

CABINET (HOUSING) COMMITTEE

11 OCTOBER 2016

AUTHORISATION FOR FINAL APPROVAL TO CONSTRUCT HOUSING SCHEME:
BAILEY CLOSE, STANMORE, WINCHESTER

REPORT OF THE HEAD OF NEW HOMES DELIVERY

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RECENT REFERENCES:

CAB2764(HSG) - Authorisation to Progress Affordable Housing Scheme, Bailey Close, 3 February 2016

EXECUTIVE SUMMARY:

This report seeks final approval to enter into a build contract to construct 5 new Council flats at Bailey Close, Stanmore, Winchester. Approval is sought in accordance with Financial Procedure Rule 6.4 for the capital expenditure involved.

RECOMMENDATIONS:

- 1 That the Assistant Director (Chief Housing Officer) be authorised to enter into a design and build contract to construct 5 new flats at Bailey Close, Stanmore, Winchester as set out in Exempt Appendix 1 to the Report.
- 2 That in accordance with Financial Procedure Rule 6.4, capital expenditure as set out in Exempt Appendix 1 be approved.
- 3 That the Assistant Director (Estate & Regeneration) be authorised to negotiate and agree terms for easements, wayleaves and related agreements with utility suppliers, telecom/media providers and neighbours in order to facilitate the development.

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REPORT OF HEAD OF THE NEW HOMES DELIVERY

DETAIL:

1 Introduction

- 1.1 The Bailey Close development proposals consist of 5 x 1 bed flats to be built on a under used Council owned garage site. The development potential of the site was first identified as part of the Stanmore Planning Framework in 2013.
- 1.2 A local consultation event was held on the 16 December 2015 where detailed layouts and designs were presented. Despite inviting all of the residents of neighbouring properties and publishing the event with designs on the Council's website only 5 comments were returned. All supported the development especially the provision of one bed accommodation, however the need for adequate parking for the flats and, if possible, local residents was highlighted
- 1.3 Planning consent was granted in May 2016, there were no objections to the scheme.

2 Tender Process

- 2.1 The scheme was tendered via the South East Business Portal in May 2016. 7 contractors responded through the submission of a suitability questionnaire, and following an assessment of these responses using a scoring matrix, the top 5 contractors were invited to submit a full tender.
- 2.2 Disappointingly only 2 tender returns were submitted by the deadline, the details of which are set out in Exempt Appendix 1. 3 contractors withdrew through the tender process for various reasons. If the recommendation is agreed, final contracts will be prepared and entered into in November 2016, with the site handed over to the contractor during January 2017. The build contract period is estimated at 52 weeks.
- 2.3 Both Tender sums that were returned were above the initial estimated contract sum of £550,000, the principal reasons offered by the surveyors that are instructed by the Council to deal with the procurement process, GysinWarr, after speaking with the contractors were, build cost inflation which is currently at 10-15% pa and the low contract value / small profit associated with schemes of this size. Alternative procurement methods were investigated by Gysin Warr

including traditional construction where the Council would tender a fully designed scheme and take on all risks associated with this approach however the potential savings (circa £85,000) compared to the time lost for detailed design and retendering (approximately 6 months and additional fees) were insufficient to justify an alternative approach.

- 2.4 The higher than estimated contract sum has impacted on the viability of the scheme, currently if an all rented scheme was developed there is a negative Net Present Value (NPV) of £52,153 over a 35 year period. Whilst this does not mean that development should not proceed, as there are strong economic and social reasons why Bailey Close was brought forward, Members should note there is not a strong financial case for redevelopment of this land. It is worth noting that the land value is included in the viability assessment however some garages are vacant and others in poor condition (which has not been used to discount the land value). If the land value (£140,000) was excluded from the appraisal the scheme would show a positive NPV over the 35 year period.

3 TACT Comment

- 3.1 TACT is pleased to note progress with this scheme and fully support the proposals in the report. TACT would like the opportunity to add further comments verbally at the meeting.

OTHER CONSIDERATIONS:

4 COMMUNITY STRATEGY AND PORTFOLIO PLANS (RELEVANCE TO):

- 4.1 Developing new homes is a key priority for the Council as it seeks to promote active communities: 'to support local people in accessing high quality and affordable housing which meet their needs'. It also facilitates the District's economic prosperity.

5 RESOURCE IMPLICATIONS:

- 5.1 Full details are set out in Exempt Appendix 1. The current estimated scheme cost is not within the budget set, and therefore additional funds of £138,121 are required. These funds can be met from the unallocated / small sites budget set aside for 2016/17 and the table below shows the funding sources for the scheme overall.

Cost / Funding Source	Original Scheme Budget £000	Revised Scheme Budget - £000
Scheme Cost	630.0	768.1
Right to Buy 1-4-1 Receipts	189.0	230.4
Other RTB Receipts	111.0	129.7

Section 106 Contributions	200.0	200.0
Revenue Funding from HRA	130.0	208.0
Total Funding	630.0	768.1

5.2 In order for tenders to be accepted and the scheme proceed, it is necessary for the expenditure to be approved in accordance with Financial Procedure Rule 6.4.

6 RISK MANAGEMENT ISSUES

6.1 The Council wants to develop and deliver an ambitious programme for the building of new council houses. Building homes involves significant risks. This is why market developers and investors demand high returns in reward for that risk. Risks lie in delays arising from inadequate resourcing, abnormal costs, unnecessarily bureaucratic procedures, local opposition, planning objections and a weakening of political commitment. It is important that risk is carefully managed.

6.2 At a high level, risk management is carried out by ensuring that proposals have a strategic fit with the Housing Development Strategy, particularly with respect to viability. The Council's corporate project and risk management processes will be used to mitigate detailed risk and ensure that projects are progressed in a logical sequence to ensure that the Council is not overexposed to risk. It is important to note that it is rare for risk to be totally removed.

6.3 An element of construction risk neither contractor is willing to accept is the liability for the removal of any element of the concrete foundation "toe" associated with the retaining wall adjacent to the site. The Council has undertaken test bore holes which, as far as can be determined, conclude that there should be no adverse impact on the construction of the new scheme, however, without a full excavation the risk cannot be completely eliminated at this stage.

APPENDICES:

Exempt Appendix 1 – Tender Report

Exempt Appendix 2 - Financial Viability Summary