

DECISION TAKER: CLLR KELSIE LEARNEY - CABINET MEMBER FOR HOUSING AND ASSET MANAGEMENT

REPORT TITLE: NEW HOMES SCHEME - OUTLINE BUSINESS CASE, SOUTHBROOK COTTAGES, MICHELDEVER

7 DECEMBER 2020

Contact Officer: Andrew Palmer Tel No: 01962 848 293 Email [apalmer@winchester.gov.uk](mailto:apalmer@winchester.gov.uk)

WARD(S): WONSTON & MICHELDEVER

#### PURPOSE

This report seeks approval of the outline business case to construct 6 dwellings at Southbrook Cottages, Micheldever including the submission of a planning application and obtaining Tenders to construct the scheme.

#### RECOMMENDATIONS:

1. Approve the construction of 6 properties at Southbrook Cottages and preparation and submission of a planning application to the City Council.
2. Authorise the Corporate Head of Housing to prepare and submit a planning application to the city council for the construction of 6 properties at Southbrook Cottages.
3. Authorise the Corporate Head of Housing to take all of the necessary actions to implement the planning permission in accordance with the approved conditions.
4. Authorise the Corporate Head of Housing to tender the construction of 6 properties at Southbrook Cottages using a single stage traditional contract.

5. Authorise the Corporate Head of Asset Management to negotiate and agree terms for easements, wayleaves and related agreements with utility providers, telecom/media suppliers, Highways Authority and neighbours in order to facilitate the development.
6. Authorise expenditure of pre-construction costs of up to £75,000 in accordance with Financial Procedure Rule 7.4 financed by Housing Revenue Account Contributions to Capital and that this work proceeds at a financial risk to the Council.
7. That a Final Business Case report is brought to Members after tenders are evaluated to agree whether to proceed with scheme and to award and enter into a construction contract with the preferred bidder.

## IMPLICATIONS:

### 1 COUNCIL PLAN OUTCOME

- 1.1 The building of new Council homes assists in the delivery of Council Plan outcome - Homes for All and to address the commitments of tackling the Climate Emergency the proposed scheme will be a net zero carbon development.

### 2 FINANCIAL IMPLICATIONS

- 2.1 The financial commitment to submit a planning application and start the tender process has been budgeted for within the Housing Revenue Account
- 2.2 The Total Scheme Cost (TSC) is estimated at: £1,196,650, this includes a risk contingency of £53,650. This represents an average gross build cost of £199,442 per unit.
- 2.3 The appraisal is contained in the Appendix 1. This shows that under the current assumptions of cost, project delivery and the application of RTB 1-4-1 receipts the scheme is viable.
- 2.4 The proposed scheme has a positive NPV of £99k, rental income covering interest costs, and the assessed indicative market value of the scheme exceeding its net costs. This is based on indicative rents of 80% market rent
- 2.5 The inclusion of the scheme in the HRA Business plan demonstrates that under current HRA Business Plan assumptions it can be cash flowed and the HRA Business plan remain viable and sustainable.
- 2.6 With the exception of individual grants and funds hypothecated for particular schemes the funding of the overall programme is undertaken annually to maximise the councils financial flexibility and this means decisions upon the final mix of funding have yet to be made.

### 3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 Baker Ruff Hannon have been appointed by the Council as Employers Agent and have provided a procurement report to outline the best way to procure a contract for a Passivhaus project of this size and value. Baker Ruff Hannon have advised that a scheme of this size and value could benefit from either Design and Build contract or traditional Contract.
- 3.2 Following an evaluation of the two options officers recommend that the construction contract is tendered by way of a traditional contract, to enable detailed design to be undertaken by the Council's design team. Additionally the use of a traditional contract is considered likely to result in a more competitive tender process.

- 3.3 The tender exercise will be run in accordance with the Council's Contract Procedure Rules and Contract Procurement Regulations 2015 (PCR 2015) with the support of the Procurement Team.

#### 4 CONSULTATION AND COMMUNICATION

- 4.1 A consultation event was held with local residents on 14 August 2020 where the proposed design was discussed and presented via a Microsoft Teams live event. In total 41 residents joined the live event and submitted a total of 21 questions which were answered on the live event and published shortly after on Citizen Space. The key points that came out of the Consultation were:

- Suitability of apartments in a rural setting and whether apartments are suitable for this site.
- The local Parish were keen to understand the efforts that were made to engage with residents who may be elderly.
- Concerns that additional dwellings on Southbrook Cottages will impact on parking the street.
- Loss of privacy to neighbouring gardens

#### 5 ENVIRONMENTAL CONSIDERATIONS

- 5.1 As part of New Homes contribution to the Climate Emergency the proposed development is Winchester City Council's first Passivhaus scheme which will benefit the environment and the residents that will be living here. The aim is that these properties will achieve the net zero carbon standard.

#### 6 EQUALITY IMPACT ASSESSEMENT

- 6.1 The key related strategies and policies including the Housing Strategy and Housing Development Strategy have been subject to an Equality Impact Assessment

#### 7 RISK MANAGEMENT

- 7.1 The scheme proposed is the Council's pilot Passivhaus project to assess this particular build process and its contribution to the net zero carbon priority outlined in the Council Plan. As it's the first using this approach the Council has appointed a project team with experience of building Passivhaus schemes for LA's.

The principal risk factor that has been identified is that of build cost, the Passivhaus approach is more expensive than traditional build due to the enhanced building fabric specification and energy saving heating requirements however this still needs to be viable for the Council to support. To mitigate this Passivhaus experienced Quantity and Building surveyors have been appointed to review costs at key parts of the design process.

<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<i>Property: Pilot Passivhaus project costs are estimated at this stage</i>	Employed consultants with previous Passivhaus experience	This is an opportunity to learn from our first Passivhaus project and use this as a benchmark for future projects.
<i>Community Support: At planning stage there may be some objections</i>	To mitigate the risk of objections we have consulted residents on the proposed plans and also on parking	There is a need to provide 6 parking spaces at Southbrook Cottages for local residents
<i>Contractor: most local contractors don't have Passivhaus experience</i>	We have opted for a traditional procurement so that we can control the design to ensure it is built to our standard. We have appointed an architect who is a Passivhaus certifier who will be visiting site regularly.	
<i>Ground conditions: several trial holes have been dug to test the ground conditions</i>	The ground is mainly made up of chalk which is suitable for development of this nature	
<i>Financial – Project is unviable</i>	Regular reviews of the cost plan are undertaken by the design team to ensure the project is viable	As the Council's first Passivhaus scheme there is an opportunity to test ideas that make a positive contribution the zero carbon challenge
<i>Legal</i>		
<i>Innovation</i>		
<i>Reputation</i>		
<i>Other</i>		

## 8 OTHER KEY ISSUES

None

## 9 SUPPORTING INFORMATION:

- 9.1 This report seeks approval to submit a planning application to demolish 6 Council owned garages and to develop 4 x 1 bedroom and 2 x 2 bedroom apartments for affordable rent to be held within the Housing Revenue Account. The site currently has 6 unused garages in a state of disrepair not providing any income to Winchester City Council.

- 9.2 The properties will be built to Passivhaus standard which is highly energy efficient and ensures the properties are air tight which in turn reduces the energy demand. The roof space will be fitted at capacity with Solar PV, and heating of the hot water and space heating will be provided by a ground source heat pump. Pipework transporting hot water throughout the building will be thermally insulated to ensure no heat is lost whilst transporting hot water. From a design perspective it's proposed that this development will achieve Passivhaus certification. Each property will be fitted with a Mechanical Ventilation Heat Recovery (MVHR) to continuously provide fresh air. An increasingly important requirement for new highly insulated homes is that they address the issue of potential overheating as the climate changes, Southbrook Cottages has been designed looking at weather data projections up to 2050 to ensure that a comfortable and healthy living environment is created.
- 9.3 It has been determined that in order to reduce risk and achieve the necessary build standards a traditional procurement process is most appropriate. Within the cost analysis prepared by Baker Ruff Hannon (BRH) the Employers Agent they have advised that they can see benefits for the contract being a Design and Build or a Traditional. BRH have also advised that as this is the Passivhaus project for Winchester City Council it may be advantageous to carry this out as a single stage Traditional procurement. This allows us to control the design and specify exactly what we want. We have recently completed the build of two new homes at Dolphin Hill which were a traditional contract and found that this process worked well. Proceeding with this option will incur upfront fees to prepare the traditional tender but officers are satisfied this will result in a more competitive tender by reducing risks for the Builder.
- 9.4 The new homes team have consulted with planners, ward members, Parish members, and local residents in the lead up to this document being produced. Key outcomes from the consultation held on the 14 August 2020 is that additional parking on Southbrook Cottages is important to residents and the Parish. Over 400 residents in Micheldever were invited to the consultation event, 41 attended and 21 asked questions via a Q&A function. Residents local to the site received a hand delivered copy of the presentation. Following the consultation for the proposed development the New Homes team have worked closely with Estate Improvements to carry out a parking survey which will inform a parking strategy for Southbrook Cottages. It is intended that the 6 parking spaces lost as a result of development will be compensated elsewhere on Southbrook Cottages. Feedback from the consultation event can be found [here](#) Feedback on the design has informed the current design which will be submitted for planning.

The scheme meets the Councils viability test criteria as follows:

- Scheme NPV – Pass
- Interest Cover – Pass

- Net scheme cost/Market value – Pass

Please see Appendix 1 for further details on scheme viability.

10 OTHER OPTIONS CONSIDERED AND REJECTED

- 10.1 The scheme could have been developed to meet the normal standards of new council schemes (which are an uplift on general Building Standard requirements), however to address the climate emergency it was agreed to develop this as a pilot Passivhaus project to determine the effectiveness , viability and most importantly liveability of building to this standard.

BACKGROUND DOCUMENTS:-

Previous Cabinet/Committee Reports or Cabinet Member Decisions:-

None

Other Background Documents:-

None

APPENDICES:

Appendix 1 Southbrook Cottages Scheme Viability

## Appendix 1 – Southbrook Cottages Viability

<b>Scheme</b>		<b>Southbrook Cottages</b>					
Date of Evaluation	24/11/2020	Undertaken by	Dick Johnson/ Derek Steele				
Mixture	1 bed Flats	2 bed Flats					
Number of units	4	2					
Tenure	Affordable	Affordable					
Weekly rent	£128.91	£153.78					
Service Charge	£11.89	£11.89					
Total Cost	£140.80	£165.67					
LHA CAP 2020-21	£166.85	£197.92					
Does Not Exceed LHA	<b>YES</b>	<b>YES</b>					
<b>Total Scheme Cost</b>	1,196,650						
<u>Funded by</u>							
Sales	-						
HRA reserves	-						
S106	-						
HE Grant	-						
RTB Income	358,995						
Net Cost	<u>837,655</u>						
				<u>Criteria</u>		<u>Passes</u>	
[1] Scheme NPV	99,318			> 0		<b>YES</b>	
[2] Scheme IRR	4.09%						
[3] Interest Cover							
Gross Income Year 1	<u>42,428</u>						
Interest Costs	26,805	158%		> 110%		<b>YES</b>	
[4] Scheme cost/Market value							
Market Value	<u>1,260,000</u>	66%		< 95%		<b>YES</b>	
Net cost less RTB/Sales	837,655						