for the HCA.

Exit and termination arrangements

3.10 Although the MDA will cover the whole of the Project, the following exit / termination provisions will apply: -

- On signature of the MDA the Financial Appraisal and Gap Funding and SHG funding requirements will be fixed as will the JCT Contract Sum. However, later Phases will be subject to a viability test through the agreed form Financial Model based on the price which whg offers to the PSP for the affordable housing units within each subsequent Phase. If it is impossible to achieve a Viable Financial Appraisal either through lack of grant or otherwise, either party can withdraw from that Phase.
- Once a Phase has become unconditional and the Building Lease has been granted, there will be a binding obligation on the PSP to construct the open market sale units and a JCT in place for the affordable housing units and common and adoptable infrastructure. If the PSP is in material breach of the Building Lease, this can be terminated by whg (subject to release from forfeiture and mortgagee protection) and the relevant land recovered to whg as an unencumbered freehold ownership.

If the JCT is breached by the PSP, it can be terminated on the usual grounds.

3.11 Phases will be brought forward under the MDA in accordance with a pre-agreed promotion and development programme. If conditions for each Phase are not achieved by appropriate longstop dates, then whg will have the ability to withdraw that Phase from the Project, e.g. a planning permission is not obtainable.

4.0 Risk Assessment

- 4.1 The following Risk Matrix assesses the probability, severity and impact of a number of key risks associated with the LHC. Note 3 is high, 2 is medium and 1 is low.

| Risk | Probability | Severity | Impact | Mitigation |
|--|-------------|----------|--------|--|
| Acquisition The transfer of sites from the Council to whg and the acquisition of any third party interests | 1 | 3 | 3 | The majority of land ownership is with whg ,the balance is with the Council. The Council have resolved to make two sites available early in Goscote to support the process and further have removed the clawback provisions which were previously applicable to whg sites which were not used for affordable housing. The Council has authority to pursue acquisitions through CPOs on sites in Goscote and Moxley. Preparations for these CPOs has commenced. |
| PSP appetite | 2 | 3 | 3 | The proposal envisages that a PSP will contract for the affordable and take market sale risk on open market sale housing. Given the wider market, West Midlands economy and increased risk management applied by the private sector there is a risk that the market will not respond to the opportunity. Informal soft market testing has indicated that the Private Sector will respond positively with the SRF programme. |
| Market Adverse movements in HPI and Build Costs impact on financial viability | 2 | 3 | 3 | Model has assumed values determined in accordance with the advice of local valuers. Regenerative value increases have not been assumed. Build costs have been modelled in accordance with advice from professional cost consultants who are aware of the regional market. PSP is expected to bring |

| | | | | |
|--|---|---|---|--|
| | | | | market and development expertise. whg can negotiate fixed price building contracts and place risk to contractor. In the event of a downturn homes for sale could be converted to other tenures. |
| Cost Overruns Development costs are in excess of those forecast | 1 | 3 | 3 | The initial sites in the three areas have had either just desktop studies or desktop studies and intrusive ground investigations work carried out. The costs assumed are middle of the range of potential mitigation required. Detailed design, planning, and costing of initial sites to be worked up by whg and PSP prior to commencement. 5% contingency has been added to budgets. |
| Oversupply of New Housing Sites are phased such that the availability of new homes for sale outstrips demand | 1 | 3 | 3 | Assumed programme to be subject to market engagement through OJEU. Soft market testing has informed sales rates and programme pace but detailed phasing plan will be subject to engagement with PSP. |
| Public Subsidy Forecast levels of Social Housing Grant are not achieved or available | 2 | 3 | 3 | The projects require NAHP and Gap funding but dialogue with the HCA has been on-going and the Region seek to give priority to the SRF programme as part of the Regional Strategy – subject to funding and vfm assessment. |
| Governance JV Structure does not meet its objectives | 1 | 3 | 3 | The JV via the Stakeholders Agreement will seek to align the interests of whg, the Council and the PSP with other key project stakeholders such as the HCA. Exit and termination provisions are set out in the legal section of this report |
| Private Sector Partner: Selection Council fails to | 1 | 3 | 3 | Informal soft market testing indicates considerable appetite and that that PSP will be prepared to resource a |

| | | | | |
|---|---|---|---|---|
| secure a PSP | | | | competitive dialogue process. |
| Private Sector Partner: Exit PSP wants to exit or becomes insolvent | 1 | 3 | 3 | Exit and termination provisions are subject to negotiation with PSP as part of the competitive dialogue process. |
| Skills SRF1 fails to secure right core skills | 1 | 3 | 3 | Selection of PSP with relevant skills and ability to resource SRF programme. |
| PSP Insolvency | 1 | 2 | 2 | The procurement process will include significant financial due diligence in respect of PSP financial exposure and strength and will as part of the process require letters of support from relevant banks and other funders. Land ownership will remain with whg until a plot sale is complete. |
| Planning | 1 | 3 | 3 | Planning consents will need to be obtained and until submissions are determinations are made a risk exists. Mitigation will include the master plan and design guide and the existing consent in place for Brownhills site M. |

5.0 Financial Viability & Appraisal

Introduction

- 5.1 A contractual joint venture is proposed between whg and a private sector partner in partnership with Walsall Council (contributing land) and Homes and Communities Agency (providing financial investment). Phase 1 of the partnership is the redevelopment of 8 sites in Goscote, Moxley and Brownhills between 2011 and 2014 to deliver 361 new homes as detailed in paragraph 1.25 above.

Details of the sites and their proposed phasing for delivery for each of the 3 SRF1 areas are provided in the table below. The first 8 sites are highlighted in blue:

| Site | Owner | Homes | Homes For Sale | Homes For Rent | Phasing to Final Sale |
|----------------------------------|-----------------|------------|----------------|----------------|-----------------------|
| Goscote A (Shakespeare) | whg | 252 | 128 | 124 | Jul 2013 to Jun 2017 |
| Goscote B (Estate) | whg | 385 | 175 | 210 | Oct 2014 to Jun 2019 |
| Goscote C (Dolphin Close) | Walsall Council | 19 | 0 | 19 | Jul 2015 to Jun 2016 |
| Goscote D/E (Chaucer) | whg | 154 | 73 | 81 | Oct 2010 to Mar 2015 |
| Goscote F (Blakenall) | Walsall Council | 7 | 7 | 0 | Jan 2013 to Apr 2014 |
| Goscote G (Well Place) | whg | 30 | 12 | 18 | Oct 2010 to Jun 2012 |
| Goscote H (Barracks Lane) | whg | 74 | 37 | 37 | Oct 2010 to Dec 2012 |
| SubTotal | | 921 | 432 | 489 | 2010 to 2019 |

| Site | Owner | Homes | Homes For Sale | Homes For Rent | Phasing to Final Sale |
|----------------------------------|---------|-------|----------------|----------------|-----------------------|
| Moxley A (Harrowby) | Whg | 209 | 98 | 111 | Apr 2013 – Dec 2017 |
| Moxley B (Castle View) | Council | 11 | 11 | 0 | Apr 2016 – Sept 2017 |
| Moxley C (Kendrick Place) | Council | 10 | 5 | 5 | Jan 2015 – Sept 2015 |
| Moxley D (Wilkinson Road) | Whg | 4 | 4 | 0 | Apr 2016 – Mar 2017 |

| | | | | | |
|---|---------|------------|------------|------------|----------------------|
| Moxley GH&I (Infant school and adjacent sites) | Council | 40 | 35 | 5 | July 2014 – Dec 2016 |
| Moxley J,K,L (Curtin Drive sites) | Whg | 30 | 0 | 30 | Jan 2011– Jun 2012 |
| Moxley M N & O (Glynn Avenue) | whg | 31 | 4 | 27 | Oct 2016 – Mar 2018 |
| SubTotal | | 335 | 157 | 178 | 2011 to 2018 |

| Site | Owner | Homes | Homes For Sale | Homes For Rent | Phasing to Final Sale |
|---|-------------|------------|-------------------|-------------------|-----------------------|
| Brownhills A (Silver Court) | Whg | 90 | 45 | 45 | Jan 2014 – Jun 2017 |
| Brownhills A2 (Silver Court shops) | Whg/Council | 19 | 0 | 19 | Oct 2016 – Sept 2018 |
| Brownhills B (Lindon Drive) | Whg | 21 | 17 | 4 | Jan 2014 – Jun 2017 |
| Brownhills C (Wessex Close) | Whg | 12 | 12 | 0 | Jan 2015 – Sept 2016 |
| Brownhills E – J (small sites) | Whg/Council | 28 | 12 | 16 | Jan 2016 – Dec 2017 |
| Site I (Deakin Avenue) | Whg | 25 | 16 | 9 | Jan 2015 – Dec 2016 |
| Site M (High Street Brownhills) | whg | 73 | 0 | 73 | Jun 2010 – Dec 2011 |
| SubTotal | | 268 | 102 | 166 | 2010 to 2018 |

| | | | | | |
|--------------|--|-------------|------------|------------|--------------|
| Total | | 1524 | 691 | 833 | 2010 to 2019 |
|--------------|--|-------------|------------|------------|--------------|

5.2 A detailed appraisal of each site has been undertaken using assumptions provided by whg and their consultants' team including:

- Site development area, densities and tenure

- Development costs (provided by consultants RLB)
- Sales values (local valuers Edwards Moore and Fraser Wood)
- Build programme
- Mix of houses and flats
- Desktop studies and intrusive ground investigations (framework consultants Johnson Poole and Bloomer; Hydrock; Sub-surface and RSK Stats)

5.3 Details of the assumptions and methodology are provided in Appendix 1 (data sheet).

5.4 The financial structure of the joint venture is:

- whg selects a private sector partner (PSP) to jointly undertake the redevelopment of sites.
- The sites are developed on a phased basis once viability and funding requirements of each phase has been met.
- The PSP builds out all properties on the site with responsibility for abnormal, additional remediation works, S106 contributions etc.
- whg is responsible for all affordable housing, paying the PSP for the cost of construction during the build programme.
- The PSP is responsible for all housing for sale.
- HCA financial support is assumed by way of Social Housing Grant for affordable homes and Gap Funding for homes for sale.
- whg and the PSP are responsible for funding their own proportions of the schemes.
- whg and Walsall Council have contributed costs incurred to date for site preparation, demolition etc. These equate to approximately £19m across the SRF1 area.
- If the developments out-perform the base viability set at the commencement of each phase, there is the opportunity for whg, Walsall Council and the Homes and Communities Agency to participate in overage.
- whg and Walsall Council have agreed in principle to deploy their share of overage to a programme of Community Benefits.

Site Costs and Values

5.5 RLB has been commissioned by whg to provide a cost plan for each site. In addition whg has commissioned desktop studies or intrusive ground investigations from its Framework consultants: Johnson Poole and Bloomer; Hydrock; Sub-surface and RSK Stats. Across the development sites in Goscote, whg anticipate outstanding abnormal costs equating to £14.15m or £15,386 per unit (16% Gross Development Value). This excludes £12.7m already invested by whg and Walsall Council in bringing the sites forward for redevelopment. Information on remediation costs for Brownhills and Moxley is less certain as full site investigations have not been undertaken.

5.6 whg has retained local valuers Edwards Moore and Fraser Wood to provide sales values and market assessment for Goscote and other sites in SRF1. Edwards Moore's market assessment dated September 2009 indicates that:

- Further dramatic falls in house prices in Walsall are not envisaged although a real threat of further redundancies locally may have the effect of curtailing the level of recovery in the Walsall area.
- House prices in the Borough of Walsall appear to lag behind its neighbouring Metropolitan Boroughs of the West Midlands by approximately 10-15%.
- The national trend for oversupply of apartments is particularly true of Walsall too – new developments should concentrate on houses.
- Goscote is the lowest value area of the SRF1, in comparison to Moxley and Brownhills.
- Within Goscote sites D,G, and H have the lowest values. With Moxley, sites J, K, L have the lowest values. Within Brownhills, sites A2 has the lowest values
- The low values in Goscote are evidenced by:
 - 1 bed flats at £55,000-£60,000
 - 2 bed flats at £70,000-£75,000
 - 2 bed houses at £80,000-£100,000
 - 3 bed houses at £100,000-£125,000
- The low values in Moxley are evidenced by:
 - 1 bed flats at £45,000 - £50,000
 - 2 bed flats at £60,000 - £70,000
 - 2 bed houses at £ £80,000 - £100,000
 - 3 bed houses at £100,000 - £125,000
- The low values in Brownhills are evidenced by:
 - 1 bed flats at £57,500 - £67,500
 - 2 bed flats at £70,000 - £75,000
 - 2 bed houses at £90,000 - £110,000
 - 3 bed houses at £100,000 - £140,000

5.7 The impact of low values and high abnormal costs means that total costs substantially exceed Gross Development Value – across Goscote as a whole, for example, costs are in excess of 140% of value. **Fundamentally this relationship underpins the requirement for subsidy from the HCA which will address the problem of low values whilst providing a basis from which associated social problems can be tackled.** The impact of the relationship between development costs and values in the areas is:

- Public subsidy will be needed to support housing for sale as well as affordable housing.
- Low entry costs for purchasers, together with high costs of remediation and build, renders intermediate tenures as particularly non-viable in early phases.

Homes and Communities Agency Support

- 5.8 For SRF to proceed, and to launch the initial phase of activity across the eight sites, it will be necessary for the Homes and Communities Agency to support the programme. Support from the Homes and Communities Agency is assumed to take two forms:
- Social Housing Grant – via the NAHP to fund the affordable housing delivered via whg.
 - An investment to meet the viability shortfall for the homes for sale. Subject to a State Aid assessment and availability of funds, this could take the form of Infrastructure investment or “Gap Funding”.
- 5.9 Social Housing Grant required to fund the affordable rented housing provision averages out at £67,598 per dwelling across the 3 areas. These indicative rates are higher than the regional efficiency target of £49,000 NAHP per rented home provided by HCA. The higher rates reflect the nature of the project as estate regeneration with high levels of abnormals and infrastructure, and lower cost value relationships negating the possibility of substantial cross subsidy from the sale element. It also reflects the longer term nature of the project. Discounted at 3.5% real in accordance with HMT Green Book Guidance, the Net Present Value of the NAHP grant is £59,872 per rented home produced.
- 5.10 The cost of abnormals across the sites is high. The abnormal costs largely comprise the remediation and site preparation costs outlined by whg’s environmental engineers. Most of these costs have been derived from desk studies, but site investigations have also been carried out on Goscote A, B, D&E and Moxley A. The costs have been provided as a wide range and the mid-point has been used in the financial appraisals. Some sites carry a mid-point remediation cost as high as £40k per unit.
- 5.11 We are aware that HCA may wish to move any subsidy provided to projects to an investment basis. Whilst the projects do not currently return a surplus distributable to the public sector, it is proposed that overage arrangements could provide a route for repayment of funds to HCA if the developments out-perform the initial scheme viability.
- 5.12 Any necessary investment by HCA will be subject to NAHP process and criteria, and necessary approvals to fund.

Phasing:

- 5.13 The redevelopment of the 3 areas has been planned in approximately four phases as follows:

| Phase | Sites | Duration (Construction) | Homes | Phase Total |
|----------------|-------------------|-------------------------|-------|-------------|
| Phase 1 | Goscote D&E, G, H | 2010 – 2014 | 258 | 361 |
| | Brownhills M | 2010 – 2012 | 73 | |
| | Moxley J,K,L | 2010 – 2011 | 30 | |
| Phase 2 | Goscote A, F | 2013 – 2016 | 259 | 468 |
| | Moxley A, | 2013 – 2017 | 209 | |
| Phase 3 | Goscote B, C | 2014 – 2018 | 404 | 565 |

| | | | | |
|-------------------------|--------------------------|-------------|-----|-------------|
| | Brownhills A, B | 2014 – 2016 | 111 | |
| | Moxley C, GHI | 2014 – 2016 | 50 | |
| Phase 4 | Brownhills A2, C, EFJ, I | 2015 – 2017 | 84 | 130 |
| | Moxley B, D, MNO | 2015 – 2017 | 46 | |
| Total all phases | | | | 1524 |

5.14 The programming of sites is based upon:

- Sites D/E/G/H are Gateway sites to Goscote and development of the derelict sites will have an immediate impact on the area, and may contribute to improved viability for later sites..
- Moxley J,K,L is a cleared ready to go site and Brownhills M already has planning consent..
- Programming reflects sales and development rates provided by the private sector during the soft market testing.

Financial Summary: Phase 1 (Goscote Sites D&E/G/H; Brownhills M; Moxley J,K,L)

5.15 The financial appraisal of the first phase is summarised below:

| CAPITAL EXPENDITURE | INFLATED (£000's) Base Case | UNINFLATED (£000's) |
|--|--|----------------------------|
| Land | 0 | 0 |
| Abnormal Costs (remediation etc) | 6,595 | 6,321 |
| External Works (infrastructure etc) | 3,830 | 3,685 |
| Planning Requirements (wheelchair Homes and Highways contribution) | 276 | 258 |
| Construction Cost | 34,024 | 32,617 |
| Fees | 2,981 | 2,859 |
| Sales Costs | 298 | 298 |
| Set Up Costs | 250 | 250 |
| Developers Overheads and Profit | 2,336 | 2,082 |
| Finance costs | 720 | 720 |
| Optimism Bias (5% Contingency) | 1,392 | 1,331 |
| Total Cost | 52,702 | 50,421 |
| Funded by: | | |
| Sales Revenue | 12,606 | 11,573 |
| Whg purchase of affordable homes | 31,671 | 30,344 |
| HCA Investment (Gap or Infrastructure investment) | 8,415 | 8,495 |
| Interest receivable | 10 | 9 |
| Total Revenue | 52,702 | 50,421 |
| Social Housing Grant included in whg acquisition cost | 16,976 | 16,489 |
| Key Outputs: | | |
| Homes for Rent | 239 | 239 |
| Homes For Sale | 122 | 122 |
| Total Homes | 361 | 361 |

***Note that Brownshills Site M contains separate accounting for Optimism bias provided by whg**

5.16 The methodology and data sheet are set out in Appendix 1. Inflated figures are based on:

- RPI at 2.5%
- Build cost inflation at RPI+0.5%
- House Price Inflation at RPI+0.5%
- Social rent inflation at RPI+0.5%

5.17 Phasing of public subsidy requirements are set out below. It is assumed that:

- Social Housing Grant is drawn down by whg in tranches as set out in HCA Capital Funding Guide
- HCA Gap/Infrastructure investment is drawn down by the PSP across the enabling/construction works for each site within the phase.

| Public Subsidy £000's | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
|---------------------------|-------|-------|-------|-------|-------|------|------|------|------|------|---------------|
| Inflated Base Case | | | | | | | | | | | |
| SHG | 7,689 | 3,844 | 2,021 | 0 | 3,422 | 0 | 0 | 0 | 0 | 0 | 16,976 |
| GAP | 876 | 3,504 | 2,040 | 1,632 | 363 | 0 | 0 | 0 | 0 | 0 | 8,415 |
| Total | 8,565 | 7,348 | 4,061 | 1,632 | 3,797 | 0 | 0 | 0 | 0 | 0 | 25,403 |
| Uninflated | | | | | | | | | | | |
| SHG | 7,610 | 3,664 | 1,894 | 0 | 3,321 | 0 | 0 | 0 | 0 | 0 | 16,489 |
| GAP | 876 | 3,504 | 2,040 | 1,632 | 443 | 0 | 0 | 0 | 0 | 0 | 8,495 |
| Total | 8,486 | 7,168 | 3,934 | 1,632 | 3,728 | 0 | 0 | 0 | 0 | 0 | 24,984 |

5.18 In terms of performance criteria:

- Total public subsidy for Phase 1 equates to £69,207 per home produced (uninflated)
- Social Housing Grant for the 239 rented homes equates to £68,991 per home.

5.19 With regard to State Aid tests for Gap Funding, HCA have provided guidelines that Gap Funding cannot exceed 60% of qualifying costs, where qualifying costs exclude the cost of affordable housing. With regard to Phase 1 sites:

- Uninflated Qualifying costs are £18.6m
- Uninflated Gap Funding of £8.5m equates to 45% of qualifying costs

5.20 Net Present Value of HCA Investment, discounted at 3.5% real in accordance with HMT Green Book Guidance is:

- Social Housing Grant: £14.9m
- Gap/Infrastructure investment: £7.2m
- Total HCA Investment: £22.1m

Financial Summary: All Sites and Phases

5.21 The financial appraisal of the all sites in Goscote, Moxley and Brownhills is summarised below:

| CAPITAL EXPENDITURE | INFLATED (£000's) Base Case | UNINFLATED (£000's) |
|--|--------------------------------|---------------------|
| Land | 0 | 0 |
| Abnormal Costs (remediation etc) | 29,746 | 26,082 |
| External Works (infrastructure etc) | 19,190 | 16,780 |
| Planning Requirements (wheelchair Homes and Highways contribution) | 1,569 | 1,341 |
| Construction Cost | 160,576 | 140,536 |
| Fees | 16,367 | 14,298 |
| Sales Costs | 2,279 | 1,944 |
| Set Up Costs | 750 | 750 |
| Developers Overheads and Profit | 17,009 | 13,849 |
| Finance costs | 5,924 | 5,300 |
| Optimism Bias (5% Contingency) | 7,737 | 6,779 |
| Total Cost | 261,147 | 227,659 |
| Funded by: | | |
| Sales Revenue | 92,248 | 76,939 |
| Whg purchase of affordable homes | 126,477 | 112,232 |
| HCA Investment (Gap or Infrastructure investment) | 42,368 | 38,444 |
| Interest receivable | 54 | 44 |
| Total Revenue | 261,147 | 227,659 |
| Social Housing Grant included in whg acquisition cost | 67,598 | 60,051 |
| Key Outputs: | | |
| Homes for Rent | 833 | 833 |
| Homes For Sale | 691 | 691 |
| Total Homes | 1,524 | 1,524 |

5.22 The methodology and data sheet are set out in Appendix 1. Inflated figures are based on:

- RPI at 2.5%
- Build cost inflation at RPI+0.5%
- House Price Inflation at RPI+0.5%
- Social rent inflation at RPI+0.5%

5.23 Phasing of public subsidy requirements are set out below. It is assumed that:

- Social Housing Grant is drawn down by whg in tranches as set out in HCA Capital Funding Guide
- HCA Gap/Infrastructure investment is drawn down by the PSP across the enabling/construction works for each site within the phase

| Public Subsidy £000's | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|-----------------------|-------|-------|-------|-------|--------|--------|--------|--------|--------|----------------|
| Inflated | | | | | | | | | | |
| Base Case | | | | | | | | | | |
| SHG | 7,689 | 3,844 | 2,022 | 4,883 | 21,457 | 1,555 | 10,948 | 6,328 | 8,872 | 67,598 |
| GAP | 858 | 3,432 | 1,996 | 4,194 | 7,902 | 10,158 | 8,247 | 3,678 | 1,899 | 42,368 |
| Total | 8,547 | 7,276 | 4,018 | 9,077 | 29,359 | 11,689 | 19,195 | 10,006 | 10,771 | 109,938 |
| Uninflated | | | | | | | | | | |
| SHG | 7,610 | 3,664 | 1,894 | 4,294 | 19,019 | 1,330 | 9,318 | 5,467 | 7,455 | 60,051 |
| GAP | 861 | 3,444 | 2,008 | 3,954 | 6,987 | 8,919 | 7,323 | 3,277 | 1,671 | 38,444 |
| Total | 8,471 | 7,108 | 3,902 | 8,248 | 26,006 | 10,249 | 16,641 | 8,744 | 9,126 | 98,495 |

5.24 In terms of performance criteria:

- Total public subsidy for Goscote/Moxley/Brownhills equates to £64,629 per home produced (uninflated).
- Social Housing Grant for 833 rented homes equates to £72,090 per home (uninflated).

5.25 With regard to State Aid tests for Gap Funding, HCA have provided guidelines that Gap Funding cannot exceed 60% of qualifying costs, where qualifying costs exclude the cost of affordable housing. With regard to Goscote/Moxley/Brownhills sites:

- Uninflated Qualifying costs are £111m
- Uninflated Gap Funding of £38m equates to 34% of qualifying costs

5.26 Net Present Value of HCA Investment, discounted at 3.5% real in accordance with HMT Green Book Guidance is:

- Social Housing Grant: £49.9m
- Gap/Infrastructure investment: £30.8m
- Total HCA Investment: £80.7m

Optimism Bias (Contingency)

- 5.27 HM Treasury Green Book Guidance identifies a demonstrated systematic tendency for appraisers to be overly optimistic. Green Book Guidance identified two types of building projects, Standard and Non-standard buildings. Walsall SRF1 would form Standard buildings. The upper bound guidance for optimism bias on capital expenditure is 24%, which could be added to the estimate of construction cost. An analysis of the contributory factors to upper bound Optimism Bias indicates that the following factors could be attributable to SRF sites:

| Contribution to Upper Bound Optimism Bias (24%) | HMT Guidance | All sites |
|--|---------------------------|---------------------------|
| Design Complexity | 1 | 1 |
| Site Characteristics | 2 | 2 |
| External Influences: Economic | 11 | 11 |
| External Influence: Regulation | 3 | 3 |
| Total | 17 | 17 |
| Optimism Bias | 17% of 24% = 4.08% | 17% of 24% = 4.08% |

- 5.28 Redevelopment comprises a known range of buildings and tenures, and the intention is to procure the project in such a way as to enable PSP involvement in design and ensure the PSP has the optimum capabilities for the project. The principle impact is the external economic environment and its impact on the housing market, contracting and labour costs, and the availability of mortgage and development finance. Regulation has been included to reflect the need to secure HCA support, and changes in development standards (noting however that Code for Sustainable Home level 4 has been allowed for across all tenures). Nevertheless, the profile of optimism bias will change as the project develops and should be kept under review.
- 5.29 In consultation with RLB, the level of contingency applied to the capital expenditure on construction costs has been applied at 5%.

6.0 Bankability and Funding

Viability Assessment

- 6.1 In terms of key parameters, the financial business case for the redevelopment of Goscote, Brownhills and Moxley, illustrates the following:
- Private Sector Partner Gross Margin (Overheads and Profit) at 18% of gross development value of housing for sale.
 - Standard contractors margin for the PSP included in costs by RLB for sale and rented housing.
 - Whg appraisal of the affordable housing in accordance with their set viability criteria
 - To achieve these viability criteria £16.5m of Social Housing Grant and £8.5m Gap/Infrastructure investment will be required from HCA to support initial sites. SHG of £60m and £38.4m Gap is required for all of the programme – all figures uninflated.
- 6.2 As a contractual joint venture, the redevelopment of the three areas will require the partners to raise their own finance. As a result it will not be necessary to raise funding for a special purpose vehicle, meaning that the project can be funded by conventional project finance by whg and PSP.

Private Sector Partner

- 6.3 The principal benefits for the private sector partner will be:
- Gross Margin (Overheads and Profit) at 18% Gross Development Value on housing for sale
 - Contractors margin on construction of affordable and housing for sale.
 - Development management fee of 1.25% cost.
 - Shared risk with the public sector to achieve scheme viability.
 - Access to a reliable flow of land and development opportunities.
 - Reduced exposure to market sale housing (45% of the developments) in a challenging market due to the mixed tenure nature of most of the development sites.
 - Following an initial OJEU process, there will be reduced competition and bidding costs.
- 6.4 A rate of return at 18% is within the feedback provided during soft market testing as acceptable to the private sector. Nevertheless, the actual margin will be a key consideration for whg in selection of the developer/contractor partner.
- 6.5 The programme for the various sites has been set following input from soft market testing. Whilst this demonstrated a private sector appetite for the SRF sites, low projected sales rates in the early year's acts to constrain the programme and therefore depresses the peak debt. For the private sector partner peak debt is:
- £4m for Phase 1 sites

- £26m for the whole 3 area programme
- 6.6 The PSP could anticipate funding 70% of peak debt via senior debt raised externally and 30% via equity/internal funds. The same margin has been included for internal and external debt.
- 6.7 As at January 2010, the bank base rate stands at 0.5%. Nevertheless for residential developments borrowing remains scarce and subject to sometimes onerous conditions. Accordingly we have included a cost of funds at 7.0% to include allowances for arrangement, monitoring etc.

Registered Social Landlord: whg

- 6.8 Each site and phase of Goscote, Brownhills and Moxley have been configured to meet whg's detailed viability tests for new affordable housing development.
- Rents for affordable homes are set in accordance with whg's policy agreed with Walsall Council and complying with HCA requirements.
 - Each phase achieves hurdle rates of 6.5% IRR and payback within 30 years.

Sensitivity Analysis

- 6.9 Financial analysis has been undertaken to highlight some of the key sensitivities. At the detailed stage these assumptions will be refined based on detailed designs and costings of the first sites brought forward, market testing and partner selection, and firm start/base date for financial data. Sensitivity analysis is set out below for Goscote only:

WALSALL SRF1 SENSITIVITY ANALYSIS: Goscote

| SCENARIO | Phase 1 Sites Public Subsidy Required (£000's)change | All Phases Public Subsidy Required (£000's)[change] |
|--|--|---|
| Build Cost Plus +5% | + 1,293 | + 4,870 |
| Build Cost -5% | -1,212 | - 4,799 |
| Historic House Price Inflation (HMT/Barker Report) 2.4% real pa | - 462 | - 4,272 |
| Build Cost + 1% pa | + 543 | + 5794 |

7.0 Value for Money

Additionality

- 7.1 To justify the level of resources required we have considered a range of additionality indicators from HM Treasury Green Book, comparing potential SRF programme outcomes against a 'do nothing' option where investment is not forthcoming.

| 'Additionality' Indicator | SRF Contribution | Do Nothing Option |
|---|--|--|
| Contamination | The SRF programme will bring back into use significant amount of brownfield land which is currently vacant following either demolition of previously rented housing stock and surplus council land including a former school site. Sites as part of development will be decontaminated and subject to necessary remediation which is allowed for in the investment required. | Without investment intervention brownfield land will remain derelict and due to negative values would only be developed out as further affordable housing. |
| Ecology | Studies of ecology will have been carried out to support planning applications and new developments will be within masterplans which harness the natural resources of the SRF1 areas realising the recognised potential of the natural environment as part of high quality new neighbourhoods. | The currently unmanaged status of sites will continue which creates physical barriers which segregate the local community and offer no formal strategy to promote local ecology. |
| Energy Use and Pollution | New homes across tenures will be delivered to Code for Sustainable Homes Level 4. | No net gain. |
| Arrears/Defaults, management costs | Investment in SRF1 sites will deliver popular housing locations where people will choose to locate and stay. There are clear efficiencies that will be generated as residents will benefit from increased economic activity and satisfaction levels meaning that arrears and defaults should decrease. Efficiencies in management costs will result from additional housing in a variety of tenures enabling whg | No intervention will result in existing housing stock becoming increasingly unpopular with current trends of outward migration likely to continue resulting in the SRF1 areas becoming areas of last resort. Increases in management costs will result from higher levels of voids and re-lets and also in terms of securing and maintaining existing sites. |

| | | |
|----------------------------|--|---|
| | to provide a better service across the whole housing stock. | |
| Turnover and Voids | Current levels of turnover and voids should reduce through the focussed investment into the SRF1 areas and the commensurate increases in satisfaction levels across the area. | Turnover and void levels will continue to increase as the area becomes increasingly unpopular. |
| House Prices | Intervention on the scale proposed coupled with focus on Goscote, Brownhills and Moxley and the proposed partnership with a private sector partner will deliver market sale housing into the area and subsequently result in house price rises in the local market. This is necessary to curtail the underperformance of the area compared to surrounding markets. | The failure to invest in the SRF programme may result in continued underperformance of the local market meaning that any longer term investment in the area would be more unlikely. There is the potential also for continued relative deterioration in house prices if the indicators around migration and satisfaction are not addressed. |
| Whole Life Costings | The volume of new homes and the higher standards of quality proposed will keep the whole life costings associated with the programme within standard whg assumptions. Scale of homes in the neighbourhood will offer scope for service enhancements and improvements. | Homes would meet Decent Homes Standards only which do not comply with the Code for Sustainable home levels. |
| Disability access | New homes will meet Lifetime Homes Criteria and thereby offer scope for the investment to allow for people to remain in the homes as their needs change over time. In turn this makes a contribution towards a sustainable popular place where people will choose to locate and stay. | No improvement upon existing stock and lack of ability to respond to changing needs. Potential inability of the stock to respond to the needs of an increasingly ageing population. Impact increased if trends of outward migration from area are not addressed. |
| Ethnicity | New homes will offer access to the broad range of needs across the community both in terms of affordable homes and market sale housing. | Failure to reverse the net decline in population may mean that those from ethnic minority backgrounds are increasingly isolated. |
| Health | The new homes across tenures will provide well insulated homes which are cheap to heat and are provided within areas which maximise the potential | Failure to invest will do little to reverse the indicator of health inequality already prevalent in the SRF1 areas. Problems of health inequality will increase as those |

| | | |
|--------------------------------|---|--|
| | of surrounding open space for play and leisure uses. The investment offers full potential to all the community for healthy living fully utilising the natural resources of the SRF1 areas. Investment in community benefits will result in enhanced open space and play provision. | that are able continue to move away from the area leaving those who may be increasingly vulnerable. |
| Image and Perception | The image of Goscote, Brownhills and Moxley are generally negative both from those living in the community and especially those outside. The housing and community benefit investment coupled with the expertise of the private sector in establishing a market gives best opportunity for the transformational change that partners wish to achieve with the area. Image and perception improvement will be key to achieving this objective. | The image and perception of Goscote, Brownhills and Moxley as a location of last resort rather than choice is likely to further deteriorate without the investment and intervention proposed. |
| Play and Younger people | The masterplan for Goscote, Brownhills and Moxley will propose new homes with enhanced access to play and leisure for younger people addressing a range of needs across the ages. The investment in community benefits will support this objective. | The ability to increase or improve facilities for younger people will be largely reliant upon the Council who are under significant budgetary pressure. Consequently any broader contribution to redressing linked indicators such as health inequality will be less likely to be realised. |
| Crime and security | New homes will be designed to meet the standards of secure by design. This will include the use of overlooking, active frontages and other household security such as locking windows. | Crime and security issues will continue to blight the existing community with the associated cost to the local police force and to whg in terms of management costs associated with crime and vandalism to properties. |
| Social Inclusion | The concept of the Masterplan that all three masterplans are founded upon mixed communities and establishing a broader economic base for the area. This in turn will provide opportunities across the community which will be supported by the VIEW fund. Particular emphasis on jobs, training and opportunities for young people will be provided. | Opportunities for increased social inclusion will be limited and without intervention will be linked to the wider economy. Current levels of educational attainment will not be addressed leaving the area poorly positioned to respond to jobs and opportunities that may result from wider regional recovery in the economy. |
| Unemployment | The focussed investment will | Failure to invest will offer no real |

| | | |
|--|---|---|
| | offer potential for decreasing unemployment directly as a result for example of the use of local labour in construction. Broader opportunities to decrease unemployment in the area will result from the creation of a broader economic base of households. | opportunity to reverse unemployment and no longer term strategy to redress the higher than regional averages which prevail. The current low levels of educational attainment do not offer longer term prospects for reversal of this indicator. |
|--|---|---|

7.2 The provision of new homes will also deliver an enhanced opportunity to sustain and support local public services and facilities as well as private provision such as retail and businesses.

8.0 Legal, Accounting and Tax Issues

Legal Powers and Issues

- 8.1 There are potentially three or four public sector organisations involved in the development and whilst each can take their own legal advice as to the construction and enforceability of the legal documents etc. the general position is as follows based on the model of the development agreement being considered.

Walsall Council

- 8.2 With reference to the land in whg ownership, whg has legal powers to do anything for the benefit of its area under the provision of Section 2 of the Local Government and Housing Act 2000. It is known as the wellbeing power and that is considered now to be the starting point for finding the legal power to act. The Council needs to satisfy itself that there is provision within its sustainable community strategy for undertaking the housing regeneration schemes. If it is there expressly or impliedly then there is no need to search for other enabling or express powers to act.
- 8.3 This power would therefore include the power to incur expenditure in the provision of new housing and also to incur expenditure for the regeneration of the area with partners which is considered to be the implementation of the general policy.
- 8.4 The Council operates a Leader and Cabinet model constitution and as a consequence the Leader and Cabinet will have delegated powers to act to implement the budget and policy framework of the Council. If the regeneration proposals are set out in the Sustainable Community Strategy then it would be considered the policy framework approves the principle of the development taking place and the Leader can enter into the legal agreements to implement them.
- 8.5 In terms of the budget framework, if there is to be expenditure or income then it should be included in the budget which the Council has approved. If there is no express provision within the budget for such expenditure then the Leader and Cabinet would need to issue a report to the Council to seek the formal adoption of the proposal even if in outline so that the framework is then in place for the Leader and Cabinet to implement.

Walsall Housing Group

- 8.6 The Housing Group has the powers to enter into agreements for the provision of new housing on its own land and to develop housing for sale provided it is not for profit per se but to subsidise the development of its own units within the constraints that may be laid down in its loan agreement with the Funder it has and any constraints that it may be under by the Regulators. It is understood the Regulators have not placed any restrictions on the Housing Group's ability to develop housing or to enter into any agreements for the development of housing for its own purposes etc.

In relation to the Funder and the conditions of the existing Funding Agreement those have not been seen and they do need to. The express consent of the Funder may be required as the “mortgage agreement” may also bind the land that is the subject of this proposal.

- 8.7 Therefore, there may be a charge over it in the same way as the housing stock. There may be provisions which have to be complied with i.e. formal consent to dispose of the site in whole or part to a developer or even to place within a Framework Development Agreement where parts of the land may be transferred or sold to a private developer or occupier.
- 8.8 The Board of the Housing Group will need to consider a comprehensive report on the issues and risks and analyse them prior to making a decision to proceed. The advice from all the advisors will need to be part of that. The Board could then delegate to a committee or an officer of the Housing Group the power to implement it.
- 8.9 There may be something in the rules which established the Group whereby the Council as the transferor needs to give consent and may have to write off any increase in value as the Council which the Group may ultimately obtain. The whg customers may also have a right to be consulted in light of the fact that taking away an asset from the stock could involve implications for their rents for the future. Parties are taking further legal advice in this matter.

Actions

- 8.10 Reference above to the involvement of the District Auditor has already been referred to. The Loan Agreement needs to be checked as well as the title deeds to verify the position with the Funder and an express consent from the Funder may be needed and that needs to be sought. The whg customers may also have to be consulted as may the Council as illustrated above.

Housing and Communities Agency

- 8.11 There is nothing to prevent the HCA from entering into an agreement to grant aid for the construction of dwellings in partnership with the Council and the Housing Group and it could also seek a reimbursement of grant depending upon the conditions attached to the Agreement

Reputation and Propriety

- 8.12 It is in the interests of the HCA to seek to provide dwellings to meet local needs and also be seen to be working with other partners to achieve that. For both the Housing Group and also the Council it is good news to be seen to be working in partnership, provided the various legal processes are followed; the financial arrangements are secure; and the various risks have been considered with an allowance made for them in terms of mitigation measures. A risk strategy will be produced and considered at each project board meeting to ensure that risks are clearly being seen to be managed and mitigation action taken as appropriate.
- 8.13 The process to date has followed the European procurement regime thereby securing the necessary propriety of actions. All decisions should be maintained in a file for inspection by external audit and be available for inspection by Government Office for the West Midlands if

required as evidence of the legal processes being followed and to withstand effectively any challenges that may be made.

Classification and Accounting

- 8.14 The financial process to be followed throughout the development will be set down and audit arrangements put in place to meet the Housing Group and Council requirements. This will be a condition of the grants from the HCA and AWM in any event. A framework will be developed within which all receipts can be recorded and also that any variations to assumptions made at the commencement are properly explained for the benefit of external audit. As it is unlikely that each individual development will be subject to separate tender process the need to ensure that there is clear decision making and records of decisions made need to be set down and files maintained which can be audited to verify the appropriateness of the actions taken.

- 8.15 The legal documents will make provision for how the land values will be treated, income from sales of units and development costs will be treated and also the expenditure allowance for the various aspects of the development. Accounts will be prepared and maintained with one organisation to lead on that with access to the information being available to both as well as the HCA and AWM.

- 8.16 There are no classification issues which require sign off from the Office for National Statistics and/or HM Treasury.

- 8.17 In our work for the Homes and Communities Agency in considering the accounting principles, advisors have referred to Guidance issued by HM Treasury ("HM Treasury Guidance prepared by Partnerships UK: A Guidance Note for Public Sector Bodies forming Joint Venture Companies with the Private Sector" – December 2001). Appendix D commentary reads, "acting together, the venturers control the venture and there are procedures for such joint action. Each venturer has (implicitly or explicitly) a veto over strategic policy decisions."

Tax

- 8.18 whg's tax advisors have reviewed the proposed structure and advise:

'In summary, we do not see any major tax inefficiencies in the proposed structure, and we can see no tax reason why you (whg) should not submit the current structure to the Homes and Communities Agency'.

A full copy of the Grant Thornton advice is at Appendix 6.

Explanation of JV Governance Arrangements

- 8.19 The land is owned by the Housing Group and Council. The land the Housing Group owns may be subject to clawback for development in the LSVT Agreement but the Council have resolved to remove that provision to support the SRF programme. The Funders' charge over the land needs to be checked to see what it is if any and what needs to be done to make it free of.

- 8.20 The Funders' charge over the land will be checked to establish what if anything needs to be done to make it free of incumbrances. Any other easements or covenants also need to be cleared or dealt with to ensure that the land can then be included within the Joint Venture Agreement clear of any obstacles to them taking the project forward. In effect, the land is included free of any external incumbrances to the parties requirements that need to be satisfied.
- 8.21 The Council and Housing Group will both have passed formal resolutions to proceed with the Regeneration Programme. .

How Costs will be Controlled

- 8.22 The costs will be controlled through the system which is set out within the legal documents. This is important as provision will also need to be made for the contributions which are being made by the Council and Housing Group as public bodies. If there are cost overruns, whilst the developer may seek extra subsidy from one of the public authorities it needs clearly to be said that the burden of any cost overruns will be the responsibility of the developer.
- 8.23 From a practical point of view there should be open book accounting so that the Council and whg could see where expenditure and income are and also for there to be limitations on what is deemed acceptable expenditure to be incurred as part of the project expressly provided for in the agreement.
- 8.24 In that way the developer cannot then add in any additional expenditure to the development account without the express consent of both the Council and Housing Group. The same prevails in relation to any additional expenditure that either of the public bodies wishes to incur under the development account.

Explanation of Audit and Transparency Arrangements

- 8.25 In the section above reference is made to the need to maintain a proper accountancy arrangement where there can be clear transparency of the framework of financial arrangements. That means there needs to be express provision in the agreements that the Council and whg will pay for what they will pay for and what proportions the income will be shared in to protect the integrity of both organisations and to avoid the potential challenge. If there is a challenge then there will be robust information available to defend the position.
- 8.26 Both the Council and whg will get their respective audit committee and external auditors to agree to the process and arrangements which will be in place as a matter of good practice.

9.0 Procurement

9.1 The Private Sector Partner could be one of a number of types of organisation:

- A house builder
- A building contractor or hybrid contractor/developer
- An investor (such as a bank, or property development company)

9.2 A headline analysis of the objectives of the SRF programme in the light of current market conditions for both construction and market sale activity, lead the partners to conclude that best fit for the project objectives may be gained from a hybrid contractor developer partner on the basis of the following issues:

- The appetite in the market for long run construction projects
- The value to be had in the market in terms of ability to secure competitive pricing
- The ability of the contractor/developer to take market sale risk
- The ability of the contractor/developer to offer a blended margin pitched between a contractors and developers profit.

9.3 The selection of a Private Sector Partner will be subject to an OJEU compliant procurement process detailed below. The process has been subject to informal soft market testing to facilitate proof of concept both of the procurement route and the wider programme. At this stage partners have not ruled out the potential of one or more organisations working in partnership across a range of projects. Soft market testing report is included in Appendix 4.

Procurement Process

9.4 Procurement of the private sector partner must be compliant with all EU procurement rules. Whg are considering four procurement options and wish to further discuss the most appropriate route following dialogue with the HCA in relation to availability and likely timing of investment support. The three options include:

- Competitive Dialogue
- Two stage tender
- Use of the whg contractors framework which was put in place in October 2000 and runs through to 2014
- Use of the new HCA Delivery Partner Panel for the Central Cluster.

9.5 If competitive dialogue were to be used, assurance is given that the partners have fully considered the option and the stages involved. These would be as follows:

- **OJEU notice.** Whg and the Council will issue an advert for the private sector partner they wish to procure in the Official Journal of the European Union.

- **Memorandum of Information.** The SRF partners will prepare a document describing the SRF 1 programme, phase one of the SRF1 programme, and the wider potential offered by future phases.
- **Pre-qualification.** A Pre-Qualification Questionnaire (PQQ) will be issued to all potential private sector partners who have expressed an interest in response to the OJEU.
- **Invitation to Participate in Dialogue (ITPD).** This document will start off the dialogue process with all those bidders who have pre-qualified to become the PSP. This will be used to shortlist potential private sector partners to tender from the long list of potential partners who have pre-qualified.
- **Invitation to Commence Dialogue (ITCD).** This document will contain the detail for the SRF1 initial project including the project brief.
- **Clarification and Close.** The dialogue undertaken in relation to the ITCD will end with the appointment of the preferred private sector partner.

10.0 Land and Planning

- 10.1 whg in agreement with the Council and with reference to the Homes and Communities Agency, have prepared a detailed case for the initial focus on sites in the Goscote Lane Corridor, Moxley JKL and Brownhills M. The focus on these sites has been supported by a number of activities which as a result offer more certain timescales for development to reduce the risk of identification of other factors, such as site conditions, which may impact upon development viability or timeframe. Work has been undertaken to obtain a planning consent for site M in Brownhills and work will be undertaken at Moxley on sites J,K & L to prepare planning applications during 2010.

Title Rationalisation

- 10.2 A detailed programme of activity has been undertaken to offer clean title on sites across the programme. The tasks have been identified by a Title Rationalisation team and have covered the following;
- Identify all titles within SRF
 - Amalgamate titles and extinguish covenants and easements as far as possible
 - Commission searches which a developer would ordinarily obtain and
 - Prepare an abbreviated title report for inclusion within the development brief in due course.
- 10.3 The title rationalisation task is deemed to be both desirable and necessary. It will enable legal and other constraints (and relevant solutions) to be identified where such matters would otherwise adversely impact on the costs, timescales and ability to deliver the SRF. The summary report and simplified title structure will assist developers responding to the future ITT to do so more quickly and with fewer caveats thereby offering more certainty through mitigation of risk. Significant time and costs will also be saved in the future negotiation of contracts, and in effecting future conveyances, leases or licences of each Phase.
- 10.4 The amalgamation process will also endeavour to include registration to the subsoil of all highways within each Phase. This early step will be of significant added value at the Master Planning stage and in the process of pursuing any necessary highways stopping up at a later date.
- 10.5 Over 400 separate legal titles have been identified across the Moxley, Brownhills, and Goscote SRF regions. The Title Rationalisation team is hopeful of reducing that to an aggregate of 55 by the end of the Title Rationalisation Project.
- 10.6 Work to date has included:
- Single point of contact at Land Registry appointed in respect of Land Registry Data Map Service.
 - Single Point of Contact at Land Registry (Coventry) appointed in respect of co-ordinating the title amalgamation and extinguishment of unnecessary historical rights and covenants. Land Registry Data Map Service Contract executed and

electronic data has been purchased comprising all registered titles shapes within the SRF, all title numbers, title tenure, proprietors, and charge data.

- All titles have been plotted electronically by whg by overlaying on existing OS detail.
- All charged and uncharged whg titles have been identified.
- All unregistered parcels owned by whg and WC have been identified and plotted.
- All third party registered titles have been identified (Possible CPO targets).
- All unknown, unregistered third party parcels have been identified. (Possible CPO targets).
- Separate Phases within each of the three main regions have been mapped out in a logical manner having regard to geography and title ownership.
- Land Registry Applications for the amalgamation of titles within the Goscote SRF are being collated. The Land Registry has been advised to expect applications to be submitted on the same day from both whg and WC.
- The current position and target is summarised in the table below;

| SRF Area | Current Number of Titles | Target Number of Titles (whg & WC combined) | Number of Third Party Known Titles | Number of Unknown Third Party (unregistered titles) |
|-----------------|---------------------------------|--|---|--|
| Brownhills | 71 | 16 | 4 | 10 |
| Goscote | 185 | 17 | 1 | 3 |
| Moxley | 152 | 22 | 11 | 8 |
| Totals | 408 | 55 | 16 | 21 |

10.7 In terms of tasks yet to complete, the work programme to conclude title amalgamation is:

- whg and WC Goscote amalgamation applications have been submitted to the Land Registry.
- Applications for Moxley and Brownhills will follow at appropriate intervals (taking into account the need to maintain Land Registry goodwill).
- It is estimated that each set of applications will take 6 to 8 weeks to be processed by the Land Registry.
- Thereafter each amalgamated title will be reviewed by whg and WC assisted by HBJ Gateley Wareing. Corrections (if any) will be identified and resolved at one future meeting with the Land Registry.
- Searches will be despatched via HBJ Gateley Wareing (on a Phase by Phase basis) on receipt of the amalgamated titles.
- The Title Summary Report in respect of Goscote has been prepared by HBJ Gateley Wareing. The other reports will follow in line with receipt of amalgamated titles, and

in line with the target date for submission of the Development Brief to support the OJEU process for PSP selection.

Pre Development works

10.8 In addition to the work undertaken to offer clean and amalgamated title, whg and the Council are investing significant sums in pre development activity as contributions to the project. To date, some £19m has been spent on demolitions, buybacks and homeless payments to secure vacant sites ready for development. This represents a significant level of investment largely by whg and to a lesser extent by the Council already. Both organisations have agreed that these can be considered as sunk costs at this stage and have not included them within the financial model. The investment they receive from the HCA will therefore not be covering costs such as these. If there is overage available in the future, subject to agreements with the HCA and our developer partners, whg and the Council may be able to recover some of these costs.

10.9 These fees and costs incurred to date relate to the following areas:

- Consultants fees and expenditure including costs consultants fees, financial modelling and project management fees and preparation of baseline reports for the three priority areas of Goscote, Brownhills and Moxley.
- Investment into the preparation of land use masterplans and strategies for the three areas including:
 - Goscote Framework Study- £108500 funded by EVOLVE and New Horizons Community Enterprise.
 - Moxley Framework Study-£84,810 funded by whg and Walsall Council.
 - Brownhills Environmental Strategy-£47,466 paid by Walsall Council.
 - Brownhills Land Use Masterplan- £50,000 funded by whg.
- Significant investment in demolition, home loss and buy back payments incurred by whg in terms of delivering cleared sites again minimising the risk of delay.
- Contributions from the Council towards consultants costs and other key issues such as waving entitlement to clawback (under the terms of transfer from the Council to whg the Council are entitled to clawback from proceeds of land sales in relation to any non affordable activity) and the facilitation of the Phase 1 SRF1 sites at nil consideration.
- In terms of monetary values expenditure on demolition, buybacks and home loss is as follows for Goscote sites:

| Party | Expenditure Status | Demolition £ | Buybacks £ | Home loss £ | Total |
|---------|--------------------|--------------|------------|-------------|-----------|
| whg | Spent | 3,296,976 | 3,577,553 | 1,750,000 | 8,624,529 |
| | Forecast | 618,135 | | | 618,135 |
| Council | Spent | | 2,663,289 | | 2,663,289 |

| | | | | | |
|---------------|----------|-----------|-----------|-----------|------------|
| | Forecast | | 295,921 | | 295,921 |
| Evolve Grant | | 500,000 | | | 500,000 |
| Goscote Total | | 4,415,111 | 6,536,763 | 1,750,000 | 12,701,874 |

10.10 In relation to other priority sites (Moxley and Brownhills) pre development investment has also been incurred by whg as follows:

| Party | Expenditure Status | Demolition £ | Buybacks £ | Home loss £ | Total |
|-------|--------------------|--------------|------------|-------------|-----------|
| whg | Spent | 3,045,155 | 1,002,284 | 1,903,500 | 5,950,939 |
| | Forecast | 354,933 | | | 354,933 |
| Total | | 3,400,088 | 1,002,284 | 1,903,500 | 6,305,872 |

10.11 In terms of fees for consultants including architects, financial modelling, desk top site investigation the estimated/forecast investment by whg is as follows:

- 2008/09 £114,000
- 2009/10 £587,000

Phase 1 Sites

10.12 Outputs, ownership & planning status

| Sites | No. Homes (units) | Ownership | Planning Status |
|----------------|-------------------|-----------|------------------------------|
| Goscote G | 30 | Whg | Detailed consent |
| Goscote H | 74 | Whg | Detailed consent |
| Goscote D & E | 154 | Whg | Outline to be submitted 2010 |
| Moxley J, K, L | 30 | Whg | Outline to be submitted 2010 |
| Brownhills, M | 73 | Whg | Detailed consent |

Remaining SRF1 Sites

10.13 Outputs, ownership and planning status.

| Site | No. Homes | Ownership | Planning status |
|------|-----------|-----------|-----------------|
|------|-----------|-----------|-----------------|

| | | | |
|--|-----|---------|------|
| Moxley | | | |
| Moxley A (Harrowby) | 209 | Whg | none |
| Moxley B (Castle View) | 11 | Council | None |
| Moxley C (Kendrick Place) | 10 | Council | None |
| Moxley D (Wilkinson Road) | 4 | Whg | None |
| Moxley GH&I (Infant school and adjacent sites) | 40 | Council | None |
| Moxley M N & O (Glynn Avenue) | 31 | whg | None |

| | | | |
|---------------------------------------|----|-------------|------|
| Brownhills | | | |
| Brownhills A (Silver Court) | 90 | Whg | None |
| Brownhills A2 (Silver Court shops) | 19 | Whg/Council | None |
| Brownhills B (Lindon Drive) | 21 | Whg | None |
| Brownhills C (Wessex Close) | 12 | Whg | None |
| Brownhills E – J (small sites) | 28 | Whg/Council | None |
| Site I (Deakin Avenue) | 25 | Whg | None |

| | | | |
|----------------------------------|-----|---------|------|
| Goscote | | | |
| Site A (Shakespeare Crescent) | 252 | Whg | None |
| Site B (Goscote Estate) | 385 | Whg | None |
| Site C (Dolphin Close) | 19 | Council | None |
| Site F (Blakenall) | 7 | Council | none |

Planning Risk

10.14 whg are working in partnership with the Council's Development Team to submit outline applications in relation to the remaining Goscote sites with a target date of early 2010. To support this process, whg have commissioned architects Sheppard Robson to review elements of the Goscote masterplan and prepare a Design Guide with a target date of

January 2010. Site M in Brownhills already has a detailed planning permission. Sites J, K and L in Moxley are at an early stage and architects will be appointed in early 2010 to prepare an outline application for this site.

- 10.15 The collaborative approach with the Council's Development Team minimises risk through the Team offering feedback on the outline applications prior to formal submission. Feedback is from relevant Council departments - building control, housing strategy, transport, highways secure by design and environmental.

Section 106 and Community Benefits

- 10.16 The figures included within the model for S.106 contributions have been calculated using the council's standard calculations, including Serco for education. Highways contributions have been based on estimates at this stage. To support the principle of a mixed and sustainable community SRF partners worked together to identify a list of additional community benefits that the consultants recommended would be required for the comprehensive regeneration of the 3 areas. These recommendations had been the subject of extensive consultation throughout the preparation of the land use frameworks with local residents and other relevant stakeholders.
- 10.17 It is the intention that these community benefits are delivered as part of the redevelopment of the 3 areas. This focus on community infrastructure offers the best chance of achieving the transformational change which the SRF programme aspires to deliver. It has always been the intention of whg and the Council that the cost of meeting some or all of these would be an integral element of the financial development model for each area.

VIEW

- 10.18 VIEW (Visionary Investment Enhancing Walsall), is a company limited by guarantee and registered as a charity, is a regeneration fund established in 2003 with money made available from the VAT repayment on major works undertaken by Walsall Housing Group. A management board with representation from WHG, Walsall Council, local councillors and five independent members with relevant key skills oversee the strategic direction of the fund.

The VIEW fund acts as a catalyst to facilitate activity and provide resources to a diverse range of projects. An investment strategy sets out clear guidance, investment principles and priorities for the VIEW fund. The implementation guidelines state that VIEW funded activity will be directed to projects that deliver practical actions within the Walsall Borough that support the delivery and achievement of the priority transformational projects and ultimately contribute to the overall delivery of the SRF. VIEW has already invested in Bentley, Pleck, Darlaston, Willenhall and the housing strategy. Brownhills, Goscote and Moxley remain the priority areas for investment.

The VIEW fund also has a Community Chest grants programme open to voluntary and charitable organisations. Since 2006, over £200k worth of grants has been awarded. This has helped to support a range of projects, including many community chest enterprises that have promoted social inclusion and tackled worklessness.

The VIEW fund currently has a reserve of £6m of which £2.7m is committed- therefore £3.3m is currently unallocated.

Intermediate Tenure

10.19 The need for intermediate tenures in relation to homebuy and sub market rent has been assessed as part of the development of a mix of housing and tenure commensurate with achieving the wider objectives of the SRF programme. A report detailing current demand for homebuy tenures is included at Appendix 5 of this report but in summary form the following issues have emerged in relation to the use and demand for homebuy:

- All parties are committed to the use of homebuy or other tenure models which facilitate access to ownership for lower income households.
- All parties recognise the value of such approaches to the wider SRF aims of encouraging people to locate and stay in Goscote, Moxley and Brownhills
- In terms of the current market however there are limitations that a homebuy programme can offer both in terms of the potential first time buyers and in terms of the impact on whg in terms of financial performance of the tenure.
- In terms of the purchaser, information on demand is limited to around 25 households on the Zone Agent waiting list. This is symptomatic of the low values currently applicable in Walsall and in particular market values which have been indicated for the 3 areas. Put simply there is not, at this time, an affordability gap on any scale.
- Further the mortgage lending market for homebuy requires deposits in the order of 20% as lenders take a more risk adverse approach to lending generally.
- In terms of the product, the model will require grant in terms of NAHP in the order of £20k per unit in line with the regional average, to make homebuy viable – however this amount does not make commercial sense at this stage due to the very poor cost value relationship which currently exists.
- Partners are committed to explore further works to develop a more suitable model of facilitating access to home ownership which attempts to combine minimum levels of investment in terms of NAHP funding with interventions likely to assist those on low incomes but in employment into ownership.
- On a broader scale an anticipated outcome from successful regeneration and working with a PSP to create a viable new market, will be a gradual rise in market values thereby increasing over time the affordability gap and consequently the demand for homebuy tenures.
- It is therefore expected that the overall tenure mix will be adjusted in later phases to include suitable home ownership products.

- In terms of intermediate rents, independent value and rental assessment indicates that market rents are currently below affordable rents!

Deliverability

10.20 Deliverability of the package of sites is a key strength of the SRF approach and is supported by:

- Detailed planning permission is in place for 3 sites. An architect lead team are currently reviewing the consents awarded to Goscote sites G&H to improve the scheme.
- A low risk strategy between whg and the local planning authority to engage in pre-application discussions and the development of the Goscote Lane Corridor Masterplan and Design Guide ahead of formal applications.
- The strategic alignment of whg and the Council in respect of the SRF programme.
- A nationally approved HCA Single Conversation and the invitation to prepare Walsall's Local Investment Plan that has enabled the SRF1 Outline Business case to be prepared.
- The fact that the majority of sites are in whg ownership.
- The soft market testing which has indicated support from the private sector for the wider proposal.
- The investment made by whg and the Council in terms of pre development works – for example demolition and home loss payments and the level of investment in title assimilation and site investigation work.
- The community support that exists for the regeneration programme across the three areas.
- The on-going dialogue between the Council, whg and the HCA in terms of investment priority which subject to availability of funding, the HCA have indicated that they attach to the SRF programme.
- The Council, whg and its partners have started to engage with the HCA on the principles of integrating public spending and support added value and efficiencies in the SRF areas to foster the national government agenda regarding 'total place'.

11.0 Resources – staff, advisors & development costs

Staff

- 11.1 whg and the Council have identified a range of strategic and operational resources necessary to support the project delivery and to manage the risk entailed. These resources will be joined by similar resources from the Private Sector Partner once identified. How those staff are deployed within the various governance structures is set out in Section 13 below.

Advisors

- 11.2 whg and the Council have utilised a range of advisors to develop the Business Case including HBJ Gateley Wareing advising on the legal structures, RLB who have provided cost advice, Walker Troup and BM3 architects who are leading on the outline planning, tax advisors Grant Thornton, Sheppard Robson who are leading the masterplan review of Goscote area sites and ikon who have assembled the Business Case, managed the project delivery of the Business Case and undertaken the financial modelling. Elsewhere in the report the considerable investment already in the sites has been highlighted and sufficient budgetary provision is in place for 2009/10 and 2010/11 to ensure the project can proceed subject to funding.

Finance

- 11.3 Progression of the business case for SRF1 has included close liaison with the Finance Director at whg to ensure that the scale and pace of development proposed can be afforded within the whg business plan. The plans contained in this business case have been agreed with the Finance Director.

12.0 Project Governance

12.1 whg and the Council have entered into a Collaboration Agreement and the on-going project governance arrangements will be drawn from arrangements already set out in that formal agreement.

12.2 The strategic direction and control of the SRF programme will be as follows:

Executive Group

Terms of Reference

- To deliver the vision for the regeneration of Goscote Lane Corridor, Brownhills and Moxley.
- To meet on a quarterly basis.
- To approve and monitor a Project Action Plan and timetable for the delivery of the project.
- To facilitate approvals for the delivery of the Project through Walsall Council Cabinet and whg Board.
- To ensure that appropriate Walsall Council departments and whg teams are represented on the Steering Group and its Working Groups that will enable the Project to be delivered to timetable.
- To facilitate approvals for investment from HCA and AWM Board for the Project.

Membership:

Walsall Council

- Executive Director of Regeneration
- Executive Director of Social Care and Strategic Housing
- Assistant Director, Regeneration and Housing

whg

- Chief Executive
- Managing Director
- Director of Regeneration and Development

HCA

- Area Director

AWM

- Assistant Director, Regeneration

12.3 The delivery of the project will be carried out and overseen by the following:

Regeneration Framework Steering Group

Terms of Reference

- To oversee the delivery of the Project.
- This will include the neighbourhoods of Moxley, Brownhills and Gosscote Lane Corridor.
- To meet on a monthly basis.
- To establish a Project Action Plan and the specific tasks that need to be delivered to ensure that the project progresses. To devise, oversee, manage and monitor the Project Action Plan implementation, including the review and evaluation of the potential for additional community benefits that can be delivered from this project. Ensure that as a part of the Project Action Plan includes appropriate community consultation and involvement in its implemented.
- To prepare the timeline for delivery of the Project Action Plan, the management of its delivery, reporting to the Executive Board on a quarterly basis the achievements or otherwise of key milestones.
- To manage the consultants in their delivery of the report on the alternative delivery models for the three Regeneration Framework Studies, and report to the Executive for consideration.
- To consider the financial appraisals undertaken for the 3 Regeneration Framework Studies and the implications for the partners in providing investment, where intervention is agreed as being required.
- To identify appropriate sources of investment funding that will be required to ensure that a financially viable scheme is delivered.
- To review the existing Regeneration Framework Studies for the three areas to ensure that the appropriate housing mix, type and tenure is established.
- To consider and agree on the development prospectus that is issued to potential investors/developers.
- To agree the timeline for delivery of the implementation of the 3 Regeneration Framework Studies, monitor progress and use its influence where necessary to ensure that the key milestones are achieved.
- To agree the Working Groups to be established, define the membership of each of the Working Groups and to give instructions to the Working Groups to deliver specific project tasks as required.
- To receive monthly reports from the Working Groups on progress on the specific project tasks.
- To ensure that each Working Group is provided with appropriate support from the individual organisations represented on the Steering Group to enable it to deliver the specific project tasks.
- Each Steering Group member, where relevant is expected to lead a Working Group in their specialism.

Membership:

- Walsall Council Assistant Director Regeneration
- Walsall Council Head of Regeneration Development & Delivery
- Walsall Council Regeneration Manager

- Walsall Council Housing Strategy & Partnerships Manager
- Walsall Council Head of Corporate Finance
- Walsall Council Head of Planning & Building Control
- Walsall Council Head of Strategic Regeneration
- Walsall Council Head of Property Services
- Walsall Council Head of Neighbourhood Partnerships & Programmes
- whg, Regeneration and Development Director
- whg, Head of Development
- whg, Regeneration Manager
- whg, Head of Finance
- HCA, Senior Regeneration Manager
- HCA, Regeneration Manager
- HCA, Atlas Design Champion
- AWM, Regeneration Manager

To include private sector partner as and when selected.

- 12.4 The detailed work of the project will be supported by a series of working groups as deemed necessary by the Steering Group:

Regeneration Framework Working Group(s)

Terms of Reference.

- The purpose of the Working Group(s) is to undertake specific project tasks as directed by the Steering Group for the delivery/implementation of the regeneration of Moxley, Brownhills and Goscote Lane Corridor.
- To operate within the governance arrangements for the delivery of the Project Action Plan as set out by the Steering Group.
- To meet as determined by the work programme developed by the specific working group.
- To bring any issues of concern to the attention of members of the Steering Group that would have implications for the successful delivery of the project.
- To provide written updates to the Steering Group on the progress of the specific project tasks.
- Where necessary to identify the need for external consultants and prepare project briefs for agreement by the Steering Group prior to appointing the consultant.

Membership of the Working Groups:

Membership of the Working Group(s) will be determined by the Steering Group.

Appendix 1

Project Data Sheets and Key Financial and Technical Assumptions

Methodology

The financial appraisals have been constructed from data provided by whg and their consultants notably RLB (costs and programme) and Edwards Moore & Fraser Wood (open market values). Financial appraisals for the affordable rented homes to be purchased by whg have been appraised on whg's appraisal system using key assumptions provided by whg.

The project has been constructed on the basis of:

- Whg paying the PSP the cost of building the affordable homes
- Whg being supported by sufficient Social Housing Grant in order to meet their key financial hurdle rates:
 - IRR of 6.5%
 - Breakeven NPV over 30 years
 - Payback of all loans by Year 30
- The Private Sector Partner incurs the costs of building all the homes and receives the purchase price from whg and sales proceeds from homes sold on the open market.
- The Private Sector partner receives a gross profit of 18% based on value of homes sold.
- HCA provides sufficient Gap or Infrastructure investment to maintain viability.

Data Sources

Whg has provided key project assumptions on a site-by-site basis:

- Development capacity, homes developed and mix of uses/tenures.
- Dwelling sizes
- Land Value
- Remediation costs
- Affordable rents
- Affordable housing funding and discount rates
- Management and maintenance costs for affordable housing
- Fees
- Rent inflation
- Programme
- All appraisal data and outputs (including SHG) for Brownhills site M – this includes separate accounting for Optimism Bias
- Professional fees including RSL development allowances.

RLB has provided all site cost data including the following assumptions on a site by site basis:

- Construction Cost including contractors profit and fees
- S106 Tariff Contributions
- Abnormal costs
- Highways works
- Site logistics
- External works
- Programme
- Cost contingency

Edwards Moore & Fraser Wood have provided:

- Values for residential properties

Assumptions

Assumptions include:

- Professional fees at 10.59% from whg
- Sales and Marketing fees at 2.5%
- Funding costs at RPI + 4.5% including Margins
- Contingency 5%
- Inflation (RPI) at 2.5% pa
- House Price Inflation is assumed to run at an average of 0.5% in excess of RPI
- Build cost inflation is assumed to run at 0.5% above RPI.
- Set up costs of £250,000 per development area at 2010 prices.
- Historic (sunk) costs of site preparation, demolition etc incurred by Walsall Council and whg have not been included.
- Private Sector Partner receives 1.25% Development Fee incorporated in fee calculations
- Fees include costs of architectural design (3%) and masterplanning (1%), legal fees (0.5%), structural engineer (1.5%), CDM, NHBC, planning, valuation.
- Private Sector Partner assessed at 18% on value of homes sold.
- PSP contracting return on construction of homes for sale and rent has been included by RLB in construction costs
- SDLT has not been included.
- It is assumed that the sites are readily available and developable and that they benefit from or will readily attain the planning consents for the uses and mixes identified by whg.
- On the advice of whg no time or cost has been included to allow for the requirement to secure access or purchase additional land outside whg's ownership.
- It is assumed that all sites are ready to remediate (where necessary) and develop on the basis of information supplied by whg.

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| Site Programmes | | | | | | | | | | | | |
|-----------------|------|--------|-------------|--------------|--------|----------|--------|--------|--------|-----------------|--------|--------|
| Active | Land | | | Construction | | Enabling | | Sales | | HCA Gap Funding | | |
| Y/N | WHG | HCA | RSL / Other | Start | End | Start | End | Start | End | Start | End | |
| Goscote A | Y | Jul-13 | | | Jul-13 | Sep-16 | Jul-13 | Sep-16 | Mar-15 | Jun-17 | Jul-13 | Sep-16 |
| Goscote B | Y | Oct-14 | | | Oct-14 | Sep-18 | Oct-14 | Sep-18 | Jul-17 | Jun-19 | Oct-14 | Sep-18 |
| Goscote C | Y | Jul-15 | | | Jul-15 | Jun-16 | Jul-15 | Jun-16 | Apr-16 | Jun-17 | Jul-15 | Jun-16 |
| Goscote D/E | Y | Oct-10 | | | Oct-10 | Mar-14 | Oct-10 | Mar-14 | Dec-12 | Mar-15 | Oct-10 | Mar-14 |
| Goscote F | Y | Jan-13 | | | Jan-13 | Dec-13 | Jan-13 | Dec-13 | Oct-13 | Apr-14 | Jan-13 | Dec-13 |
| Goscote G | Y | Oct-10 | | | Oct-10 | Dec-11 | Oct-10 | Dec-11 | Oct-11 | Jun-12 | Oct-10 | Dec-11 |
| Goscote H | Y | Oct-10 | | | Oct-10 | Apr-12 | Oct-10 | Apr-12 | Oct-11 | Dec-12 | Oct-10 | Apr-12 |

| Index | | Land acquisition | | | |
|-----------------------|--|------------------|-----|-------------|--------|
| | | WHG | HCA | RSL / Other | Total |
| Goscote A | | 100.0% | | | 100.0% |
| Goscote B | | 100.0% | | | 100.0% |
| Goscote C | | 100.0% | | | 100.0% |
| Goscote D/E | | 100.0% | | | 100.0% |
| Goscote F | | 100.0% | | | 100.0% |
| Goscote G | | 100.0% | | | 100.0% |
| Goscote H | | 100.0% | | | 100.0% |

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| <div>Index</div> | | Costs - Number of Units | | | | | | | | | | | |
|------------------|--|-------------------------|-------|-------|---------|---------|-------|-------|----------|-------|------------|----------------|--|
| | | Apartment | | House | | | | | Bungalow | | Commercial | Infrastructure | |
| | | 1 bed | 2 Bed | 2 Bed | 3 Bed a | 3 Bed b | 4 bed | 5 bed | 2 Bed | 3 Bed | | | |
| Goscote A | | | 20 | 115 | 25 | | 47 | 18 | 27 | | | | |
| Goscote B | | | 10 | 200 | 60 | | 58 | 19 | 38 | | | | |
| Goscote C | | | | 8 | 6 | | 4 | 1 | | | | | |
| Goscote D/E | | | 5 | 58 | 36 | | 31 | 8 | 16 | | | | |
| Goscote F | | | | 4 | 3 | | | | | | | | |
| Goscote G | | | | 5 | 17 | | 8 | | | | | | |
| Goscote H | | 2 | 40 | 4 | 19 | | 9 | | | | | | |

| <div>Index</div> | | Costs - Floor Area (sq/ft) | | | | | | | | | | |
|------------------|--|----------------------------|-------|-------|---------|---------|-------|-------|----------|-------|------------|----------------|
| | | Apartment | | House | | | | | Bungalow | | Commercial | Infrastructure |
| | | 1 bed | 2 Bed | 2 Bed | 3 Bed a | 3 Bed b | 4 bed | 5 bed | 2 Bed | 3 Bed | | |
| Goscote A | | | 1 | 1 | 1 | | 1 | 1 | 1 | | | |
| Goscote B | | | 1 | 1 | 1 | | 1 | 1 | 1 | | | |
| Goscote C | | | 1 | 1 | 1 | | 1 | 1 | 1 | | | |
| Goscote D/E | | | 1 | 1 | 1 | | 1 | 1 | 1 | | | |
| Goscote F | | | 1 | 1 | 1 | | 1 | 1 | 1 | | | |
| Goscote G | | | 1 | 1 | 1 | | 1 | 1 | 1 | | | |
| Goscote H | | 1 | 1 | 1 | 1 | | 1 | 1 | 1 | | | |

| Index | | Costs - Build cost (sale & s/o only. Rented homes discounted by £2,500 per unit) | | | | | | | | | | |
|-----------------------|--|--|--------|--------|---------|---------|---------|---------|----------|-------|------------|----------------|
| | | Apartment | | House | | | | | Bungalow | | Commercial | Infrastructure |
| | | 1 bed | 2 Bed | 2 Bed | 3 Bed a | 3 Bed b | 4 bed | 5 bed | 2 Bed | 3 Bed | | |
| Goscote A | | 73,000 | 77,158 | 85,074 | 102,320 | | 109,759 | 121,426 | 86,247 | | | |
| Goscote B | | 73,000 | 77,158 | 85,074 | 102,320 | | 109,759 | 121,426 | 86,247 | | | |
| Goscote C | | 73,000 | 77,158 | 85,074 | 102,320 | | 109,759 | 121,426 | 86,247 | | | |
| Goscote D/E | | 73,000 | 77,158 | 85,074 | 102,320 | | 109,759 | 121,426 | 86,247 | | | |
| Goscote F | | 73,000 | 77,158 | 85,074 | 102,320 | | 109,759 | 121,426 | 86,247 | | | |
| Goscote G | | 73,000 | 77,158 | 85,074 | 102,320 | | 109,759 | 121,426 | 86,247 | | | |
| Goscote H | | 73,000 | 77,158 | 85,074 | 102,320 | | 109,759 | 121,426 | 86,247 | | | |

| | | Costs - Other costs (%) | | | | | | |
|-----------------------|--|-------------------------|-------------------|------|------------------|-------|------------------|---------------|
| Index | | Contingency | Professional fees | SDLT | Developer Profit | | | |
| | | | | | Sales | Rent | Shared ownership | Shared equity |
| Goscote A | | 5.00% | 10.59% | | 18.00% | 0.00% | 0.00% | 0.00% |
| Goscote B | | 5.00% | 10.59% | | 18.00% | 0.00% | 0.00% | 0.00% |
| Goscote C | | 5.00% | 10.59% | | 18.00% | 0.00% | 0.00% | 0.00% |
| Goscote D/E | | 5.00% | 10.59% | | 18.00% | 0.00% | 0.00% | 0.00% |
| Goscote F | | 5.00% | 10.59% | | 18.00% | 0.00% | 0.00% | 0.00% |
| Goscote G | | 5.00% | 10.59% | | 18.00% | 0.00% | 0.00% | 0.00% |
| Goscote H | | 5.00% | 10.59% | | 18.00% | 0.00% | 0.00% | 0.00% |

IKON CONSULTANCY LIMITED
Walsall - Goscote
Site Micro Assumptions

| Index | | Costs - Other costs (£) | | | |
|-----------------------|--|-------------------------|----------|---------|-----------|
| | | Abnormals | Enabling | Other | Externals |
| Goscote A | | 3,763,034 | | 283,510 | 2,891,138 |
| Goscote B | | 5,897,023 | | 353,273 | 4,122,702 |
| Goscote C | | 92,240 | | 11,216 | 227,413 |
| Goscote D/E | | 3,563,176 | | 148,160 | 1,749,689 |
| Goscote F | | 14,611 | | 4,132 | 83,280 |
| Goscote G | | 257,127 | | 17,710 | 503,000 |
| Goscote H | | 562,151 | | 58,684 | 470,036 |

| Index | | Sales - Persons (No.) | | | | | | | | |
|-----------------------|--|-----------------------|-------|-------|---------|---------|-------|----------|-------|-------|
| | | Apartment | | House | | | | Bungalow | | |
| | | 1 bed | 2 Bed | 2 Bed | 3 Bed a | 3 Bed b | 4 bed | 5 bed | 2 Bed | 3 Bed |
| Goscote A | | 2 | 3 | 4 | 5 | | 7 | 8 | 4 | |
| Goscote B | | 2 | 3 | 4 | 5 | | 7 | 8 | 4 | |
| Goscote C | | 2 | 3 | 4 | 5 | | 7 | 8 | 4 | |
| Goscote D/E | | 2 | 3 | 4 | 5 | | 7 | 8 | 4 | |
| Goscote F | | 2 | 3 | 4 | 5 | | 7 | 8 | 4 | |
| Goscote G | | 2 | 3 | 4 | 5 | | 7 | 8 | 4 | |
| Goscote H | | 2 | 3 | 4 | 5 | | 7 | 8 | 4 | |

| <div>Index</div> | | Sales - Open Market Value (£) | | | | | | | | |
|------------------|--|-------------------------------|--------|---------|---------|---------|---------|---------|----------|-------|
| | | Apartment | | House | | | | | Bungalow | |
| | | 1 bed | 2 Bed | 2 Bed | 3 Bed a | 3 Bed b | 4 bed | 5 bed | 2 Bed | 3 Bed |
| Goscote A | | 60,000 | 70,000 | 90,000 | 113,000 | | 140,000 | 150,000 | 105,000 | |
| Goscote B | | 60,000 | 75,000 | 100,000 | 125,000 | | 150,000 | 160,000 | 110,000 | |
| Goscote C | | 60,000 | 70,000 | 90,000 | 113,000 | | 140,000 | 150,000 | 105,000 | |
| Goscote D/E | | 55,000 | 70,000 | 80,000 | 100,000 | | 125,000 | 140,000 | 100,000 | |
| Goscote F | | 60,000 | 70,000 | 90,000 | 113,000 | | 140,000 | 150,000 | 105,000 | |
| Goscote G | | 55,000 | 70,000 | 80,000 | 100,000 | | 125,000 | 140,000 | 100,000 | |
| Goscote H | | 55,000 | 70,000 | 80,000 | 100,000 | | 125,000 | 140,000 | 100,000 | |

| Index | | Sales - Units Mix (%) | | | | |
|-----------------------|--|-----------------------|---------|------------------|---------------|-------------|
| | | Sale | Rent | Shared ownership | Shared equity | Proof total |
| Goscote A | | 50.79% | 49.21% | 0.00% | 0.00% | 100.00% |
| Goscote B | | 45.45% | 54.55% | 0.00% | 0.00% | 100.00% |
| Goscote C | | 0.00% | 100.00% | 0.00% | 0.00% | 100.00% |
| Goscote D/E | | 47.40% | 52.60% | 0.00% | 0.00% | 100.00% |
| Goscote F | | 100.00% | 0.00% | 0.00% | 0.00% | 100.00% |
| Goscote G | | 40.00% | 60.00% | 0.00% | 0.00% | 100.00% |
| Goscote H | | 50.00% | 50.00% | 0.00% | 0.00% | 100.00% |

Appendix 2

Summary Cashflows

- All Sites
- Phase 1
- Goscote
- Moxley
- Brownhills
- Summary and cash flow of HCA Investment

| IKON CONSULTANCY LIMITED | | | | | | | | | | | | | | | |
|-------------------------------------|--|--|-----------------------|------|------|------------|------|---------------------|------|------|------|------|------|------|----------------|
| Walsall - Goscote Moxley Brownhills | | | | | | ALL PHASES | | INCLUDING INFLATION | | | | | | | |
| | | | Index | | | | | | | | | | | | |
| CONSOLIDATED CASHFLOW | | | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Project Totals |
| | | | | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
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| IKON CONSULTANCY LIMITED | | | | | | | | | | | | | | | |
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| Walsall - Goscote Moxley Brownhills | | | | | PHASE 1 | | INCLUDING INFLATION | | | | | | | | |
| | | | Index | | | | | | | | | | | | |
| CONSOLIDATED CASHFLOW | | | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Project Totals |
| | | | | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
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| IKON CONSULTANCY LIMITED | | | | | | | | | | | | | | | |
|--------------------------|--|--|--|------------|--------|--------|---------------------|--------|--------|---------|---------|--------|--------|------|----------------|
| Walsall - Goscote | | | | ALL PHASES | | | INCLUDING INFLATION | | | | | | | | |
| Index | | | | | | | | | | | | | | | |
| CONSOLIDATED CASHFLOW | | | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Project Totals |
| | | | | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Sale - Sale | | | | 0 | 1,071 | 3,801 | 3,699 | 3,916 | 6,504 | 6,936 | 9,744 | 12,720 | 6,546 | 0 | 54,937 |
| Sale - Rent | | | | 2,094 | 8,376 | 4,464 | 6,414 | 8,727 | 15,546 | 14,109 | 8,376 | 6,282 | 0 | 0 | 74,388 |
| Grant - HCA | | | | 858 | 3,432 | 1,996 | 3,204 | 3,576 | 5,076 | 4,440 | 2,532 | 1,895 | 0 | 0 | 27,009 |
| Interest received | | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 27 | 0 | 27 |
| Receipts | | | | 2,952 | 12,879 | 10,261 | 13,317 | 16,219 | 27,126 | 25,485 | 20,652 | 20,897 | 6,573 | 0 | 156,361 |
| Land | | | | | | | | | | | | | | | |
| WHG | | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| HCA | | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| RSL / Other | | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SDLT | | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Abnormals | | | | 396 | 1,620 | 1,204 | 1,758 | 2,007 | 3,102 | 2,853 | 1,812 | 1,404 | 0 | 0 | 16,156 |
| Other | | | | 24 | 96 | 60 | 96 | 132 | 210 | 195 | 108 | 81 | 0 | 0 | 1,002 |
| Externals | | | | 303 | 1,236 | 632 | 1,134 | 1,428 | 2,364 | 2,175 | 1,272 | 981 | 0 | 0 | 11,525 |
| Construction | | | | 2,652 | 10,932 | 5,848 | 9,162 | 11,709 | 19,590 | 18,036 | 10,872 | 8,397 | 0 | 0 | 97,198 |
| Contingency | | | | 132 | 540 | 288 | 462 | 591 | 990 | 906 | 540 | 423 | 0 | 0 | 4,872 |
| Professional fees | | | | 282 | 1,164 | 620 | 966 | 1,239 | 2,064 | 1,905 | 1,152 | 891 | 0 | 0 | 10,283 |
| Sales Legal | | | | 0 | 9 | 33 | 39 | 40 | 69 | 72 | 96 | 132 | 66 | 0 | 556 |
| Sales Marketing & agent | | | | 0 | 15 | 52 | 54 | 56 | 92 | 108 | 144 | 192 | 96 | 0 | 809 |
| Developer Profit | | | | 0 | 0 | 834 | 0 | 142 | 1,502 | 0 | 3,001 | 0 | 4,715 | 0 | 10,194 |
| Set-up Costs | | | | 250 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 250 |
| Interest paid | | | | 8 | 198 | 255 | 252 | 322 | 542 | 707 | 761 | 457 | 14 | 0 | 3,516 |
| Payments | | | | 4,047 | 15,810 | 9,826 | 13,923 | 17,666 | 30,525 | 26,957 | 19,758 | 12,958 | 4,891 | 0 | 156,361 |
| NET CASHFLOW | | | | -1,095 | -2,931 | 435 | -606 | -1,447 | -3,399 | -1,472 | 894 | 7,939 | 1,682 | 0 | 0 |
| OPENING BANK | | | | 0 | -1,095 | -4,026 | -3,591 | -4,197 | -5,644 | -9,043 | -10,515 | -9,621 | -1,682 | 0 | 0 |
| CLOSING BANK | | | | -1,095 | -4,026 | -3,591 | -4,197 | -5,644 | -9,043 | -10,515 | -9,621 | -1,682 | 0 | 0 | 0 |

| IKON CONSULTANCY LIMITED | | | | | | | | | | | | | | | |
|--------------------------|-------------------------|--|--|------------|-------|-------|---------------------|--------|--------|--------|--------|------|------|------|----------------|
| Walsall - Moxley | | | | ALL PHASES | | | INCLUDING INFLATION | | | | | | | | |
| Index | | | | | | | | | | | | | | | |
| CONSOLIDATED CASHFLOW | | | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Project Totals |
| | | | | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| | Sale - Sale | | | 0 | 0 | 0 | 0 | 0 | 1,413 | 11,153 | 9,283 | 168 | 0 | 0 | 22,017 |
| | Sale - Rent | | | 0 | 2,892 | 1,446 | 3,474 | 4,842 | 5,727 | 5,580 | 4,530 | 0 | 0 | 0 | 28,491 |
| | Grant - HCA | | | 0 | 0 | 0 | 990 | 1,890 | 2,658 | 2,319 | 720 | 4 | 0 | 0 | 8,581 |
| | Interest received | | | 0 | 0 | 0 | 0 | 0 | 0 | 16 | 0 | 0 | 0 | 0 | 16 |
| | Receipts | | | 0 | 2,892 | 1,446 | 4,464 | 6,732 | 9,798 | 19,052 | 14,549 | 172 | 0 | 0 | 59,105 |
| | Land | | | | | | | | | | | | | | |
| | WHG | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | HCA | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | RSL / Other | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | SDLT | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Abnormals | | | 0 | 372 | 192 | 828 | 1,176 | 1,311 | 1,449 | 936 | 0 | 0 | 0 | 6,264 |
| | Other | | | 0 | 24 | 12 | 63 | 96 | 135 | 105 | 51 | 0 | 0 | 0 | 486 |
| | Externals | | | 0 | 228 | 114 | 486 | 870 | 1,212 | 1,050 | 567 | 0 | 0 | 0 | 4,527 |
| | Construction | | | 0 | 1,944 | 996 | 4,077 | 6,768 | 9,153 | 8,622 | 4,386 | 0 | 0 | 0 | 35,946 |
| | Contingency | | | 0 | 96 | 48 | 207 | 336 | 453 | 432 | 222 | 0 | 0 | 0 | 1,794 |
| | Professional fees | | | 0 | 204 | 108 | 432 | 714 | 972 | 909 | 459 | 0 | 0 | 0 | 3,798 |
| | Sales Legal | | | 0 | 0 | 0 | 0 | 0 | 15 | 115 | 84 | 0 | 0 | 0 | 214 |
| | Sales Marketing & agent | | | 0 | 0 | 0 | 0 | 0 | 21 | 164 | 129 | 0 | 0 | 0 | 314 |
| | Developer Profit | | | 0 | 0 | 0 | 0 | 0 | 110 | 744 | 3,074 | 82 | 0 | 0 | 4,010 |
| | Set-up Costs | | | 250 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 250 |
| | Interest paid | | | 2 | 12 | 20 | 60 | 234 | 543 | 499 | 131 | 1 | 0 | 0 | 1,502 |
| | Payments | | | 252 | 2,880 | 1,490 | 6,153 | 10,194 | 13,925 | 14,089 | 10,039 | 83 | 0 | 0 | 59,105 |
| NET CASHFLOW | | | | -252 | 12 | -44 | -1,689 | -3,462 | -4,127 | 4,963 | 4,510 | 89 | 0 | 0 | 0 |
| OPENING BANK | | | | 0 | -252 | -240 | -284 | -1,973 | -5,435 | -9,562 | -4,599 | -89 | 0 | 0 | 0 |
| CLOSING BANK | | | | -252 | -240 | -284 | -1,973 | -5,435 | -9,562 | -4,599 | -89 | 0 | 0 | 0 | 0 |

| IKON CONSULTANCY LIMITED | | | | | | | | | | | | | | | |
|--------------------------|-------------------------|--|--|------------|-------|------|---------------------|--------|--------|--------|-------|------|------|------|----------------|
| Walsall - Brownhills | | | | ALL PHASES | | | INCLUDING INFLATION | | | | | | | | |
| Index | | | | | | | | | | | | | | | |
| CONSOLIDATED CASHFLOW | | | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Project Totals |
| | | | | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| | Sale - Sale | | | 0 | 0 | 0 | 0 | 0 | 2,682 | 9,600 | 3,012 | 0 | 0 | 0 | 15,294 |
| | Sale - Rent | | | 2,658 | 5,316 | 0 | 0 | 3,756 | 4,332 | 4,356 | 3,180 | 0 | 0 | 0 | 23,598 |
| | Grant - HCA | | | 0 | 0 | 0 | 0 | 2,436 | 2,424 | 1,488 | 426 | 4 | 0 | 0 | 6,778 |
| | Interest received | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 11 | 0 | 0 | 0 | 11 |
| | Receipts | | | 2,658 | 5,316 | 0 | 0 | 6,192 | 9,438 | 15,444 | 6,629 | 4 | 0 | 0 | 45,681 |
| | Land | | | | | | | | | | | | | | |
| | WHG | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | HCA | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | RSL / Other | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | SDLT | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Abnormals | | | 462 | 948 | 0 | 0 | 1,836 | 1,704 | 1,710 | 666 | 0 | 0 | 0 | 7,326 |
| | Other | | | 0 | 0 | 0 | 0 | 24 | 12 | 21 | 24 | 0 | 0 | 0 | 81 |
| | Externals | | | 204 | 420 | 0 | 0 | 708 | 888 | 594 | 324 | 0 | 0 | 0 | 3,138 |
| | Construction | | | 1,938 | 3,996 | 0 | 0 | 6,396 | 7,452 | 5,034 | 2,616 | 0 | 0 | 0 | 27,432 |
| | Contingency | | | 0 | 0 | 0 | 0 | 324 | 360 | 255 | 132 | 0 | 0 | 0 | 1,071 |
| | Professional fees | | | 0 | 0 | 0 | 0 | 684 | 792 | 534 | 276 | 0 | 0 | 0 | 2,286 |
| | Sales Legal | | | 0 | 0 | 0 | 0 | 0 | 28 | 96 | 30 | 0 | 0 | 0 | 154 |
| | Sales Marketing & agent | | | 0 | 0 | 0 | 0 | 0 | 34 | 150 | 48 | 0 | 0 | 0 | 232 |
| | Developer Profit | | | 0 | 0 | 0 | 0 | 0 | 0 | 943 | 1,862 | 0 | 0 | 0 | 2,805 |
| | Set-up Costs | | | 250 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 250 |
| | Interest paid | | | 2 | 12 | 24 | 24 | 146 | 415 | 278 | 5 | 0 | 0 | 0 | 906 |
| | Payments | | | 2,856 | 5,376 | 24 | 24 | 10,118 | 11,685 | 9,615 | 5,983 | 0 | 0 | 0 | 45,681 |
| NET CASHFLOW | | | | -198 | -60 | -24 | -24 | -3,926 | -2,247 | 5,829 | 646 | 4 | 0 | 0 | 0 |
| OPENING BANK | | | | 0 | -198 | -258 | -282 | -306 | -4,232 | -6,479 | -650 | -4 | 0 | 0 | 0 |
| CLOSING BANK | | | | -198 | -258 | -282 | -306 | -4,232 | -6,479 | -650 | -4 | 0 | 0 | 0 | 0 |

IKON CONSULTANCY LTD

WALSALL SRF1

Public subsidy - All Sites

Inf
Total2.50%
6.00%

| Public Subsidy £000's | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total | NPV |
|-----------------------|--------------------|-------|-------|-------|-------|--------|--------|--------|--------|--------|------|---------|--------|
| Total of all sites | Inflated Base Case | | | | | | | | | | | | |
| | SHG | 7,689 | 3,844 | 2,022 | 4,883 | 21,457 | 1,555 | 10,948 | 6,328 | 8,872 | 0 | 67,598 | 49,873 |
| | GAP | 858 | 3,432 | 1,996 | 4,194 | 7,902 | 10,158 | 8,247 | 3,678 | 1,899 | 0 | 42,364 | 30,844 |
| | Total | 8,547 | 7,276 | 4,018 | 9,077 | 29,359 | 11,713 | 19,195 | 10,006 | 10,771 | 0 | 109,962 | 80,717 |
| | Uninflated | | | | | | | | | | | | |
| | SHG | 7,610 | 3,664 | 1,894 | 4,294 | 19,019 | 1,330 | 9,318 | 5,467 | 7,455 | 0 | 60,051 | 50,264 |
| | GAP | 861 | 3,444 | 2,008 | 3,954 | 6,987 | 8,919 | 7,323 | 3,277 | 1,671 | 0 | 38,444 | 31,913 |
| | Total | 8,471 | 7,108 | 3,902 | 8,248 | 26,006 | 10,249 | 16,641 | 8,744 | 9,126 | 0 | 98,495 | 82,177 |
| All of Goscote | Inflated Base Case | | | | | | | | | | | | |
| | SHG | 5,127 | 664 | 1,041 | 4,883 | 12,295 | 691 | 5,573 | 0 | 8,872 | 0 | 39,146 | 28,802 |
| | GAP | 858 | 3,432 | 1,996 | 3,204 | 3,576 | 5,076 | 4,440 | 2,532 | 1,895 | 0 | 27,009 | 19,991 |
| | Total | 5,985 | 4,096 | 3,037 | 8,087 | 15,871 | 5,767 | 10,013 | 2,532 | 10,767 | 0 | 66,155 | 48,793 |
| | Uninflated | | | | | | | | | | | | |
| | SHG | 5,048 | 682 | 1,045 | 4,294 | 10,776 | 601 | 4,894 | 0 | 7,455 | 0 | 34,795 | 29,077 |
| | GAP | 861 | 3,444 | 2,008 | 3,090 | 3,321 | 4,656 | 4,071 | 2,316 | 1,671 | 0 | 25,438 | 21,319 |
| | Total | 5,909 | 4,126 | 3,053 | 7,384 | 14,097 | 5,257 | 8,965 | 2,316 | 9,126 | 0 | 60,233 | 50,396 |
| All of Brownhills | Inflated Base Case | | | | | | | | | | | | |
| | SHG | 2,562 | 1,708 | 0 | 0 | 2,762 | 547 | 3741 | 1227 | 0 | 0 | 12,547 | 9,644 |
| | GAP | 0 | 0 | 0 | 0 | 2436 | 2424 | 1488 | 426 | 0 | 0 | 6,774 | 4,786 |
| | Total | 2,562 | 1,708 | 0 | 0 | 5,198 | 2,971 | 5,229 | 1,653 | 0 | 0 | 19,321 | 14,430 |
| | Uninflated | | | | | | | | | | | | |
| | SHG | 2,562 | 1,708 | 0 | 0 | 2,456 | 455 | 3117 | 952 | 0 | 0 | 11,250 | 9,681 |
| | GAP | 0 | 0 | 0 | 0 | 2016 | 1944 | 1224 | 339 | 0 | 0 | 5,523 | 4,498 |
| | Total | 2,562 | 1,708 | 0 | 0 | 4,472 | 2,399 | 4,341 | 1,291 | 0 | 0 | 16,773 | 14,179 |
| All of Moxley | Inflated Base Case | | | | | | | | | | | | |
| | SHG | 0 | 1,472 | 981 | 0 | 6400 | 317 | 1634 | 5101 | 0 | 0 | 15,905 | 11,427 |
| | GAP | 0 | 0 | 0 | 990 | 1890 | 2658 | 2319 | 720 | 4 | 0 | 8,581 | 6,067 |
| | Total | 0 | 1,472 | 981 | 990 | 8,290 | 2,975 | 3,953 | 5,821 | 4 | 0 | 24,486 | 17,493 |
| | Uninflated | | | | | | | | | | | | |
| | SHG | 0 | 1274 | 849 | 0 | 5,787 | 274 | 1307 | 4515 | 0 | 0 | 14,006 | 11,506 |
| | GAP | 0 | 0 | 0 | 864 | 1650 | 2319 | 2028 | 622 | 0 | 0 | 7,483 | 6,095 |
| | Total | 0 | 1,274 | 849 | 864 | 7,437 | 2,593 | 3,335 | 5,137 | 0 | 0 | 21,489 | 17,602 |

IKON CONSULTANCY LTD

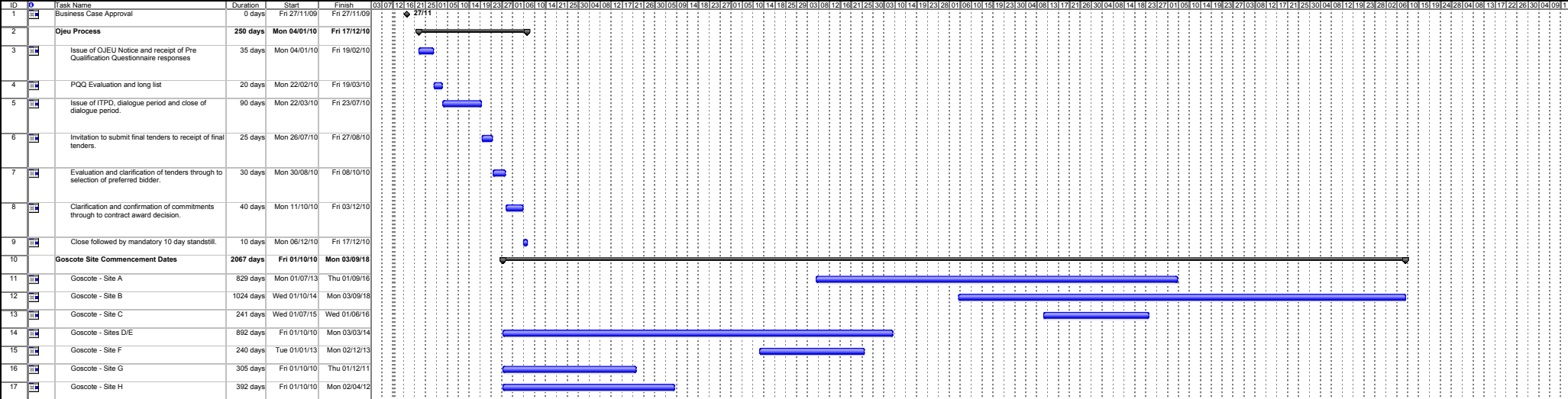
WALSALL SRF1

Public subsidy - **Phase 1**Inf
Total2.50%
6.00%

| Total of Phase 1 | Public Subsidy £000's | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total | NPV |
|------------------|--------------------------|-------|-------|-------|-------|-------|------|------|------|------|-------|--------|--------|
| | Inflated | | | | | | | | | | | | |
| | Base Case | | | | | | | | | | | | |
| | SHG | 7,689 | 3,844 | 2,021 | 0 | 3,422 | 0 | 0 | 0 | 0 | 0 | 16,976 | 14,929 |
| | GAP | 876 | 3,504 | 2,040 | 1,632 | 363 | 0 | 0 | 0 | 0 | 0 | 8,415 | 7,222 |
| | Total | 8,565 | 7,348 | 4,061 | 1,632 | 3,797 | 0 | 0 | 0 | 0 | 0 | 25,403 | 22,160 |
| | Uninflated | | | | | | | | | | | | |
| | SHG | 7,610 | 3,664 | 1,894 | 0 | 3,321 | 0 | 0 | 0 | 0 | 0 | 16,489 | 15,278 |
| | GAP | 876 | 3,504 | 2,040 | 1,632 | 443 | 0 | 0 | 0 | 0 | 0 | 8,495 | 7,753 |
| | Total | 8,486 | 7,168 | 3,934 | 1,632 | 3,728 | 0 | 0 | 0 | 0 | 0 | 24,984 | 23,000 |
| Goscote D&E,G,H | Inflated | | | | | | | | | | | | |
| | Base Case | | | | | | | | | | | | |
| | SHG | 5,127 | 664 | 1,040 | 0 | 3,422 | 0 | 0 | 0 | 0 | 0 | 10,253 | 8,858 |
| | GAP | 876 | 3,504 | 2,040 | 1,632 | 363 | 0 | 0 | 0 | 0 | 0 | 8,415 | 7,222 |
| | Total | 6,003 | 4,168 | 3,080 | 1,632 | 3,797 | 0 | 0 | 0 | 0 | 0 | 18,680 | 16,089 |
| | Uninflated | | | | | | | | | | | | |
| | SHG | 5,048 | 682 | 1,045 | 0 | 3,321 | 0 | 0 | 0 | 0 | 0 | 10,096 | 9,253 |
| | GAP | 876 | 3,504 | 2,040 | 1,632 | 443 | 0 | 0 | 0 | 0 | 0 | 8,495 | 7,753 |
| | Total | 5,924 | 4,186 | 3,085 | 1,632 | 3,728 | 0 | 0 | 0 | 0 | 0 | 18,555 | 16,975 |
| Brownhills M | Inflated | | | | | | | | | | | | |
| | Base Case | | | | | | | | | | | | |
| | SHG | 2,562 | 1,708 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,270 | 3,937 |
| | GAP | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - |
| | Total | 2,562 | 1,708 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,270 | 3,937 |
| | Uninflated | | | | | | | | | | | | |
| | SHG | 2,562 | 1,708 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,270 | 4,070 |
| | GAP | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - |
| Total | 2,562 | 1,708 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,270 | 4,070 | |
| Moxley JKL | Inflated | | | | | | | | | | | | |
| | Base Case | | | | | | | | | | | | |
| | SHG | 0 | 1472 | 981 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,453 | 2,134 |
| | GAP | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - |
| | Total | 0 | 1,472 | 981 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,453 | 2,134 |
| | Uninflated | | | | | | | | | | | | |
| | SHG | 0 | 1274 | 849 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,123 | 1,955 |
| | GAP | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - |
| Total | 0 | 1,274 | 849 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,123 | 1,955 | |

Appendix 3

Project Timetable



Appendix 4

Soft Market Testing

PRIVATE & CONFIDENTIAL

Walsall Housing Group

Walsall Strategic Regeneration Framework

Results of Soft Market Testing Exercise

Issue Date: 22nd September 2009

Version: DRAFT

1.0 Introduction

- 1.1 Ahead of the production of a Final Business Case in respect of the Strategic Regeneration Framework (SRF1) Walsall Housing Group and Walsall Council – (the project partners), wished to informally engage with potential private sector partners on a range of issues relating to appetite for large scale regeneration projects in the Walsall area.
- 1.2 To inform discussion, a brief and pro-forma response was produced to provide an introduction to the regeneration programme and capture reaction to it. The exercise was designed to achieve a number of objectives:
- Raise market awareness relating to the strategic aims of the SRF1 programme
 - Provide initial focus on Goscote as the first of potentially 3 areas of the SRF1 programme of activity
 - In terms of the first phase of activity, advise of the scale, type and timing of the programme envisaged.
 - To outline thoughts in relation to OJEU compliant procurement ahead of a formal process
 - To test appetite in the current market for competitive dialogue to meet the above objective
 - To test specifically appetite for market sale risk.

2.0 Market Sample

- 2.1 On behalf of whg and the Council, ikon agreed with the client a list of potential Private Sector Partners who may offer the scale, appetite and financial strength to engage with an exercise of this nature. Ikon and the client were particularly interested in contractor/developer hybrid company's i.e. those who could both build the affordable housing component but also take or share risk in relation to market sale activity.
- 2.2 The following list was selected as part of the process:
- Keepmoat
 - Kier Partnership Homes
 - Inspace
 - Bellway
 - Wates
 - Lovell

- 2.3 Clearance to the process was provided by project lawyers HBJ Gateley Waring on the basis that the exercise did not represent a 'way around' the OJEU process and was simply carried out to test a range of assumptions ahead of formal process.

3.0 Coverage

- 3.1 Responses were invited via pro forma, covering a number of aspects relevant to the project namely:

- Appetite for large scale regeneration
- Experience of working in the Walsall and wider West Midlands market
- Appetite for market sale risk
- Ability and willingness to engage in competitive dialogue process
- Alternative processes to engagement that might yield a satisfactory response
- Appetite for one or potentially all three regeneration areas
- Likelihood of bidding individually or with a wider consortia.

4.0 Analysis of responses

4.1 Appetite for large scale mixed tenure regeneration?

Responses from Kier, Bellway, Lovell and Wates indicated a longer-term strategic commitment to mixed tenure regeneration and a keenness to secure longer-term opportunities. Wates particular approach was based on securing Joint venture arrangements with the public sector in order to pursue those opportunities.

The only marked difference in terms of response was that of inspace who were specifically interested in securing longer term contracting opportunities within regeneration projects.

4.2 Experience of the Walsall and wider West Midlands market?

Again the responses of Bellway, Lovell, Wates and Kier all indicated either existing regional activity and/or an office based in the West Midlands area. Bellway for example is carrying out activity across four sites in Blakenall, Kier have an area office with a turn over of £25m pa and Wates is an existing partner of whg as well as working on regeneration in Coventry. Lovell are progressing a site at Beddows Road and have previously developed at Tanners Gate. Inspace are currently delivering care homes in the West Midlands for an RSL.

4.3 Appetite for medium term market sale?

Inspace response was the most negative of those received indicating medium term concerns with the viability of the Walsall market on the basis of current economic conditions, the current and forecast level of repossessions and levels of unsold stock. As part of this concern they cite the negative cost to value relationship a situation they foresee into the medium term. They propose flexible tenure as a mitigation to enable downstream recovery of value when the market picks up.

Bellway, Lovell and Kier offer a far more positive response and highlight that they see good prospects in the medium term for market sale activity in this area and that the approach is in line with their growth and wider strategic ambitions. Wates are a little more cautious and indicate that in principle they will consider market sale but will want to carefully assess the market on the basis of each opportunity.

4.4 Appetite for competitive dialogue?

All responded positively to the use of competitive dialogue process to support OJEU compliant selection criteria bar inspace and a slightly more cautious approach from Lovell. All parties are seasoned competitors in terms of competitive dialogue and would be willing to participate. All parties have sought to ensure that the process is clear and well structured.

Inspace response is that they will carefully consider competitive dialogue processes on the basis of the time and organisational impact and the opportunity costs of tying up resources in this type of process. Lovell view of the cost and time implications will be based on their assessment of potential success in securing the project.

4.5 Alternative processes to OJEU

Parties suggested procurement from the HCA's forthcoming Delivery Partner Panel, through to Joint Venture arrangements commissioned on an open book basis or alternatively a two stage tendering process.

4.6 Appetite for involvement in one or all three areas?

Bellway and Kier expressed an interest in all three sites but with an initial focus on Goscote with the ability, based on performance, to move across to deliver the other two areas on a longer-term basis. Wates were more cautious about wider involvement which would be dependant on the market in the longer term. Inspace as stated were not interested in market sale on any basis.

4.7 Bid individually or as part of consortia?

Bellway and Kier would seek appointment on an individual basis. Kier would be happy to work with others as necessary and beneficial to project stakeholders. Wates

would look to bring in a housebuilder partner to contribute market sale expertise, skills and resources to the partnership. Lovell expressed interest in pursuing all 3 sites but also would be interested in working with other parties as well.

5.0 Key Outcomes

5.1 The outcomes from this informal market testing exercise should not be overstated as there are no consequences for responding positively to the set of questions that we have raised. The target market clearly would wish to engage in a much more detailed level regarding cash flow for the project, the availability of project investment from the HCA and the risk sharing and forward funding arrangements that will apply. However the informal market test has within these confines provided positive feedback in relation to a number of key areas valuable to us in taking the project forward namely:

- That amongst the contractor/developer market there remains an appetite for longer term regeneration based projects
- That there is considerable experience of direct involvement in the West midlands market thereby giving confidence that responses are based on market knowledge and expertise.
- That with some reservations, that these companies will be prepared to take/consider medium term market sale risk
- Parties are willing to respond to and contribute towards a competitive dialogue based procurement process
- There are some alternative approaches to competitive dialogue though none were particularly advocated.
- That there is longer term appetite for longer term involvement in the three regeneration areas subject to performance on the Goscote phase and improving market conditions.
- That parties would tend to pursue opportunities on the basis of a single approach though some parties would be prepared to bring in other parties whether they be house builders or other contractors as required by project stakeholders.

6.0 Risk

6.1 The outcomes from this process provide a helpful steer of the current market reaction to an opportunity of this scale. The process has also clearly put the SRF1 programme on the radar for some of those whom we would expect to be interested in a programme of this nature. A risk remains that unless the market picks up, that contractor/developers see this as an opportunity to secure long term contracting work but seek to slow up the delivery of market sale housing or pass this risk back to

whg/Council. The dialogue process will enable this risk to be covered off and mitigated against.

Another potential risk is the financial viability of contractor/developer companies in the current market and clearly any selection process must give particular emphasis to necessary financial due diligence and on-going protections in favour of whg in particular.

7.0 Conclusion

- 7.1 The soft market testing exercise has been a valuable opportunity to brief a series of significant contractor/developer businesses in the West Midlands regarding the potential plans and opportunities presented by the SRF1 programme. All bar one have responded positively which gives considerable cause for optimism that when the OJEU notice is published to a wider market that whg and the Council can expect a strong response.

Appendix 1

Responses from those contacted

DRAFT



WALSALL SRF 1

INFORMAL SOFT MARKET TESTING

15th September 2009

Purpose

Whg and the Council have commissioned a master plan for the Goscote area of the SRF1 programme. This will be included as the basis of the approach for the competitive dialogue OJEU process. To ensure that the appointment of a JV private sector partner is properly subject to competition, we wish to test the appetite of a selection of potential PSP partners to the principle of contributing towards the development of two further master plans covering Moxley and Brownhills. This contribution will be via time and expertise and also be financial contribution.

This informal exercise is designed to test market appetite for this approach.

Name of organisation: **Lovell Partnerships Limited**

Contact Name: **Tony Bunney**

Date of contact **22 September 2009**

1. Qu. What is your appetite currently for large scale mixed tenure regeneration?

Ans Large scale mixed tenure regeneration is very much core business for Lovell both regionally and nationally, such as Camp Hill, Nuneaton and Beswick, Manchester and as such, we are very positive about any such opportunities. With regard to Affordable Housing, we are keen to work closely with partners to bring forward much needed new homes, as soon as HCA funding availability permits. With regard to Open Market Sale products, we need to take a realistic approach to sales values and the pace of sales, mindful of the current market conditions.

2. Qu. What is your experience of working in Walsall and/or the wider West Midlands market?

Ans Currently Lovell and whg have a joint Planning Application submitted for 96 mixed tenure homes at Beddows Road / Rutland Street, which is due to go to Committee in early October. Subject Section 106 requirements and HCA funding,



we are anxious to achieve a start on site as soon as possible. This scheme sits adjacent to a previous Lovell development called Tanners Gate at Wenlock Gardens.

More broadly, Lovell have extensive past and current experience across the wider West Midlands, not only with regard to mixed tenure regeneration but also Design and Build contracting and a diverse range of Refurbishment work for Affordable Housing provider clients and partners. We would be delighted to organise visits to any or a range of our current schemes, from High Rise Refurbishment works for Sandwell to New Build Bungalows at East Park, Wolverhampton for Bromford and Mixed Tenure homes at Phoenix Court, Coventry.

- 3. Qu. What is your appetite for medium term market sale activity in the Walsall based market.**

Ans Our appetite for market sale activity in Walsall is very strong, even in the shorter term and it is our intention to commence works on site at Beddows Road as soon as all aspects are in place, albeit we will prioritise the delivery of the Affordable Housing for whg. With the market conditions getting no worse, sales are being secured at reasonable values and at a slow but steady pace in our Midlands region. We anticipate a slow but gradual improvement in the market, which could be offset by reduced funding being available for Affordable Housing through the HCA. We recently submitted an offer to Walsall Council for their site at the former Redhouse JMI School, Gorsey Way, Aldridge but none of the offers received were accepted. Our intention was a Mixed Tenure scheme.

- 4. Qu. What is your appetite and willingness to engage in competitive dialogue relevant to comply with OJEU process?**

Ans This very much depends upon the cost implications and likelihood of a fruitful outcome for Lovell, as these are certainly times for being very careful with human and financial resources.

- 5. Qu. What alternative approaches to OJEU compliant procurement have worked well in your experience?**

Ans Lovell favour the adoption of a genuine open Partnering approach, sharing the risks and rewards. We know that we have much to offer potential partners but that high quality service and products have cost implications. As such, to ascertain real value for money, we favour a greater weight being attributed to the qualitative aspects and evidence of actual delivery and references being sought from current and recent partners. That said, we know that our pricing is still competitive, as we continue to secure work through competitive tender.

- 6. Qu. What would be your appetite for involvement in one or all three sites?**

Ans We would be delighted to be involved in any or ideally all three sites, be that



exclusively or as one of a number of partners, which would certainly appear necessary to achieve the implicit sales pace for Goscote. We would welcome further, more detailed information about the sites and anticipated phasing, in order that we can provide a more informed and constructive response, in due course. We would be happy to meet and discuss these sites with you and the team or perhaps visit the sites together, if you feel this would be beneficial.

7. **Qu. As relevant, are you likely to express interest in the above opportunity individually or as part of a consortia working with other developer parties?**

Ans We will certainly express our interest individually as Lovell and retain an open mind on working as part of a consortium with other developer partners, where there may be potential for a more diverse and comprehensive offer through working together.



WALSALL SRF 1

INFORMAL SOFT MARKET TESTING

15th September 2009

Purpose

Whg and the Council have commissioned a master plan for the Goscote area of the SRF1 programme. This will be included as the basis of the approach for the competitive dialogue OJEU process. To ensure that the appointment of a JV private sector partner is properly subject to competition, we wish to test the appetite of a selection of potential PSP partners to the principle of contributing towards the development of two further master plans covering Moxley and Brownhills. This contribution will be via time and expertise and also be financial contribution.

This informal exercise is designed to test market appetite for this approach.

Name of organisation: **KIER GROUP**

Contact Name: **DENNIS SEAL**

Date of contact **22/09/09**

1. Qu. What is your appetite currently for large scale mixed tenure regeneration?

Ans YES we are keen to secure longer term projects and we are looking for new opportunities at the moment.

2. Qu. What is your experience of working in Walsall and/or the wider West Midlands market?

Ans We have an office based in the area turning over circa £ 25 million pa we are keen to expand our business and consider that Walsall will offer us significant opportunity now and in future

3. Qu. What is your appetite for medium term market sale activity in the Walsall based market.

Ans YES we consider that this type of opportunity offers good prospects for the future



-
4. Qu. What is your appetite and willingness to engage in competitive dialogue relevant to comply with OJEU process?

Ans We are already in similar dialogue and are positive about it's advantages.

5. Qu. What alternative approaches to OJEU compliant procurement have worked well in your experience?

Ans Development based partnerships using JV's development agreements adopting a blended margin approach. Sharing the returns sits best with us using the skills of each party to maximum effect.

6. Qu. What would be your appetite for involvement in one or all three sites?

Ans We would be interested in all three sites.

7. Qu. As relevant, are you likely to express interest in the above opportunity individually or as part of a consortia working with other developer parties?

Ans We tend to approach most schemes at the bidding stage under the kier group banner as we have the financial capacity to do so. We prefer to work on our own but are more than happy to work with our partners to introduce other parties as and when it is considered to be in the interests of the stakeholders.



WALSALL SRF 1

INFORMAL SOFT MARKET TESTING

15th September 2009

Purpose

Whg and the Council have commissioned a master plan for the Goscote area of the SRF1 programme. This will be included as the basis of the approach for the competitive dialogue OJEU process. To ensure that the appointment of a JV private sector partner is properly subject to competition, we wish to test the appetite of a selection of potential PSP partners to the principle of contributing towards the development of two further master plans covering Moxley and Brownhills. This contribution will be via time and expertise and also be financial contribution.

This informal exercise is designed to test market appetite for this approach.

Name of organisation: Bellway Homes Limited (West Midlands)

Contact Name: Richard Stevenson

Date of contact 21st September 2009

1. Qu. What is your appetite currently for large scale mixed tenure regeneration?

Ans Bellway has and continues to be involved with large scale regeneration sites, whether mixed tenure or purely residential. Our appetite is fuelled by the success of our ongoing regeneration sites across the Country

2. Qu. What is your experience of working in Walsall and/or the wider West Midlands market?

Ans Bellway has a wealth of experience working throughout the West Midlands along with having a thorough understanding of the requirements of the market. Bellway is currently active in Walsall, developing a mixture of houses and apartments across four sites in the Blakenall Housing Renewal project



3. **Qu. What is your appetite for medium term market sale activity in the Walsall based market.**

Ans Bellway's appetite for market sale activity in the Walsall market continues to grow in both the medium and long term. Walsall, along with many other areas across the UK is price and product sensitive. Our thorough understanding of these factors within the Walsall market will enable Bellway to continue to deliver schemes which are aspirational towards prospective purchasers

4. **Qu. What is your appetite and willingness to engage in competitive dialogue relevant to comply with OJEU process?**

Ans Bellway has a successful track record of partnering through the OJEU process. Whilst competitive dialogue tends to be geared more towards the land owner than the developer partner, we are happy to proceed with this route of achieving partner status on the basis that the process is managed correctly

5. **Qu. What alternative approaches to OJEU compliant procurement have worked well in your experience?**

Ans Whilst we would be happy to explore the alternative approaches to OJEU procurement and have experience of joint venture arrangements based on an open book approach, it is our understanding that owing to the ownership of the land in question, it is highly unlikely that there will be an alternative to procurement through OJEU

6. **Qu. What would be your appetite for involvement in one or all three sites?**

Ans Bellway continues to demonstrate business growth in the medium to long term, despite the last twelve months in which the whole market has suffered. The initial focus as we understand is Goscote which has substantial scope in terms of unit numbers and fits very well with our current requirements. The opportunity to be involved in the broader programme outputs following a successful performance of the Goscote programme would be of significant interest to us also

7. **Qu. As relevant, are you likely to express interest in the above opportunity individually or as part of a consortia working with other developer parties?**

Ans It would be our intention to express interest in this opportunity on an individual basis. In our experience, this has proven to be a successful strategy in formulating submissions of this nature

Cindy Staton

From: GREEN, PHIL [Phil.Green@inspace.co.uk]
Sent: 16 September 2009 11:00
To: Chris Cheeseman
Cc: Niamh O'Brien; CARPENTER, TIM; BURNS, EAMONN; REYNOLDS, GEOFF
Subject: RE: Walsall Strategic Regeneration Framework

Chris

Thank you for sending through the Walsall Regeneration Framework brief.

As discussed earlier this morning we have considered the opportunity with our Homes division and have concerns as to the viability of the proposals. Generally we are very keen to be involved with large scale regeneration opportunities particularly on the contracting side and also from a housing for sale perspective where viable. We have recently been awarded two large schemes in Southwark and Reading, we also have recent experience in the West Midlands on both outright sale developments and contracting where we are currently delivering a £40 million care home programme for a specialist RSL.

Our concern with the Walsall opportunity is that the sale market in the area has always been marginal and has recently been affected further by the current economic climate resulting in a number of repossessions and unsold stock. We estimate that current sale values will be below build costs, therefore unless the units are heavily subsidised they will not be viable in the medium term. An option would be to develop the units on a flexible tenure basis thus giving people the opportunity to purchase in future and help create a balance of tenures, however this would require a much larger level of subsidy initially.

Therefore, we are not at this stage able to confirm our interest in the JV proposal but would be keen to be involved should the opportunity be purely contracting. We would also be happy to discuss our approach further with you if that be of help.

Regards

Phil

Phil Green
Director of Business Development

For and on behalf of
Inspace Partnerships

Inspace Regeneration and New Homes Limited
Hitchin Road
Shefford
Bedfordshire
SG17 5JS

Tel: 01462 814455
Mob: 07980 864027
Fax: 01462 816853



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From: Niamh O'Brien [mailto:Niamh.O'Brien@ikonconsultancy.com]

Sent: 15 September 2009 12:13

To: GREEN, PHIL

Cc: Carole Wildman; Nicholson Paul; Chris Cheeseman

Subject: Walsall Strategic Regeneration Framework

Dear Phil,

Please find attached a brief and proforma as part of an initial market testing exercise on behalf of Walsall Housing Group (whg) and Walsall Council.

We hope the briefing is self explanatory but if you wish to discuss further please contact myself in the first instance.

Please note the response is required by Monday 21st September.

Kind Regards,

Niamh O'Brien BSc (Hons), MBA

Project Manager

M: +44 (0)7872 813500 D: +44 (0)207 280 8133

For and on behalf of ikon Consultancy Limited



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Appendix 2

Pro forma and briefing sheet

DRAFT



Walsall Council



Walsall Housing Group

Walsall Strategic Regeneration Framework

Initial Brief for potential developer partner

ikon

Issue Date: September 2009

1.0 STRATEGIC CONTEXT

- 1.1 The Strategic Regeneration Framework (SRF) represents an initiative jointly lead by Walsall Council and Walsall Housing Group (whg), with the support of the Homes and Communities Agency, aimed at housing led regeneration in key centres and neighbourhoods in Walsall and complements the activities of the Urban Regeneration Company in the town centre areas. The Regeneration programme delivers a 10-year investment strategy with the first tranche of priorities located at Bentley, Goscote, Willenhall, Moxley and Brownhills.
- 1.2 The 3 areas of Moxley, Goscote and Brownhills have a master plan or framework study in place, which sets out recommendations for the future use of sites and identifies wider community benefits to be delivered as part of the strategy. These may include open space, infrastructure, public realm improvements and improvements to existing local amenities. Three regeneration areas have been identified as the initial tranche of activity – Moxley, Goscote and Brownhills. These areas have a master plan or framework study in place with whg as the majority landowner, aiming to deliver a large amount of affordable housing as part of the wider development of these areas. The regeneration programme will deliver over 1400 new homes plus community facilities.
- 1.3 The Strategic Regeneration Framework establishes 3 key objectives for the regeneration of the borough;
 - A high level framework that identifies the future role and function of the Borough's neighbourhoods
 - A housing strategy that addresses the regional and sub regional objectives for housing market intervention; and
 - A series of key opportunities and critical projects required to realise those objectives
- 1.4 Land will be contributed to the regeneration programme from whg with additional contributions from the Council.

- 1.5 The initial focus of the SRF activity will be focussed on Goscote area and a revised master plan is being lead by Shepphard Robson Associates to cover the available development sites.

2.0 PROGRESS TO DATE

- 2.1 The board of whg and the Council Cabinet recently agreed the basis of a suitable delivery model. The next stage of the project is the progression of a Detailed Business Case capable of satisfying HCA and CLG approval processes. The decision to approve the next stage of the project was taken on the basis of an evaluation of different types of delivery vehicle available to the parties to progress the development and secondly, at a headline level, a financial evaluation of a Joint Venture approach from which indicative levels of grant and infrastructure funding have been quantified.

- 2.2 The headline result from previous reports is that a Joint Venture vehicle was perceived to be the best way to join respective parties' interests together in a cost effective way capable of getting initial schemes to site at the earliest opportunity. Secondly that the projects would require significant levels of HCA subsidy.

- 2.3 whg and the Council have provided an agreed set of objectives which have guided the evaluation of the preferred development vehicle and which will need to be reflected in the development of the JV detail:

- A willingness to consider deferred land value rather than cash upfront to the partnership
- A partnership between whg and the Council which offers reasonable degrees of certainty (subject to performance) to the private sector partner over at least a 10 year period
- whg and Council release land gradually for the purpose of the development programme in line with available subsidy streams
- whg to manage all affordable homes and the wider communities delivered
- Flexible model to allow and adapt to market changes for example in tenure
- whg and Council wish to benefit from gain uplift in values (subject to market)
- Ability for partners to share in profit from new development (subject to market) as market recovers
- Private Sector Partner assumed to provide private sale and affordable housing and initially at least, take risk on market sale housing.
- On the above basis, achieve economies of a blended margin i.e. between a developer and contractors profit margin

- The ability to create opportunities for smaller scale local contractors and to utilise local labour and supply chains and to create local apprenticeships and employment opportunities.

3.0 INITIAL DEVELOPMENT BRIEF

- 3.1 The SRF partners will wish, subject to business case, to engage with the developer, developer/contractor market via the competitive dialogue process, to select a partner or combination of partners who will work with the Council and whg to lead the housing construction process relating to the affordable housing element of the regeneration programme and initially at least, to take market sale risk on the provision of market sale housing.
- 3.2 The initial focus of activity will be on the Goscote area of the programme which can be summarised in terms of the following headline level outputs:

| | |
|--|------------|
| Goscote | |
| Total number of dwellings | 847 |
| GN rent | 329 |
| Intermediate (S/O) | 123 |
| Market Sale | 395 |
| No. of Sites | 6 |
| Size of Phase (approximately) | 23.8 ha |
| Build cost (including externals; but excluding S106, Abnormals etc) | £89.7m |
| Construction SOS of first site | Jan 2011 |
| Construction Completion / PC of last Site | Sept 2017 |

(All figures are approximate and subject to change)

- 3.3 The Goscote activity is subject to an updated master plan which has been commissioned and paid for by the SRF partners.
- 3.4 The Partners are looking to commence a process which leads to the selection via OJEU of a partner or combination of partners to carry out the comprehensive regeneration of Goscote with the potential opportunities to introduce the further areas of Brownhills and Moxley in due course. The regeneration strategy seeks to deliver a series of objectives which include:
- Delivering high quality homes via a mixture of tenures.
 - Delivering a series of associated community benefits

- Introducing market sale housing within integrated tenure communities as part of a wider programme of regeneration based on bringing in more mixed income households
 - Developing a vibrant housing market in these three areas where people will choose to locate and stay.
 - Bring forward successful places where high quality homes for a variety of tenures are indistinguishable but located in neighbourhoods which are well designed, feature good standards of environmental sustainability and high quality and appropriate community facilities.
 - Seeking to line up a funding stream from the HCA which may cover NAHP and necessary wider subsidy to ensure the viability of activity for all parties.
- 3.5 In terms of a developer/ contractor develop partner, the Council and whg are looking to secure a partner:
- to work with the SRF partners across the three programmes but sharing the initial focus on Goscote
 - that will lead the construction of homes across the tenures
 - that will take market sale risk initially at least in the Goscote area.
 - that will share subsequent master plan and pre development costs on a reasonable basis
 - that will add and offer expertise to the creation of a series of successful new neighbourhoods with a particular focus on introducing successful market sale housing into these new neighbourhoods
 - whose expertise effectively enables risks to be identified and managed.
 - a partner that will install confidence into the range of funding partners such as the HCA whose support for the programme will be vital
 - whose financial strength is capable of supporting the programmes ambition and potential scale.
- 3.6 The Council and whg project team continue to make significant progress in bringing forward the SRF programme. In summary form progress includes:
- Carrying out full title searches and necessary amalgamations to ensure that clean title can be presented for early phases sites in Goscote.
 - Working with Shepphard Robson to develop the master plan for Goscote area

- Carrying out necessary pre development due diligence including all necessary pre development site investigations.
- Developing the business case to identify and crystallise Homes and Communities Agency support (note that HCA have been fully engaged in progress to date)
- Developing legal documentation to support the JV structure-lawyers have been commissioned for this purpose
- Working to finalise the development brief
- Fully identifying Section 106 contributions and community benefit requirements
- Liaison with a range of associated stakeholders including BSF partners.

3.7 The Detailed Business case will be prepared for consideration in October which will then enable a full scale OJEU process to commence on the basis of a competitive dialogue process. The OJEU process will commence in late 2009/early 2010.

4.0 BROADER PROGRAMME OUTPUTS

4.1 Whilst we will maintain a focus initially on Goscote, we will develop proposals for Moxley and Brownhills areas and these may provide subject to performance opportunities for the selected partner, in the same capacity and role as for Goscote. The OJEU process will allow for this.

4.1 In terms of outputs, the following provides an indication of the scale of opportunity for;

4.2.1 Moxley

| Moxley | |
|--|------------|
| Total number of dwellings | 335 |
| GN rent | 104 |
| Intermediate (S/O) | 64 |
| Market Sale | 167 |
| No. of Sites | 7 Sites |
| Size of Phase (approximately) | 9.5 ha |
| Build cost (including externals; but excluding S106, Abnormals etc) | £36m |
| Construction SOS | TBC |
| Construction Completion / PC | TBC |

4.2.2 Brownhills

| Brownhills | |
|---|------------|
| Total number of dwellings | 195 |
| GN rent | 57 |
| Intermediate (S/O) | 36 |
| Market Sale | 102 |
| No. of Sites | 6 Sites |
| Size of Phase (approximately) | 5.0 ha |
| Build cost (including externals; but excluding S106, Abnormals etc) | £21m |
| Construction SOS | TBC |
| Construction Completion / PC | TBC |

(All figures are approximate and subject to change)

5.0 TIMESCALE

- 5.1 This initial and informal market testing process does not constitute part of any formal selection process and is being conducted with parties known to the Council and whg ahead of any formal selection process. Responses will not form part of any evaluation process.
- 5.2 We would like initial responses in the same format as in the appended brief questionnaire back by midday Monday 21st September.

6.0 RESPONSE

- 6.1 ikon consultancy on behalf of the Council and whg are co-ordinating responses which should be sent in writing or via email to:

Niamh O'Brien
Ikon Consultancy
1 Great Tower St
London
EC3R 5AA

E: niamh.obrien@ikonconsultancy.com
T: 020 7280 8133
M: 07872 813 500

Any queries or clarifications should initially be raised with Niamh.



WALSALL SRF 1

INFORMAL SOFT MARKET TESTING

15th September 2009

Purpose

Whg and the Council have commissioned a master plan for the Goscote area of the SRF1 programme. This will be included as the basis of the approach for the competitive dialogue OJEU process. To ensure that the appointment of a JV private sector partner is properly subject to competition, we wish to test the appetite of a selection of potential PSP partners to the principle of contributing towards the development of two further master plans covering Moxley and Brownhills. This contribution will be via time and expertise and also be financial contribution.

This informal exercise is designed to test market appetite for this approach.

Name of organisation:

Contact Name:

Date of contact

1. Qu. What is your appetite currently for large scale mixed tenure regeneration?

Ans

2. Qu. What is your experience of working in Walsall and/or the wider West Midlands market?

Ans

3. Qu. What is your appetite for medium term market sale activity in the Walsall based market.

Ans

4. Qu. What is your appetite and willingness to engage in competitive dialogue relevant to comply with OJEU process?

Ans



5. Qu. What alternative approaches to OJEU compliant procurement have worked well in your experience?

Ans

6. Qu. What would be your appetite for involvement in one or all three sites?

Ans

7. Qu. As relevant, are you likely to express interest in the above opportunity individually or as part of a consortia working with other developer parties?

Ans

Appendix 5

Intermediate Market Report

Intermediate Housing Needs Report

Relating to:

Walsall Housing Group

Issue Date: October 2009

1.0 Introduction

- 1.1 This report aims to provide an overview of the potential role and purpose, risk and demand for intermediate market housing market tenures as part of the longer-term regeneration of Walsall areas under the Strategic Regeneration Framework 1 (SRF1).
- 1.2 In terms intermediate market products in this context we are referring to the following main product types: new build home buy, shared equity sale and intermediate rent.

2.0 Scope of Regeneration

- 2.1 Three areas within Walsall are targeted for housing lead regeneration: Goscote, Brownhills and Moxley with an initial focus on Goscote sites. In broad terms the regeneration areas can be characterised as ones in which affordable rented tenures predominate. It is a stated intention of the SRF partners to introduce via housing lead regeneration:
- Greater housing mix of tenures
 - More housing choice.
 - Market sale housing
 - Affordable housing delivering arrange of choice and affordability
- 2.2 The above objectives will encourage economically active households to live in Walsall and to remain in the area. In turn, broader strategies to address a range of deprivation indices such as health, crime and educational attainment will be contributed towards.

3.0 Scale of activity

- 3.1 The initial focus is on the Goscote area. The Strategic Regeneration Framework partners have commissioned an updated masterplan of the area, which is currently underway. This should enable them to go out to OJEU starting January 2010.
- 3.2 Goscote outputs are summarised in the table below:

| | |
|---|-----------|
| Goscote | |
| Total number of dwellings | 921 |
| GN rent | 348 |
| Intermediate (S/O)-subject to assessment | 125 |
| Market Sale | 448 |
| No. of Sites | 6 |
| Size of Phase (approximately) | 23.8 ha |
| Build cost (including externals; but excluding S106, Abnormals etc) | £89.7m |
| Construction SOS of first site | Jan 2011 |
| Construction Completion / PC of last Site | Sept 2017 |

- 3.3 Once the Goscote work is underway the partners will begin to focus in more detail on Moxley and Brownhills. In terms of outputs, the following provides an indication of the scale of opportunity for;

| | |
|---|------------|
| Moxley | |
| Total number of dwellings | 335 |
| GN rent | 64 |
| Intermediate (S/O) | 104 |
| Market Sale | 167 |
| No. of Sites | 7 Sites |
| Size of Phase (approximately) | 9.5 ha |
| Build cost (including externals; but excluding S106, Abnormals etc) | £36m |
| Construction SOS | Apr 2014 |
| Construction Completion / PC | Dec 2017 |

| | |
|---|----------|
| Brownhills | |
| Total number of dwellings | 231 |
| GN rent | 63 |
| Intermediate (S/O) | 46 |
| Market Sale | 122 |
| No. of Sites | 6 Sites |
| Size of Phase (approximately) | 5.0 ha |
| Build cost (including externals; but excluding S106, Abnormals etc) | £21m |
| Construction SOS | Apr 2014 |
| Construction Completion / PC | Dec 2017 |

3.4 In terms of currently modelling work the programme across the three areas will broaden housing tenures and choice through provision of:

- Homes for rent- subsidised rented housing allocated on basis of need
- Homes for new build home buy (a shared ownership product) where the buyer purchases equity share between 25 and 75% initially and pays a subsidised rent on the un-owned equity. Option to purchase remaining equity in stages
- Shared Equity Sale – typically a sale at 70% or more of sale price. Opportunity to buy remaining equity in future
- Market sale to be delivered initially by a private sector partner.

3.5 At this stage we have not modelled the provision of intermediate market rent though this form of tenure could provide a useful strategic contribution in its own right and/or an exit route if the demand for new build home buy for example did not improve in line with the wider market. Intermediate rent provides rented housing at 20 to 25% below market rents available on the private rented market

4.0 Eligibility

4.1 The HCA state that, New Build HomeBuy is available to existing social housing tenant, people on local authority waiting lists, key workers and those who have a priority need to housing. The scheme is also open to first-time buyers who have a combined household income of up to £60,000. You need to be able to take out a mortgage to pay for the share that you want to purchase.

4.2 In relation to shared equity there will be more opportunity to establish locally defined needs based criteria.
The Housing Corporation's 2008/11 NAHP Prospectus stated that there would be limited provision of IMR for non key workers and required RSL's to provide

supplementary information in support of their bids, demonstrating who the bid was targeted at and why IMR was needed in that locality.

- 4.3 IMR must not exceed 80% of the current local market rent. Whilst annual rent increases above RPI plus 0.5% are not prohibited, there is an expectation that any increases in excess of this amount would need to be both affordable and fair to the intended client group. In any event rents must remain at less than 80% market rent.

5.1 Regional Picture

Walsall Facts

- 5.1 ¹Walsall has a population of 253,499. The population in Walsall is predicted to decline from 253,200 in 2004 to 249,400 by 2026 due to outward migration. Over 60,000 children and young people live in Walsall and 46,000 attend school. The number of 0 – 14 year olds is projected to reduce by 7% over the next 10 years.
- 5.2 There are approximately 5,500 children living in Walsall with a disability. Figures also show that there is an ageing population. While the population is expected to decrease the number of households is due to increase due to the formation of smaller households.
- 5.3 Over 5.6% of households in Walsall are overcrowded. 9.3% of households are overcrowded in the socially rented sector, which is over twice the rate of the private sector (4.3%). As at March 2008 Walsall had 26,407 (24%) social rent properties and 82,254 (76%) in the private sector which totalled 108,724 properties.
- 5.4 Of Walsall's population aged 16 – 74, 63.2% are economically active, 6.9% of which are unemployed and 6.6% are inactive due to illness or disability.

Intermediate Demand

- 5.5 Ikon Consultancy made contact with Orbit Housing Association the current Homebuy Agents for Walsall on the 5th August 2009. Orbit provided us with a snap shot of their current database and recommended that if we require further details we contact Mercian Housing who were the Homebuy Agents from 2006 – March 2009. We did contact Mercian but unfortunately they no longer hold any of the information they gathered for during their time as Homebuy Agents. They did advise that Orbit chose not to continue maintaining their housing needs database when they took over as Agents.
- 5.6 The data included in Appendix 1 has been provided by the Zone Agent and relates to the current demand position for intermediate housing in Walsall. In our view the amount of data is limited and is affected negatively by the relatively recent appointment of Orbit as Zone Agent.

¹ Walsall Housing Strategy 2008-2011, Jan 09.

6.0 Residential Values for the following properties in Walsall

6.1 House Prices in the West Midlands have dropped – 9.3% in the past year.

²The average house price in the West Midlands is £140,737.

6.2 As part of the analysis of the three regeneration areas local Valuers have been commissioned to provide summary valuations, which in-turn have been utilised for modelling purposes for Goscote:

| Type of Unit | Site A | B | C | D&E | F | G | H |
|----------------------------|-----------|------------|-----------|---------|-----------|---------|---------|
| | mid | high range | mid | low | mid | low | low |
| 1 Bed Apartment | 60000 | 60,000 | 60000 | 55,000 | 60000 | 55,000 | 55,000 |
| 2 Bed Apartment | 70000 | 75,000 | 70000 | 70,000 | 70000 | 70,000 | 70,000 |
| 2 bed apartment wheelchair | | | | | | | |
| 2 bed house | 90000 | 100,000 | 90000 | 80,000 | 90000 | 80,000 | 80,000 |
| 3 bed house | 113000 | 125,000 | 113000 | 100,000 | 113000 | 100,000 | 100,000 |
| 3 bed house wheelchair | | | | | | | |
| 4 Bed House | 140000 | 150000* | 140000 | 125,000 | 140000 | 125,000 | 125,000 |
| 4 bed house wheelchair | | | | | | | |
| 4 bed plus | No market | 150,000 | No market | 140,000 | No market | 140,000 | 140,000 |
| 2 Bed Bungalow | 105000 | 110,000 | 105000 | 100,000 | 105000 | 100,000 | 100,000 |

7.0 Strategic role of intermediate housing

7.1 Intermediate housing products may offer the following strategic contribution in terms of the wider SRF1 programme:

- Broaden affordability through different price points
- Enable local residents who wish to remain in the area and sons and daughters of local residents an affordable route to ownership
- To enable local people to benefit in the medium terms from value growth in the area.
- Encourage new buyers into the areas as they will provide affordable access to ownership.

² These figures are averages of figures take from information provided by whg.

- Compliment and support the wider efforts to introduce a vibrant local market into areas of predominantly affordable housing.
- Compliment the wider strategy to bring in greater income diversity which, in-turn promotes and supports the local economy.
- Enable people to return to the area and local family connections and networks.
- Provide housing opportunities for vital roles serving the community such as public service key worker employees. Recruitment and retention of key workers who are vital for effective public services can be supported in this way.

7.2 The SRF partners are agreed about the potential role and value of intermediate housing but the risk of significant scale of provision needs to be taken into account across four key indicators- namely demand as evidenced, need as may be derived from the affordability gap, other market conditions namely the mortgage funding market and the tightening of lending criteria since the 'credit crunch' and finally competition from other products/sectors. Each of these issues is set out below.

8.0 Risk Assessment

8.1 Demand as evidenced

In summary the demand case from those seeking intermediate tenures in Walsall as evidenced by Orbits waiting list is very limited. There may be a number of factors relevant to that position such as the wider regional economy, uncertainty regarding employment and potentially the lack of a gap in affordability. This is a cause for concern in delivering home buy tenures on any scale.

8.2 Affordability

From the market valuation data provide by local agents one bed flats are typically accessible from £55,000 at full market value. In terms of a larger family home, these are accessible from £110000. At an income multiple of three times salary respective salaries required (after deducting a 10% deposit) would be £16,500 for a one bed flat and £33000 for a larger 3 bed home. There is at this stage and within this low value period therefore a significant concern regarding any large-scale demand for home buy as property prices would not seem to warrant a market of any scale.

8.3 Mortgage market

The intermediate market at present and in keeping with the wider mortgage market is relatively risk adverse compared to say two years ago. Lending criteria has tightened and the requirement to generate a deposit for new build home buy is particularly a challenge in line with broader issues of market confidence amongst purchasers. A thorough analysis of the market shows that at present 100% mortgages are not available and that purchaser's would require a 20% deposit based on the share of equity that they were purchasing. In addition of

course purchasers are required to meet legal fees. A summary of current criteria and range of products is included at Appendix 2.

8.4 Competition in the LCHO Market

According to a recent report published by the Tenant Services Authority (TSA), January 2009, 'Low cost home ownership and the credit crunch', there is considerable competition from private developers in the LCHO market but because of the greater concern about affordability and mortgage availability this has not caused significant concern.

Due to the wave of Private Developer Shared Equity schemes and the marketing incentives that go with them HA's have had to respond by using similar marketing tactics. Although we know there are great concerns about financing etc HA's still need to be ready to compete in the market once the economy see's an upturn.

9.0 Product Development

9.1 The suitability of existing intermediate products in a market where build costs significantly exceed value and where mortgage availability is subject to more risk averse criteria combines with a current demonstrable lack of demand for new build home buy type of products. Partners are agreed that further work on product development is required in order to:

- Meet the needs of low-income households who may wish to locate or stay in Goscote.
- Overcome the requirements of mortgage lenders in terms for example of the required level of deposit required to access finance
- Ensure that in terms of the use of NAHP funding that grant input into projects feeds through into achieving the above objectives

Appendix 1

Housing Needs Data – Provided by Orbit Housing Group

Zone Agents: - Orbit Housing Group
Walsall - Housing Needs Data
Date: - 18/08/09

| First Name | Last Name | Address Line 1 | Address Line 2 | City | Scheme | Type of Property Required | No of Beds Required | Salary | Amount of Savings (tick box) | Ethnic Origin | Age Group |
|-----------------|--------------------------------|----------------------------------|-------------------------|------------------|--|------------------------------|------------------------|-------------------|---------------------------------|------------------|-----------|
| Adam | Reynolds | 44 Ashbury Close | Turnberry Estate | Walsall | Shared Ownership, New Build Homebuy (part rent, part buy), OwnHome - Places 4 People | House | 2 | £20,000 - £29,999 | £0 - £4,000 | White British | |
| AMIE | HUGHES | 12 MEDWAY ROAD | BROWNHILLS | WALSALL | New Build Homebuy (part rent-part buy),First Time Buyers Initiative,My Choice H | House,Flat | 2 | £10,000-£19,999 | £0-£4,000 | White-British | |
| ANNA | PHILLIPS | 10 WILLOWS ROAD | | WALSALL | My Choice Homebuy | Flat | 2 | 21373 | 6000 | £4,001-£8,000 | |
| CRAIG | MCNEILL | 24 WATERSIDE WAY | NA | WALSALL | First Time Buyers Initiative | Flat | 2 | £20,000-£29,999 | £0-£4,000 | White-British | |
| DAVID & SABRINA | JONES | 19 SIMMONDS CLOSE | BLOXWICH | WALSALL | My Choice Homebuy,Own Home | House | 3 | £20,000-£29,999 | £4,001-£8,000 | Black-Caribbean | |
| EMMA | THOMPSON AND SHUAN | 109 BILSTON LANE | | WILLENHALL | NA | House | 2 | £10,000-£19,999 | £25,000 plus | White-British | |
| Gemma | Powell | 8 Riddings Cresent | | Walsall | Homebuy, My Choice Homebuy, New Build Homebuy (part rent, part buy), Own Home | Apartment | 2 | £20,000 - £29,999 | £0 - £4,000 | White British | |
| HANNAH | LIGHT & ROUND NICHOLAS | 16 Foley Court | | Sutton Coldfield | New Build Homebuy (part rent-part buy),First Time Buyers Initiative,My Choice H | House | 3 | £30,000-£39,999 | £0-£4,000 | White-British | |
| HAYLEY | JONES | 61 THORNBURY ROAD | | WALSALL | New Build Homebuy (part rent-part buy),My Choice Homebuy,Own Home | House | 2 | £20,000-£29,999 | £0-£4,000 | White-British | |
| Helen | Simkins & Mr Shaun Reeves | Apartment 110, Smiths Flour Mill | 71 Wolverhampton Street | Walsall | New Build Homebuy (part rent-part buy) | House | 2 | £40,000-£49,999 | £0-£4,000 | White-British | 25-39 |
| Jennie | Dalton | 30 Springfields | | Walsall | New Build Homebuy (part rent, part buy), Rent to HomeBuy | House,Flat | 2 | £20,000-£29,999 | 0 | White-British | |
| Jocelyn | Carter | 47 Tintern Way | | Walsall | ,"NA" | House | 3 | £20,000-£29,999 | 0 | White-British | |
| JOSHUA | HUFTON & ASHLEY STEPHANIE | 63 BRIDGEWATER CLOSE | WALSALL WOOD | WALSALL | Own Home | House | 2 | £30,000-£39,999 | £0-£4,000 | White-British | |
| Laura | Hume & Mr Oliver Ellis-Gleeson | 10 Bransdale Road | Clayhanger | Walsall | 1st Time Buyers Initiative, Homebuy Direct, My Choice Homebuy | Not yet known | 2 | £20,000 - £29,999 | Not yet known | White British | |
| LAWRENCE | CHAVUNGAMA | 337 DARLASTON ROAD | | WALSALL | New Build Homebuy (part rent-part buy) | Flat | 2 | £20,000-£29,999 | £0-£4,000 | Black-African | |
| Leon | Phillips | 19 Knavescastle Avenue | | Walsall | New Build Homebuy (part rent, part buy) | Apartment | 2 | £10,000 - £19,999 | £4,001 - £8,000 | White-British | |
| Lisa | Parton & Mr Nigel Davies | 23 Planetree Road | Streetly | Sutton Coldfield | First Time Buyers Initiative (FTBI), Homebuy Direct, My Choice Homebuy, New Build Homebuy (part rent, part buy), | House | 2 | £10,000 - £19,999 | £0 - £4,000 | White-British | |
| LORRAINE | TAYLOR | 4 BARIOS LANE | RUSHALL | WALSALL | New Build Homebuy (part rent-part buy),First Time Buyers Initiative,My Choice H | House | 2 | £10,000-£19,999 | £0-£4,000 | White-British | |
| Nicholas | Nembhard and Miss Chantal | 88 Roebuck Road | Leamore | Walsall | Not Yet Known | House | 3 | £50,000 - £59,999 | £0 - £4,000 | Black Caribbean | |
| Paul | Williams & Ms Anita Cutler | 117 Balmoral Drive | Short Heath | Willenhall | First Time Buyers Initiative (FTBI), My Choice Homebuy, New Build Homebuy (part rent, part buy) | House | 2 | £30,000 - £39,999 | £8,001 - £12,000 | White British | |
| Robbie | Fraser | 4 Linley Close | Aldridge | Walsall | All Schemes | House | Not yet known | 19000 | 5000 | White-British | |
| SAMSON | YU & BETTY | 61 BARROW CLOSE | WALSALL WOOD | | New Build Homebuy (part rent-part buy),First Time Buyers Initiative,Homebuy Dir | House | 3 | £40,000-£49,999 | £0-£4,000 | Other-Chinese | |
| Sarah | Bourke & Mr Sean Lynch | 81 Mountsford Crescent | Aldridge | Walsall | Not Yet Known | Not yet known | 2 | £10,000 - £19,999 | £0 - £4,000 | White British | |
| SPENCER | CICERO | 119 THE BRIARS | | WALSALL | New Build Homebuy (part rent-part buy),Intermediate Rent,First Time Buyers Init | House,Bungalow | 2 | £30,000-£39,999 | £4,001-£8,000 | question refused | |
| Stephanie | Ashley and Joshua Hufton | 63 Bridgewater Close | Wallsall Wood | Wallsall | 1st Time Buyers Initiative, Homebuy Direct, My Choice Homebuy, Not Yet Known, OwnHome - Places 4 People | Not yet known | 2, Not yet known | £20,000 - £29,999 | £4,001 - £8,000 | White British | |
| WAI | OR & MEI LAM | 27 LEIGH CLOSE | | WALSALL | New Build Homebuy (part rent-part buy),Intermediate Rent,First Time Buyers Init | House,Flat | 2 | £10,000-£19,999 | £16,001-£20,000 | Other-Chinese | |

Appendix 2

Summary of Mortgage Products

SPF Sherwins
Affordable Housing Mortgage Rates
(For internal use only)
7th September 2009

Shared Ownership

| Lender | Payrate | Until | Max LTV | Fee | ERC | Code | Overpay | Max LTV for Newbuilds |
|-----------------------------|----------------|------------------------------|----------------|--------------------------|-------------------------------|---------------|----------------------|--|
| ABBEY | 4.18% | Fix for 24 months | 70% | £995 on app | 3% plus benefit | F859H | 10% per Annum | Free valuation + £250 cashback |
| NATIONWIDE | 4.58% | Fix for 24mths | 75% | £896 (+ £99 booking fee) | 3% of loan for 24mths | | Up to £500 per month | Flats 75% Houses 85% Valuation shows resale value |
| NATIONWIDE | 4.68% | Fix for 24mths | 75% | £500 (+ £99 booking fee) | 3% of loan for 24mths | | Up to £500 per month | Flats 75% Houses 85% Valuation shows resale value |
| HALIFAX | 4.89% | Fix until 30/11/11 | 75% | £499 | 3%/25 of loan until 30/11/11 | FRH556 | 10% per annum | 80% |
| WOOLWICH | 5.99% | Fix until 31/10/11 | 80% | £999 | 3% of loan until 31/10/11 | Q6N | No overpayments | Woolwich Traditional product |
| NATIONWIDE First time buyer | 6.03% | Fix for 36mths | 85% | £646 (+ £99 booking fee) | 4% of loan for 36mths | | Up to £500 per month | Flats 75% Houses 85% Valuation shows resale value |
| WOOLWICH | 6.39% | Fix until 31/10/12 | 80% | £999 | 3% of loan until 31/10/12 | L6U | No overpayments | Woolwich Traditional product |
| LEEDS BS | 6.64% | SVR+1.15% tracker for 60mths | 80% | £99 | 2/3/3/2/2% of loan for 60mths | | No overpayments | £250 cashback. Valuation shows resale value |
| HALIFAX | 6.64% | Fix until 30/11/11 | 85% | £999 | 3%/2% of loan until 30/11/11 | FRH654 | 10% per annum | 80% |
| WOOLWICH | 6.99% | Fix until 31/10/12 | 85% | £999 | 3% of loan until 31/10/12 | R6Q | No overpayments | Woolwich Traditional product |
| LEEDS BS | 7.89% | Fix until 30/09/12 | 80% | £199 | 4/3/2% of loan until 30/09/12 | | No overpayments | Free Val (Max £335). Valuation shows resale value |

FTBI

| | | | | | | | | |
|-----------------------------|--------------|--------------------|-----|--------------------------|--------------------------------|---------------|----------------------|--|
| HALIFAX | 4.49% | Fix until 30/11/11 | 60% | £999 | 3%/2% of loan until 31/11/11 | FRH643 | 10% per annum | 80% |
| NATIONWIDE | 4.58% | Fix for 24mths | 75% | £896 (+ £99 booking fee) | 3% of loan for 24mths | | Up to £500 per month | Flats 75% Houses 85% Valuation shows resale value |
| NATIONWIDE | 4.68% | Fix for 24mths | 75% | £500 (+ £99 booking fee) | 3% of loan for 24mths | | Up to £500 per month | Flats 75% Houses 85% Valuation shows resale value |
| HALIFAX | 4.89% | Fix until 30/11/11 | 75% | £499 | 3%/25 of loan until 30/11/11 | FRH556 | 10% per annum | 80% |
| NATIONWIDE First time buyer | 6.03% | Fix for 36mths | 85% | £646 (+ £99 booking fee) | 4% of loan for 36mths | | Up to £500 per month | Flats 75% Houses 85% Valuation shows resale value |
| HALIFAX Exclusive | 7.19% | Fix until 30/11/14 | 90% | £999 | 5%/4%3% of loan until 31/07/14 | FRH577 | 10% per annum | 80% |
| LEEDS BS | 7.89% | Fix until 30/09/12 | 80% | £199 | 4/3/2% of loan until 30/09/12 | | No overpayments | Free Val (Max £335). Valuation shows resale value |

| Homebuy Direct | | | | | | | | |
|--------------------------------|--------------|-----------------------|-----|--------------------------------|-----------------------------------|---------------|-------------------------|--|
| NATIONWIDE | 4.58% | Fix for 24mths | 75% | £896 (+ £99 booking fee) | 3% of loan for 24mths | | Up to £500 per month | Flats 75% Houses 85% Valuation shows resale value |
| NATIONWIDE | 4.68% | Fix for 24mths | 75% | £500 (+ £99 booking fee) | 3% of loan for 24mths | | Up to £500 per month | Flats 75% Houses 85% Valuation shows resale value |
| RBS | 4.59% | Fix until 30/07/12 | 70% | £199 | 3% until 30/07/12 | | 10% per annum | |
| HALIFAX | 4.89% | Fix until 30/11/11 | 75% | £499 | 3%/25 of loan until 30/11/11 | FRH556 | 10% per annum | 80% |
| RBS | 5.89% | Fix until 31/08/12 | 80% | £199 | 3% until 31/08/12 | | 10% per annum | |
| NATIONWIDE First time buyer | 6.03% | Fix for 36mths | 85% | £646 (+ £99 booking fee) | 4% of loan for 36mths | | Up to £500 per month | Flats 75% Houses 85% Valuation shows resale value |
| RBS | 6.29% | Fix until 31/07/13 | 85% | £199 | 3% until 31/07/13 | | 10% per annum | |
| HALIFAX Exclusive | 7.19% | Fix until 30/11/14 | 90% | £999 | 5%/4%3% of loan until 31/07/14 | FRH577 | 10% per annum | 80% |
| MyChoice Homebuy | | | | | | | | |
| NATIONWIDE | 3.98% | Fix for 24mths | 60% | £896 (+ £99 booking fee) | 3% of loan for 24mths | | Up to £500 per month | Flats 75% Houses 85% Valuation shows resale value |
| NATIONWIDE | 4.58% | Fix for 24mths | 75% | £896 (+ £99 booking fee) | 3% of loan for 24mths | | Up to £500 per month | Flats 75% Houses 85% Valuation shows resale value |
| NATIONWIDE | 4.68% | Fix for 24mths | 75% | £500 (+ £99 booking fee) | 3% of loan for 24mths | | Up to £500 per month | Flats 75% Houses 85% Valuation shows resale value |
| RBS | 4.59% | Fix until 30/07/12 | 70% | £199 | 3% until 30/07/12 | | 10% per annum | |
| HALIFAX | 4.89% | Fix until 30/11/11 | 75% | £499 | 3%/25 of loan until 30/11/11 | FRH556 | 10% per annum | 80% |
| RBS | 5.89% | Fix until 31/08/12 | 80% | £199 | 3% until 31/08/12 | | 10% per annum | |
| NATIONWIDE First time buyer | 6.03% | Fix for 36mths | 85% | £646 (+ £99 booking fee) | 4% of loan for 36mths | | Up to £500 per month | Flats 75% Houses 85% Valuation shows resale value |
| RBS | 6.29% | Fix until 31/07/13 | 85% | £199 | 3% until 31/07/13 | | 10% per annum | |

Base Rate 0.5%

Appendix 6

Grant Thornton Tax Letter

Our Ref AR/ALS

Ms C Wildman
Walsall Housing Group
8th Floor, Tameway Tower
Bridge Street
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WS1 1JZ

13 October 2009

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Dear Carole

GOSCOTE, BROWNHILLS & MOXLEY REGENERATION

We understand that Walsall Housing Group (whg) and Walsall Metropolitan Borough Council (Walsall) are proposing to redevelop a number of sites with a private sector partner (PSP). The sites will be developed into homes for affordable rent, and also for sale on the open market.

The proposed structure has been outlined by Callum Nuttall in his email to us of 9 October 2009, which was copied to you. Briefly, the structure involves the redevelopment of areas of land that are currently owned by whg and Walsall, with the land owned by Walsall being transferred to whg before the development gets under way. Whg will grant to the PSP a building lease in relation to the land that will be developed into properties for sale on the open market, for a consideration of £1 plus overages. The PSP will construct the homes for affordable rent on the remaining land, which is to be retained by whg, for which whg will pay the PSP full consideration under a construction contract.

You have asked for our advice on the above arrangements on an "in principle" basis for the purpose of your submission to the Homes and Communities Agency, on the understanding that the actual tax analysis will need kept under review as the commercial negotiations with the PSP progress, and in light of any future changes to tax law.

Summary of our view of the tax implications of the proposals

In summary, we do not see any major tax inefficiencies in the proposed structure, and we can see no tax reason why you should not submit the current proposed structure to the Homes and Communities Agency.

There are, however, a number of issues that will need to be kept under review in order to minimise the potential tax costs and risks in the future. While not wishing to go into the technical detail now, we have highlighted some of these below:

- If both whg and Walsall are contributing land and are sharing in the profits from the venture (by sharing in the overages payable by the developer), care will be needed to avoid any suggestion that Walsall and whg are acting in partnership. The corporation tax, VAT and stamp duty land tax issues could then get very complicated indeed, with potentially significant tax costs. In order to prevent a partnership arrangement, it might for example be preferable for whg to receive all overages from the PSP, and to pass a proportion of the overages on to Walsall by way of deferred consideration for the acquisition of the land from Walsall.

Chartered Accountants

Member firm within Grant Thornton International Ltd

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A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

- Whg will probably be subject to corporation tax on its share of the overages received from the PSP. If whg's share of the overages is expected to be significant, consideration might be given to structuring the arrangements such that the land to be developed into properties for sale on the open market is sold by whg to WHG Trading Limited, which would then enter into the building lease with the PSP. WHG Trading Limited would then receive the overages and pay them to whg by way of gift aid.
- We would suggest that you establish at an early stage whether Walsall intends to "opt to tax" the land that it is to transfer to whg. If Walsall does "opt to tax" the land, and VAT is charged by Walsall on the transfer of the land to whg, then:
 - to the extent the VAT relates to land that is to be developed into affordable homes, the VAT charged by Walsall will not be recoverable by whg. That is, the VAT will increase whg's costs associated with the development.
 - to the extent the VAT relates to land that is to be leased to the developer, the VAT will only be recoverable by whg if whg also "opts to tax" the land and charges VAT on the sale of the land to the developer. This may enable whg to reclaim some of the VAT it has incurred in relation to those sites in the last six years.
- The cost of building infrastructure works and common areas will be zero-rated or standard-rated, depending on the nature of the work. For example, new roads constructed within the perimeter of a new housing estate will be zero-rated, while the construction of play areas will be standard-rated. As whg will not be able to reclaim any VAT charged, a proportionate contribution might be sought from the PSP to cover these costs.
- If whg has incurred VAT on demolition costs since 1 April 2006 on sites where it will now be having homes constructed for itself to let, then it can ask the demolition contractor to issue a VAT credit note, so that whg can in effect get the VAT back again.
- Care will need to be taken if whg acquires land from Walsall and whg subsequently undertakes, say, site clearance or demolition work on the land, thereby increasing the value of the land prior to its onward sale to the developer. This could give rise to liabilities to corporation tax in whg. We would generally suggest that if possible such work be undertaken by the developer, following their acquisition of the site from whg.

I trust the above is sufficient for your immediate purposes. If, however, there is anything that you would like to discuss in more detail, please let me know.

Yours sincerely



Alex Skinner
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For Grant Thornton UK LLP

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Appendix 7

Market Appraisal



REPORT PREPARED FOR



BY

CHRIS W EDWARDS FNAEA
Managing Partner
Edwards Moore, The Estate Agency

ANDREW PERRIN MRICS
Director
Fraser Wood Ltd

September 2009

THE BRIEF

To review our report produced in February 2009 and in addition comment on the following

- 1) Has the market changed, ie prices, supply and demand
- 2) The availability of Mortgage Finance

WHG

BROWNHILLS

| Type of Unit | Market Sale £ | Market Rent £PCM | Social Rent £ PCM | Intermediate RENT | |
|-----------------|---------------------|---------------------|----------------------|----------------------|--|
| 1 Bed Apartment | £57,500 -£ 67,500 | £ 375.00 | £ 275.00 | £ 300.00 | |
| 2 Bed Apartment | £70,000 -£75,000 | £ 425.00 | £ 325.00 | £ 340.00 | |
| 2 bed house | £90,000 - £110,000 | £ 425.00 | £ 325.00 | £ 340.00 | |
| 3 bed house | £100,000 - £140,000 | £ 475.00 | £ 375.00 | £ 400.00 | |
| 4 Bed House | £130,000 -£ 200,000 | £ 550.00 | £ 450.00 | £ 440.00 | |
| 5 Bed House | £160,000 - £250,000 | £ 600.00 | £ 500.00 | £ 480.00 | |
| 2 Bed Bungalow | £110,000 -£150,000 | £ 450.00 | £ 350.00 | £ 360.00 | |
| TOTAL | | | | | |

SITE A, A2 & B

40% Market sale, 35% Social Rent and 25% intermediate housing
Close to town centre location, apartments already exist so no addition required. Good mix of 2, 3 and 4 bed accommodation required
A2 towards lower end of scale while A and B towards middle of price range.

SITE C

Intermediate and Market Sale Bungalows, ie close to High Street, walking distance etc
Mid price range

SITE D LANDSCAPED -PARKING

SITE E, F & J

2 and 3 bedroomed social and intermediate - mid price range

SITE G

No access. Green space until access can be obtained

SITE H & I

Market sales 60% Social 30% Intermediate 10%
Mix of accommodation from 2 to 5 bedrooms, town houses, semi detached and detached. Top end of price structure.
Maybe some apartments for Intermediate

MOXLEY

| Type of Unit | Market Sale £ | Market Rent | | Social Rent | | Intermediate | |
|-----------------|---------------------|-------------|--------|-------------|--------|--------------|--|
| | | £PCM | £ | £PCM | £ | RENT | |
| 1 Bed Apartment | £45,000 - £50,000 | £ | 325.00 | £ | 250.00 | £ 260.00 | |
| 2 Bed Apartment | £60,000 -£ 70,000 | £ | 400.00 | £ | 325.00 | £ 320.00 | |
| 2 bed house | £80,000 - £100,000 | £ | 400.00 | £ | 325.00 | £ 320.00 | |
| 3 bed house | £100,000 - £125,000 | £ | 450.00 | £ | 375.00 | £ 360.00 | |
| 4 Bed House | £125,000 - £160,000 | £ | 475.00 | £ | 450.00 | £ 380.00 | |
| 5 Bed House | £140,000 - £200,000 | £ | 500.00 | £ | 475.00 | £ 400.00 | |
| 2 Bed Bungalow | £100,000 - £110,000 | £ | 375.00 | £ | 350.00 | £ 300.00 | |
| TOTAL | | | | | | | |

SITE A

Market Sales 70% Social Housing 10% and Intermediate 20%
Mix of 2,3 & 4 bedroom accommodation. Town houses - detached. Top of price range.

SITE B

Market sales 2 and 3 bedroom town houses and semis. Mid price range

SITE C

Bungalow intermediate and social 50% each. Mid range

SITE D

Social 2 & 3 Bed

SITE G, H & I

Social Housing 70% Intermediate 30%. 2& 3 bedroom. Mid price range

SITE J

50% Social Housing . 50% Intermediate. 2,3 & 4 bed town houses and semis

SITE L

Social 100% 20% apartments, 80% 2& 3 bed town houses and semis.
Bottom of price range

SITE M, N & O

Social 100% 2 & 3 beds

Goscote

| Type of Unit | Market Sale £ | Market Rent £PCM | Social Rent £ PCM | Intermediate RENT | |
|-----------------|---------------------|---------------------|----------------------|----------------------|--|
| 1 Bed Apartment | £55,000-£60,000 | £ 375.00 | £ 275.00 | £ 300.00 | |
| 2 Bed Apartment | £70,000 - £75,000 | £ 435.00 | £ 335.00 | £ 350.00 | |
| 2 bed house | £80,000 - £100,000 | £ 425.00 | £ 325.00 | £ 340.00 | |
| 3 bed house | £100,000 - £125,000 | £ 450.00 | £ 350.00 | £ 360.00 | |
| 4 Bed House | £125,000 - £160,000 | £ 475.00 | £ 450.00 | £ 380.00 | |
| 5 Bed House | £140,000 - £200,000 | £ 500.00 | £ 475.00 | £ 400.00 | |
| 2 Bed Bungalow | £100,000 - £110,000 | £ 375.00 | £ 350.00 | £ 300.00 | |
| TOTAL | | | | | |

SITE A, D & D2

Market Sales 47.50% Social Housing 40% Intermediate Schemes 7.5%
Market Sales should represent a complete cross section of homes from 2 bedroom town houses to larger 4 and even 5 bedroom accommodation. Sales Prices are likely to be towards the bottom end of the price range

SITE B

Market Sales 62.5% Social Housing 30% Intermediate Schemes 7.5%
Market Sales should represent a complete cross section of homes from 2 bedroom town houses to larger 4 and even 5 bedroom accommodation. Sales Prices are likely to be bottom to mid price range

SITE C

Social 2& 3 bedroom

SITE E

100% Market Sales
3 bedroom semis at top end of price range

SITE F

Social housing 2 and 3 bedroom

3. To provide a view on the viability of the intermediate market tenures, such as shared ownership and “rent to buy” and intermediate rents in Walsall, given the context of current market conditions

The current situation of limited credit combined with unemployment and lower salaries, will we believe, increase the demand for Intermediate market tenures over the next few years. The aspirations of the younger generation are, as we see it, fundamentally unchanged from previous generations ie to own their own home.

The differences are though, the age at which they aim to do it and the affordability. Part buy, part rent schemes are an obvious choice to gain a foot hold on the property ladder, at an affordable level.

We feel that as mortgage funds become more readily available, the demand for such schemes may increase.

“Rent to buy” or “try before you buy” schemes are becoming more common, thus giving the would be first time buyers a vehicle by which to provide their own deposit over a number of months and take them away from the social housing register.

4. Values and Yields for Commercial Properties in Walsall

Industrial £236.00 to £592.00 per sq m (£22.00 to £55.00 per sq ft) Freehold yield 9-10%.

Offices £753.00 to £1345.00 per sq m (£70.00 to £125.00 per sq ft) Freehold yield 8-9%.

Retail – Suburban approximately £1184.00 to £1775.00 per sq m (£110.00 to £165.00 per sq ft) ITZA Freehold yield 8.5-10%.

Retail – Town Centre – Prime approximately £11,567.00 to £13,450.00 per sq m (£1075 to £1250 per sq ft) ITZA Freehold yield 7.5-8.5%.

5. An estimate of market conditions over the next 6 months (has the market changed)

We would consider that the twelve months from February 2009 to 2010 will not be as harsh and we previously reported. This we feel is due to a media lead impression of recovery. There is still a real threat of further redundancies locally which may have the effect of curtailing the level of recovery in the Walsall area.

Mortgage finance is still a major barrier and this will be outlined in a separate section of this report.

It is our opinion, that the demand for most house types is on the increase for the first time in over 12 months. This can be quantified by the increase in viewings, although this has yet to materialise in proceedable sales.

House prices have started to level out and although we see further decreases in the value of apartments, due mainly to the persistent over supply and lack of demand, we do not envisage further dramatic falls in the price of the housing stock. Our prediction that it could be between eight and ten years before we are back to the property prices of the Summer 2007 is still likely.

6. To differentiate between movements in values for different property types and within defined areas in Walsall, recognising the difference between East and West of the Borough

We consider that there is a higher concentration of higher priced properties in the East of the Borough, which would include areas of Aldridge, Streetly, Pelsall and Brookhouse/South Walsall, compared to the Willenhall, Darlaston and Moxley areas. Even in a difficult market there are sales being agreed at sensible levels. To the West of the Borough, mainly terraced/semi-detached houses that have been mainly built in the last fifty to a hundred years ago, although, of course, in recent years there have been Brown Field Sites that have been developed that have a mixture of apartments, town houses, semi-detached and the larger four bedroomed detached. We would consider that there is a differential in price between the East and the West of the Borough in the region of 20 to 25% in house values across the spectrum.

7. To provide a view on the Walsall property market compared to regional and national movements in values

House prices in the Borough of Walsall appear to lag behind it's neighbouring Metropolitan Boroughs of the West Midlands by approximately 10 to 15% (this is compared to Birmingham, Solihull and Wolverhampton. The Midlands generally, have not fared to well in the current recession, with Walsall performing more poorly than some of its neighbours. Migration into the East of the Borough, particularly South Walsall, from notably Sandwell, has kept demand relatively high and prices here have not been so affected, although a substantial fall has still been experienced.

There is evidence in the market that demand in Solihull has increased dramatically and resulted in price increases, this may take some time however to replicate itself in the Walsall Borough

The national trend for the over supply of apartments, is particularly true of Walsall too and this problem will, it seems, be exacerbated over the next few years with the Town Wharf redevelopment delivering still more apartments to an already saturated market. Repossessions, particularly in the apartment sector (failed "buy to let" landlords) are on the increase and will obviously have the effect of creating the "market value" . Other sellers will have to match these prices in order to execute a sale. These "values" are often substantially below the original purchase price, by as much as 50% in some cases, thus creating the negative equity trap.

8. Time Frames

As per the report of February 09

9. Mortgages

First time buyers are finding it increasing difficult to obtain finance even with a reasonable deposit (ie 10%) and with good credit history. The reluctance for first time buyers is that even with the above mentioned deposit they are being asked to pay interest rates of over 7%, even though at the time of this report the bank base rate is 0.5%.

More attractive rates are available providing more substantial deposits can be found. These rate drop dramatically to 3.29% with a deposit of 25%. These large deposits are few and far between due to salary rates, student loans and other debt.

The same circumstances with regard to lower rates for larger deposits is similarly applicable to the second and third time movers. The problem here lies with the fact that with reductions in equity of up to 20% over the last two years, even these home owners are struggling to find the necessary deposit to take advantage of low interest rates, which they are currently benefiting from in their existing dwelling.

