

Application Ref: 14/00536/OUT

Proposal: Deed of Variation in relation to planning permission for demolition of existing buildings, remediation and earthworks, removal of trees and redevelopment to provide residential development of up to 350 residential units (Use Class C3) of up to 4 storeys with a total gross external area of up to 33,820sqm, including the retention and residential use of The Gables and 60-62 Thorpe Road, means of access, formal and informal open space, a new Community Primary School including the retention and use of part of the Memorial Wing building, associated landscaping, footpaths, secondary access roads and drainage works, with access from Thorpe Road, Midland Road and Aldermans Drive

Site: Former Site Of, Peterborough District Hospital, Thorpe Road, Peterborough

Applicant: Lands Improvement Holdings Peterborough Sarl

Agent: Indigo Planning

Site visit: 30.04.2014

Case officer: Miss V Hurrell

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Recommendation: To approve the Deed of Variation

1 The Proposal

The application for the redevelopment of the former Peterborough Hospital site came before members of the Planning and Environmental Protection Committee in July 2014. Members resolved to approve the application subject to a S106 Agreement in respect of the following:-

- The provision of 0.84 ha of land for a new three form of entry primary school
- 15% affordable housing provision on site
- 15% off site affordable housing contribution, with a value of £23 000 per dwelling (this equates to £1 219 000 of which £517 000 was payable on the occupation of the 150th dwelling and £690 000 on the occupation of the 250th dwelling).
- £373 000 toward highway improvements including works to the Midland Road junction and associated traffic calming, signalisation of the Thorpe Lea Road junction (including a pedestrian crossing to allow access to Thorpe Meadows) and the signalisation of Alderman's Drive.
- £27 195 towards Community and Leisure provision
- £27 195 toward Environment projects

Planning permission was granted in October 2014.

The applicant, Land Improvements Holdings (LIH), is now seeking a Deed of Variation to the S106 Agreement to remove the requirement for on-site affordable housing and to reduce the off site contribution to £1 million, to be payable on the occupation of the 300th unit.

There would be no change to any other contribution. The school land has now been handed over to the Council and planning permission granted for a new school.

The change to the S106 is proposed in light of increased demolition/remediation costs and changing market conditions which are putting at risk the viability of the project. These factors are explained in more detail below.

The only consideration for members is whether the change to the S106 Agreement proposed by the Deed of Variation is acceptable.

2 Planning Policy

Decisions must be taken in accordance with the development plan policies below, unless material considerations indicate otherwise.

National Planning Policy Framework (2012)

Para 205- States that 'where obligations are being sought or revised local planning authorities should take account of changes in market conditions over time and, where appropriate, be sufficiently flexible to prevent planning development being stalled'.

Peterborough Core Strategy DPD (2011)

CS08 - Meeting Housing Needs

Promotes a mix of housing the provision of 30% affordable on sites of 15 or more dwellings (70% social rented and 30% intermediate housing), 20% life time homes and 2% wheelchair housing.

CS12 - Infrastructure

Permission will only be granted where there is, or will be via mitigation measures, sufficient infrastructure capacity to support the impacts of the development.

CS13 - Development Contributions to Infrastructure Provision

Contributions should be secured in accordance with the Planning Obligations Implementation Scheme SPD (POIS).

Peterborough City Centre DPD (Submission Version)

CC4 Railway Station Policy Area

High quality mixed used developments which create an attractive and legible gateway into the city centre will be encouraged. All development should ensure sustainability with regard to on site drainage and flood risk. Within the hospital opportunity area approximately 350 dwellings are envisaged. Proposals for this site should generally confirm with the adopted Peterborough District Hospital SPD.

Community Infrastructure Levy (CIL) Regulations 2010

Paragraphs 203-205 of the National Planning Policy Framework: Planning Conditions and Obligations:

Requests for planning obligations whether CIL is in place or not, are only lawful where they meet the following tests:-

- (a) necessary to make the development acceptable in planning terms;
- (b) directly related to the development; and
- (c) fairly and reasonably related in scale and kind to the development.

In addition obligations should be:

- (i) relevant to planning;
- (ii) reasonable in all other respects.

Planning permissions may not be bought or sold. Unacceptable development cannot be permitted because of benefits/inducements offered by a developer which are not necessary to make the development acceptable in planning terms. Neither can obligations be used purely as a means of securing for the local community a share in the profits of development.

3 Assessment of the planning issues

As set out under Section 1 above, the only consideration is whether the proposed change to the S106 Agreement in respect of affordable housing is acceptable.

The redevelopment of the hospital site is a corporate priority for the Council, having been allocated for redevelopment for a number of years in various planning documents. It is a prominent site on the approach to the city centre and its redevelopment will help meet both the education and housing needs of the city in accordance with planning policy; primarily the provisions of the National Planning Policy Framework, policy CS1 of the adopted Core Strategy and policy CC4 of the City Centre DPD.

Upon receiving planning permission the applicant, Land Improvement Holdings (LIH), commenced work on site and started demolition in order to address concerns that a number of hospital buildings, as they were now unoccupied, were unattractive and detracting from the amenity of the area. In addition, there were concerns that they were attracting anti-social behaviour. Clearance of the school site has been finished, the land remediated and handed over to the Council within the agreed timeframe.

During this period of site clearance several factors have become apparent which are impacting on LIH's ability to dispose of land to third party house builders. LIH are not a house builder, their business model is to sell cleared and serviced sites onto third parties. Factors have included changing economic circumstances, increased costs and reduced land values. These factors in combination mean that LIH are now unable to achieve the value for the site which would deliver a viable scheme. It is within this context that changes are proposed to the S106 Agreement to ensure the delivery of the development.

Costs

Since commencing site clearance works last year there has been a 50% increase in demolition and site clearance costs. As these works are undertaken up front prior to receiving any receipts for the land this increase in costs has a direct and immediate impact upon LIH's cash flow for the project.

WSP working on behalf of LIH completed due diligence work in July 2013, as part of which it engaged with a number of demolition contractors in order to price the cost of demolition works. A cost of approximately £2 836 000 was identified.

Following the grant of planning permission and agreement of a contract the overall demolition cost has risen to approximately £4 257 283 which is approximately £1 421 283 more than originally anticipated.

The increase in demolition/remediation costs has been substantially due to the following, which could not have been fully anticipated which the initial costings were prepared:-

- Loss of non-ferrous items between first and final inspections
- Alterations in the design and construct market conditions
- Additional soft strip clearance and flooding following deterioration of the site
- Disturbed asbestos present on site through vandalism and deterioration
- Asbestos risk from missing or incomplete reports
- Earthworks and abnormal ground conditions risk and specification
- Additional security requirements due to the site being targeted by vandals and scavengers.

Site Value

In addition to the above, the site has also decreased in value. Bidwells, one of the leading property consultancies in the UK, were appointed by LIH in May 2014 to promote and market the site.

In December 2014 Bidwells advised LIH on a marketing strategy. It indicated that market conditions were good especially for a site in a cleared, remediated state, ready for house building with the benefit of outline planning permission. It advised that there was sufficient depth of market demand that the site could be sold as a whole or in lots, and that demolition should therefore be undertaken in a single rather than two phases, so that all of it was available for development at the outset.

Marketing commenced to the main house builders, care home operators and registered providers on the basis of the purchase of the whole site or lots (three were identified), in order to encourage interest from as many parties as possible. Technically the three lots could be built out independently and were not dependent upon one and other.

Following initial expressions of interest, on site marketing days were held. The feedback received from the developers was that they already had sufficient exposure to the Peterborough market and that there were alternative, primarily greenfield locations readily available.

Offers for the site were invited in March 2015 on an informal tender basis. A small number were received for parts of the site not necessarily in accordance with the lots which had been marketed. These combined offers were in the region of £3 million below the value which Bidwell's had identified through its appraisal work, as a result of which a review of the project viability was undertaken. The project review included consideration of alternative uses on site including care and commercial, increasing density, slowing/stopping infrastructure works and reviewing the S106 provisions and triggers.

As a result of the review Bidwells identified that the only option to improve the viability of the scheme was to slow the demolition and site clearance process and seek to renegotiate the S106, hence the submission of this Deed of Variation.

Bidwells has indicated that this situation is not exclusive to the Peterborough area or this site in particular. It has had experience of other large sites also generating a lack of interest due to a cooling in the market. It has summarised the reasons for the disappointing level of offers as follows:-

- Increased build costs. House builders have advised that costs are increasing and trades harder to secure;
- The brownfield nature of the site;
- The margin sought due to the high levels of supply in the locality and also the perceived higher risk in sales price and rates than other geographic areas within the operating patch of the house building region (i.e. Cambridge) and;
- The exposure national house builders already have within an area has restricted the market of potential purchasers.

Bidwells concludes that it is highly unlikely that LIH will be able to achieve its anticipated revenues without changes to the S106 Agreement as the situation is unlikely to change in the foreseeable future with other developments such as Stanground South, Paston Reserve and Great Haddon coming forward.

In order to make the development viable and allow more favourable sales scenarios, LIH, are seeking a Deed of Variation to the S106 to remove the on-site affordable housing provision (approximately 53 units) and to reduce the off site contribution to £1 million (so approximately £219 000 less than originally approved) to be payable on the occupation of the 300th unit.

Assessment

In considering this proposal Officers are aware of the strategic importance of the site and the need to regenerate it. If no action is taken there is the very real risk that due to viability and the up-front costs that demolition will stall and work will stop. It would not be desirable for the city to have half demolished buildings on one of the main approaches to it, or for the new West Town School to open with a partially demolished building adjacent it. In addition, the housing is also required as part of the Council's 5 year land supply and therefore needs to be delivered.

The proposal to change the affordable housing provision also has to be considered in the context of current government policy. Government policy is very clear that the delivery of brownfield sites should be supported and is reflected in a succession of Government Announcements going back as far as 2011. It has also been clear there were viability is an issue the provision of affordable housing should be reviewed. Most recently the Government sought to introduce 'Vacant Building Credits' whereby the requirement to provide affordable housing was removed on sites which had previously been occupied. Although now defunct (following legal challenge) the approach of the Government is clear. Most recently, it has set out plans to introduce a 'Brownfield Land Register', announced as part of its Productivity Plan published as part of the summer budget which will seek to remove obstacles to development.

The National Planning Policy Framework sets out that Local Planning Authorities should be flexible in revisiting S106 Agreements to take account of changing market conditions to prevent development being stalled. Government policy on this matter is therefore clear.

In light of the Government's clear policy position on aiding the delivery and regeneration of brownfield sites, the requirements for Local Planning Authorities to be flexible and the need to ensure that work on this key city site does not stall, Officers are of the view that the proposed Deed of Variation can be supported and should be agreed.

4 Recommendation

The case officer recommends that the Deed of Variation be agreed.

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