REPORT TITLE: NEW HOMES DEVELOPMENT, THE VALLEY, STANMORE, WINCHESTER – APPROVAL OF OUTLINE BUSINESS CASE AND PROCUREMENT PROCESS

4 OCTOBER 2017

REPORT OF PORTFOLIO HOLDER: HOUSING SERVICES – COUNCILLOR CAROLINE HORRILL

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WARD(S): ST LUKE

PURPOSE

This report seeks approval of the outline business case for The Valley new homes project and to use the Southern Construction Framework to obtain Tenders to construct the scheme.

RECOMMENDATIONS:

1. That the Assistant Director (Chief Housing Officer) be authorised to sign up to and use the Southern Construction Framework to seek Tenders for the construction of The Valley.

2. That the Assistant Director (Chief Housing Officer) be authorised to agree the price/quality split for the purposes of the mini competition to be carried out under the Southern Construction Framework.

3. That the Assistant Director (Chief Housing Officer) be authorised to submit a grant funding bid to the Homes and Community Agency (HCA).

4. That the Assistant Director (Chief Housing Officer) be authorised to enter into pre-construction contract for the design of the scheme following Stage 1 (selection of Tenderer) of the process.

(continued)

5. That a further report is brought back to Cabinet (Housing) Committee when the final Tender price is known to seek authority to enter into a build contract with the successful Tenderer.

6. That Members approve the Disposal of the Open Space.

IMPLICATIONS:

1. COUNCIL STRATEGY OUTCOME

1.1. The building of new Council homes assists in the delivery of the outcome – Delivering Quality Housing Options

2. FINANCIAL IMPLICATIONS

2.1. The financial commitment to start the tender process has been budgeted for within the Housing Revenue Account.

2.2. The project cost for this scheme was originally estimated at £16.0m. The current new build programme has £9.5m allocated to this project between 2017/18 and 2020/21. The HRA Business Plan allows for a further £9.6m of unallocated funds for new build schemes for the same period. This utilises a variety of S.106 developer contributions, non Right to Buy 1-4-1 capital receipts and borrowing that would enable the scheme to proceed. The project would also be part funded from sales of shared ownership dwellings.

3. LEGAL AND PROCUREMENT IMPLICATIONS

3.1. An OJEU compliant Tender Framework is being recommended for use

4. WORKFORCE IMPLICATIONS

4.1. Resources identified in Service Plan

5. PROPERTY AND ASSET IMPLICATIONS

5.1. The land being developed is of limited value and the final properties will be held within the Housing Revenue Account.

6. CONSULTATION AND COMMUNICATION

6.1. In addition to the statutory planning application consultation process, two further consultations events have been held with local residents and Members.

7. ENVIRONMENTAL CONSIDERATIONS

7.1. The Valley scheme was granted planning consent following the submission of detailed information on the issues of ecology, traffic implications and sustainability. All of the new homes will meet current planning guidelines on sustainability

8. EQUALITY IMPACT ASSESSMENT

8.1. None.

9. RISK MANAGEMENT

Risk	**Mitigation**	**Opportunities**
Property *Sub soil services issues*	Additional ground radar checks undertaken of whole site to identify all service runs.	
Community Support	Planning consent granted with minimal public objection.	
Timescales *Start on site delay*	Recommending a two stage tender process which allows a quicker start on site for more complex projects.	
Project capacity	Project included in New Homes Service Plan, staff resource allocated.	
Financial / VfM Tenders over budget No grant funding from HCA Scheme viability	2 stage Tender process recommended. Scheme can be modified if required to deal with these scenarios:- • Reduce number of homes built. • Increase proportion of shared ownership housing or sale. • Widen timescales for individual phases of the project.	
Legal *HCC object to Highways works* *Land ownership*	Continue discussions about appropriate solutions. Site may require 3rd party land, negotiations under way.	
Innovation	Standard construction (brick and block) proposed.	
Reputation		

Delays to start on site	Choose a procurement approach which provides a realistic start on site date.	

10. SUPPORTING INFORMATION:

Background

10.1. Cabinet (Housing) Committee authorised the preparation and submission of a planning application for up to 76 new Council Homes in November 2016 (CAB2865(HSG) refers). Planning consent was (unanimously) granted in July 2017.

10.2. Full consent was granted for 67 dwellings with a further 9 approved via outline consent, the reason being that the final details of this element of the scheme were being negotiated with third party land owners who are investigating development options on their land. The proposed overall scheme mix is:-

- 24 x 1 bed rented flats
- 6 x 1 bed shared ownership flats
- 12 x 2 bed rented flats
- 17 x 2 bed shared ownership flats
- 11 x 2 bed rented house
- 2 x 3 bed rented house
- 2 x 3 bed (shared) rented flat
- 1 x 3 bed rented flat
- 1 x 3 bed rented bungalow.

10.3. The potential loss of the open space at The Valley was advertised in accordance with S123 (1) (2A) of the Local Government Act 1972 for a period of 2 consecutive weeks in March 2017, but there were no comments or objections. Members are therefore requested to confirm the disposal of the open space.

Tender Process

10.4. The Council has engaged the services of Selway Joyce as its Employer's Agent and Quantity Surveyor for the scheme. They have been instructed to provide procurement options advice to help determine the most effective and efficient approach to tendering for this particular project. The selection of the procurement route takes into account the constraints and objectives of the project.

10.5. The choice of procurement route is one of the most important decisions on the scheme and influences not only the allocation of risk but also the timescale and final cost of the project. In consideration of the best procurement route it is important to have regard to the relative importance of the main criteria of quality, cost and time, all of which are inter – related.

10.6. On previous new homes projects, the Council has used a Design and Build single stage tender process. This has proved very successful for smaller build schemes of under 15 units but has encountered problems with larger riskier projects of 20 units or more. On one scheme, the tender process had to be conducted 3 times in order to obtain an acceptable price, and this inevitably leads to long project delays. The problem with the single stage approach for the larger schemes is the lack of contractor appetite to take on more riskier work when they have a full order book already.

10.7. Selway Joyce have evaluated a traditional single stage approach, a single stage design and build approach and a two stage design and build approach. Having taken into account the advantages and disadvantages of the aforementioned routes, they have recommended a two stage design and build approach which they consider best fits the Council’s requirements for this project.

10.8. A two stage approach involves the tender process being brought forward and Contractors being requested to price, in competition, certain elements of the contract works at an advanced stage. Typically, this involves the pricing of preliminaries (site establishment / running costs) and overheads and profits. The second stage of the process is that one contractor is selected and is asked to tender the remaining contract elements using an “open book” approach with the client to establish a final contract price. The advantages of this approach are:-

- Positive engagement from contractors at stage 1 tender (as the cost and risk is minimal);
- Tenders are obtained in competition;
- Early buildability and planning input from contractor ensuring shortest construction period;
- Early start on site;
- Allows the design to develop under client control, variations and changes can be negotiated economically;
- Savings incentives can be introduced;
- The contractor is engaged in the development of the budget and costs.

10.9. There are disadvantages in using a two stage approach, principally the client (the Council) is reliant on the contractor's construction supply chain to obtain competitive prices for the construction packages that make up the final tender price. Additionally, the final tender price will not be known until the completion of the second stage and there will therefore be no cost certainty at the outset. The Council will be relying on its Employer's Agent to advise as to the competitiveness of the final tender price. At this stage if the Council chooses not to proceed, for example if the cost exceeds the budget available, there is no contractual commitment to do so with the Tenderer. The Council will however have to enter a pre-construction contract with the successful contractor to appoint a design team to take the basic planning drawings to a fully worked up design which addresses all of the planning conditions, including the mechanical and engineering (M&E) fees and statutory services. The cost of the design work will be borne by the Council and will amount to approximately 6% of the build contract price.

10.10. Having recommended a two stage approach, Selway Joyce looked at potential OJEU compliant Frameworks that the Council could use to tender for the work. Previously the Council has used both the HCA DPP2 Framework (for Extra Care scheme) and the Westworks Framework. Having conducted enquiries into potential Frameworks and their ability to use a 2 stage approach, they have recommended using the Southern Construction Framework (SCF). As part of the analysis, they made enquiries with the contractors on the Framework to see what their appetite for the project was, and received positive feedback.

10.11. The SCF went live in April 2015 and is an OJEU compliant construction single Framework with three lots covering different geographical areas. It is governed by Devon County Council, Hampshire County Council and Haringey Council. The Framework may be used by all public sector organisations within specific geographical areas (broadly London, South East and South West). There are 8 contractors on the SE Lot (Lot 2), including several large companies who have the scope to complete the Valley project.

10.12. Officers have been advised that there is no fee payable for accessing the SCF. A fee of 0.2% of the contract value will be payable by the appointed Contractor to Hampshire Council in two stages, firstly on award of the contract and final payment at the start of the construction contract.

10.13. All contractors listed in Lot 2 will need to be asked whether they are interested in participating in a mini competition. Officers have been advised that the rules of the SCF allow for a maximum price/quality split of 50/50 if so required.

Viability

10.14. The estimated cost of the project including fees is currently £15.735m. Various scenarios and assumptions have been tested using the viability guidelines set out in the Council's Housing Development Strategy. There are three tests that the Council uses to determine viability: that the scheme costs are less that the open market value of the properties, the Net Present Value

(NPV) is positive at year 35 (maximum) and the loan pay back period is less than 30 years (the length of the HRA Business Plan). The results are set out in Appendix 1 of the report. In headline terms, if Homes and Community Agency (HCA) grant is awarded then the scheme will be viable. Initial discussions with the HCA have been held and they are positive about grant being available for both the rented and shared ownership elements of the scheme. They have not given an indication of the actual grant available, and therefore the viability appraisal tests several scenarios, based on latest figures obtained from Registered Providers. Appendix 2 of the report sets out the viability results if phase 1B of the development (consisting of 5 units), that is expensive to build, were excluded.

10.15. Each scenario has been tested on the same tenure split of 70% rented and 30% shared ownership, with rents based on either 70% or 80% of market value. As expected, the higher the rent charged the lower the grant that is required to make the scheme viable. If possible, the Council would wish to charge 70% rents (in line with its Housing Development Strategy) but may find that the HCA will want higher rents to be charged in order to reduce the grant.

10.16. Provision for the capital budget for the scheme will be made from the Housing Revenue Account (HRA). Paragraph 2.2 above explains the funding may be made available for the project but it should be noted that without further debt headroom the Council's ability to develop other schemes over the next 3 years will be constrained.

11. OTHER OPTIONS CONSIDERED AND REJECTED

11.1. The key option for the project at this stage is the selection of the procurement route, and after considering the advice of the Council's professional advisers, traditional tender and single stage Design and Build (D&B) tender options were rejected. A traditional tender route would require the Council to appoint its own design team and (because of the value of the work) this would require an OJEU compliant process. This would delay start on site for a minimum of 12 months. A single stage D&B process would require a significant amount of work, at risk, by a contractor when putting a tender submission together. It is clear from previous experience that in the current market, there is a risk that very few contractors would be interested. Additionally, the extra risk taken on by the contractor would be priced accordingly.

11.2. The Council could choose to build a smaller number of homes on the site which would reduce the overall capital requirement, freeing up funding for smaller schemes around the District. This was rejected in favour of a larger scheme which is a more effective use of resources and benefits from the economies of scale. There is still scope to complete a limited number of small rural schemes in the New Homes Programme over the period when The Valley is under construction.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:- CAB2865 (HSG) New Homes Development – The Valley, Stanmore, Winchester, 23 November 2016

Other Background Documents:- Procurement Options Guide, The Valley

APPENDICES:

Appendix 1 - Viability scenarios.

Appendix 2 - Viability scenarios excluding phase 1B of the development

Viability Scenarios - All Phases

All Phases - 76 Dwellings

	80% Rents with £30k/£20k Grant	***80% Rents with £35k/£25k Grant***	***80% Rents wi£40k/£30k Gra***	***70% Rents w£35k/£25k Gr***	***70% Rents with £40k/£30k Grant***
With shared ownership sales at minimum 25% of value					
Total Scheme Cost as % of Market Values	95.60%	95.50%	95.50%	95.50%	95.50%
NPV over 30 Years (3.3% discount factor)	-£742,212	-£349,839	£30,684	-£1,747,015	-£1,354,640
Loan Repayment Year	33	32	30	36	35
Internal Rate of Return	2.87%	3.09%	3.32%	2.23%	2.45%
With shared ownership sales at average 35% of value					
Total Scheme Cost as % of Market Values	95.60%	95.50%	95.40%	95.50%	95.40%
NPV over 30 Years (3.3% discount factor)	-£598,064	-£205,691	£186,682	-£1,603,092	-£1,210,718
Loan Repayment Year	32	31	30	36	35
Internal Rate of Return	2.94%	3.17%	3.42%	2.28%	2.51%

Notes:
Total scheme cost % includes cost of land and interest.
The grants shown are for Affordable Rent / Shared Ownership.
Where the 80% rent is above current LHA levels, the rent
has been restricted to LHA in the appraisal.
Analysis of results over 35 years has been done with all but
70% rents & £35k / £25k grant positive.

Viability Scenarios - Excluding Phase 1B of the Development

Phases 1A, 2A and 2B - 71 Dwellings

	80% Rents with £30k/£20k Grant	***80% Rents with £35k/£25k Grant***	***80% Rents with £40k/£30k Grant***	***70% Rents with £35k/£25k Grant***	***70% Rents with £40k/£30k Grant***
With shared ownership sales at minimum 25% of value					
Total Scheme Cost as % of Market Values	96.70%	96.70%	96.60%	96.70%	96.60%
NPV over 30 Years (3.3% discount factor)	£11,853	£404,223	£796,600	-£871,449	-£479,072
Loan Repayment Year	30	29	28	34	32
Internal Rate of Return	3.31%	3.57%	3.84%	2.70%	2.96%
With shared ownership sales at average 35% of value					
Total Scheme Cost as % of Market Values	96.70%	96.60%	96.50%	96.60%	96.50%
NPV over 30 Years (3.3% discount factor)	£152,703	£545,074	£937,449	-£730,597	-£338,222
Loan Repayment Year	30	29	28	33	32
Internal Rate of Return	3.40%	3.68%	3.96%	2.78%	3.05%

Notes:

Total scheme cost % includes cost of land and interest.
The grants shown are for Affordable Rent / Shared Ownership.
Where the 80% rent is above current LHA levels, the rent has been restricted to LHA in the appraisal.
Analysis of results over 35 years has been done with all but 70% rents & £35k / £25k grant positive.