REPORT TITLE: NEW COUNCIL HOMES AT WINNALL FLATS SITE - FINAL BUSINESS CASE

23 JUNE 2021

REPORT OF CABINET MEMBER: COUNCILLOR KELSIE LEARNEY, CABINET MEMBER FOR HOUSING AND ASSET MANAGEMENT

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WARD(S): ST BARTHOLOMEW

PURPOSE

In December 2019, the Council approved the outline business case for the development of 76 new homes at the Winnall Flats site, Winnall Manor Road, Winchester, to submit a planning application and to use the Southern Construction Framework to obtain tenders to construct the scheme.

This report sets out progress and the outcome of the tender process. It seeks authorisation to proceed with a new homes scheme on the Winnall Flats site, dispose of the properties through a shared ownership scheme and enter into a Design and Build building contract with Wates Construction Ltd to construct the 76 properties.

The provision of 76 new homes makes a significant contribution towards the Council's ambition to provide 1000 new homes in the period 2021-30. All of the homes will be built to very high energy efficiency standards to reflect the Councils zero carbon targets

The report sets out the viability of the project as both an all affordable scheme and an alternative version which allows Block B to be delivered as a sub-market option for key workers and younger households through a council owned Housing Company or in partnership with a third party.

The report seeks approval to dispose of the shared ownership properties at the site, as supported by the Housing Development Strategy agreed by Cabinet on 10 March 2021 (CAB3291) and Business Case. It also includes a similar recommendation for the Valley, Stanmore and Hookpit Farm Lane Kingsworthy, developments which are both nearing completion.

RECOMMENDATIONS:

That Cabinet recommend Council to:

1. Approve an increase in the scheme budget of £896,691, funded from the "unallocated schemes" provision in the New Homes Capital Programme and approves capital expenditure of up to £18,840,000 including contingency funding and estimated fees as set out in exempt appendix 3.

That Cabinet:

- 2. Authorise the Corporate Head of Asset Management to award and enter into a design and build contract to construct 76 properties at Winnall Flats site, Winnall Manor Road, Winchester with Wates Construction Ltd for the sum as detailed in exempt appendix 1.
- 3. Authorise the Corporate Head of Asset Management (CHAM) to negotiate and agree terms for easements, wayleaves and related agreements with utility suppliers, telecom/media providers and neighbours and relevant associated legal agreements in order to facilitate the development.
- 4. Authorise the Corporate Head of Asset Management to dispose of the shared ownership properties, and other tenure mix, on this site as supported by the Housing Development Strategy agreed by Cabinet on 10 March 2021 (CAB3291) and Business Case.
- 5. Authorise the Corporate Head of Asset Management to dispose of the shared ownership and discounted market sale properties at the Valley, Stanmore and the site off Hookpit Farm Lane, Kings Worthy.
- 6. Authorise the Corporate Head of Asset Management to negotiate to purchase/lease Block B (41 flats) to enable the flats to be let at sub-market rents in partnership with a third party or representatives of a council owned housing company.
- 7. Approve the disposal of open space following the consultation exercise undertaken in September 2020.
- 8. Authorise the Corporate Head of Asset Management to agree a scheme to mitigate nitrates in perpetuity either on sites owned by the Council, at Micheldever wetland scheme or purchase nitrates credits from a 3rd party prior

- to the occupation of the new homes located at the Winnall Flats site.
- 9. Authorise the Corporate Head of Asset Management to submit a funding bid to Homes England, and if applicable, negotiate and finalise a grant figure and agree the terms and conditions associated of the grant funding and to enter into a funding agreement.
- 10. Authorise the Corporate Head of Asset Management, in consultation with the Service Lead Legal Services to include a condition in the tenancy agreement and shared ownership lease to limit occupancy levels.
- 11. Authorise the Corporate Head of Housing to approve the bid for estate improvement funding for the cost of improvements to the areas around the existing blocks of flats.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

- 1.1 Tackling the Climate Emergency and Creating a Greener District
- 1.2 The development contributes towards tackling the climate emergency and the need to reduce the Winchester District's carbon footprint. All the new homes will meet the AECB (Association of Environmentally Conscious Buildings) or Passivhaus low energy building standard which requires the fabric of the building to be extremely efficient and air tight to minimise the heating requirement and carbon emissions and to minimise over-heating as the climate heats up. This produces healthy homes which are affordable to run and resilient to extreme climate events. The homes will take a large step in reducing the energy demand and will be ready to achieve net zero carbon when the electricity grid is fully decarbonised
- 1.3 The proposals also include significant improvements to the external environment including the creation of a new pocket park.
- 1.4 Homes For All

The new homes provide a mix of tenures with 35 new shared ownership homes and 41 flats for sub-market rent. The homes are aimed at low paid workers, including younger people and key workers, earning around and below median incomes who are not necessarily on the Hampshire Home Choice Register.

This reflects the 'Homes for All' priority, enabling more young people to live in the district and encourage diverse, healthy and cohesive communities

- 1.5 Vibrant Local Economy
- 1.6 Homes for younger, working people helps to support the local economy by enabling employees of local businesses to live in Winchester.
- 1.7 Living Well

The significant improvements proposed for the open spaces at the Winnall Flats site, including a pocket park with a play area for younger children, meeting areas and food growing beds, will provide more useable and accessible areas for recreation. This will support the 'Living Well' priority - attractive and well-used public facilities and green spaces with space for relaxation and play

- 1.8 Your Services, Your Voice
- 1.9 The improvements to the open spaces on the site reflects the objectives in the Winnall Community Plan and Winnall Planning Framework which both mention the need to enhance the green spaces in Winnall with play facilities, community gardens and dog bins.

2 FINANCIAL IMPLICATIONS

- 2.1 The total cost of the scheme is £18,840,000. A number of funding applications have been made to support the scheme. A Homes England grant application will be submitted for a minimum £30,000 per unit of shared ownership homes, a total of £1,050,000. In addition, a CIL funding application has been made for the provision of the new pocket park; and estate improvement funding for the improvements to the estate around the existing blocks of flats. The scheme budget was approved via the HRA Budget 2021-22 & Business Plan report CAB3290 dated 11 February 2021 with an approved total scheme cost of £17,943,309. The updated total scheme cost of £18,840,000 is an increase on the approved budget of £896,691. This increase can be met from within the New Homes capital programme.
- 2.2 The scheme has a total net cost to the Housing Revenue Account (HRA) of £13,628,179. Provision for funding the scheme has been included in the HRA new build capital programme 2021/23. Financial details are set out in the Supporting Information section of the report.
- 2.3 The total scheme development costs are higher than average as they include the cost of the improvements to the existing estate. This includes new parking courts, re-routing the access road to provide a new pocket path, a new spinal path to link the 4 existing blocks, new paving, doors, canopies and tiling to the existing blocks and landscaping across the whole site including 131 new trees.
- 2.4 In addition the new homes meet the AECB / Passivhaus low energy building standard energy specification as outlined in paragraph 1.2 which adds about 10% to the build cost. They also meet the new fire regulations for buildings over 11 meters including sprinklers and cavity barriers surrounding the windows and at the junctions of the compartment walls and floors, which all add additional cost to the scheme.
- 2.5 The financial appraisal is based on a Net Present Value (NPV) model and this indicates that the project is NPV positive and financially viable given the assumptions provided in appendix 4. The viability assessment indicates a positive net present value of £595,675.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 The scheme has been procured using a two-stage design and build tender process through the Southern Construction Framework (approved via CAB3198, December 2019). The successful contractor from this process, Wates Construction Limited, were appointed under a Pre-Construction Services Agreement and have completed an open book procurement exercise for the trade packages for the building works. The returns have been thoroughly and extensively reviewed by the council's appointed Employer's Agent and Quantity Surveyor. The process meets the criteria in the Public Contract Regulations 2015 (as amended) and the council's Contract Procedure Rules.

- 3.2 Section 122(2A) and 123(2A)of the Local Government Act require that before appropriating and disposing of any land consisting of or forming part of open space the Council must place advertisements in two consecutive editions of a local newspaper and consider any objections received in response. Disposal is considered at paragraph 13.1 of this report and was undertaken in accordance with statutory criteria.
- 3.3 Under section 1 of the Localism Act 2011, the council has the power to undertake any activity a normal person could undertake, so long as not otherwise prohibited by an express statutory restriction. There are no such prohibitions that apply, and therefore the council may pursue the Scheme under this power and take steps to deliver it. In doing so, it will be subject to other statutory and common law obligations, including in relation to consultation. In reaching decisions, the council must observe general public law principles framed by the Wednesbury test, i.e. to take account of all relevant considerations, to disregard irrelevant ones, and to act in rational manner. Moreover, the council should have regard to its fiduciary duty, having regard to council tax-payers in particular.
- 3.4 The Council has a broad power to provide housing accommodation under section 9, Housing Act 1985 that can be relied on in this project. Section 9 contains no restriction on the type of tenure that must be used if the Council decides to provide the accommodation, or on whether the Council must retain ownership. The power can be relied on where some properties will be developed for tenure such as shared ownership.
- 3.5 The Council has had regard to its obligations under section 1 Local Government Act 1999 to secure continuous improvement in the way in which its functions are exercised having regard to economy, efficiency and effectiveness. A range of options have been properly considered.
- 3.6 Regulation 63 of the Habitats Regulations 2017 requires that the planning authority can only grant planning permission after it has ascertained that the proposal will not adversely affect a protected European site. In order to meet the statutory test the council as developer must provide appropriate mitigation to off-set the nitrate impact of the development. Natural England guidance recommends an occupancy rate of 2.4 any lower rate must be appropriately justified. Natural England is content with the recommended off-setting approach of securing nitrate credits through an appropriate s106 agreement or undertaking along with a Grampian condition.

4 WORKFORCE IMPLICATIONS

- 4.1 None within existing Business Plan objectives
- 5 PROPERTY AND ASSET IMPLICATIONS
- 5.1 The proposed scheme provides 76 new homes on land within the Council's ownership.

6 CONSULTATION AND COMMUNICATION

- Two main consultation events were held with the local community with further updates via newsletter and drop-in events. Comments helped inform the design process prior to the submission of the planning application. The main purpose of the first event for residents in July 2018 was to inform the design and use of the open spaces around the flats. 60-70 residents attended the event. Keeping and improving green space was clearly important to people. There was a strong call to keep trees, and ideas such as small play areas and quiet sitting areas were popular. Residents also asked for outside areas to socialise. The new pocket park meets these suggestions. There were requests for dog walking and exercising areas to be kept separate from the other communal spaces and parking to be spread across the site in smaller parking courts both of which have been designed into the external areas.
- 6.2 The second event in October 2020 was a virtual consultation event for residents, to gather feedback on the design of the new homes and proposals for the parking and open spaces prior to the planning application. Residents asked whether there will be sufficient parking and it was explained that the parking provision is based on parking surveys conducted over many months, including during the pandemic. Other questions included how many new trees would be planted (131); what improvements were planned for the existing flats as part of the project, the entrances and areas around the flats will be improved; and residents asked how to apply for one of the new homes.
- 6.3 Local members have been regularly updated throughout the development of the project.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 Consistent with the council's Climate Emergency priorities the development be designed to AECB/Passivhaus low energy building standard with the aim that the properties will take a large step in reducing the energy demand and will be ready to achieve net zero carbon when the electricity grid is fully decarbonised
- 7.2 External consultants Greenbox Associates have been appointed as green energy specialists to consider energy and design options. Their report confirms that building this scheme to the AECB/Passivhaus low energy standard will achieve carbon savings of approximately 27% above Building Regulation requirements. Building to our usual planning requirements would see 19% improvement in carbon savings.
- 7.3 The scheme was granted planning consent in May 2021 following the submission of detailed information on the issues of sustainability, ecology, air quality, noise and climate change mitigation. All of the homes meet current planning guidelines on water sustainability and significantly exceed planning policy on reducing energy and carbon emissions.

7.4 The scheme design takes account of the council's emerging Air Quality Supplementary Planning Guidance with regard to noise reduction and not using gas boilers; Electric Vehicle charging points are provided as well as secure cycle storage for residents.

8 EQUALITY IMPACT ASSESSEMENT

- 8.1 An Equality Impact Assessment has been completed for the Housing Development Strategy approved by Cabinet in March 2021 (CAB3291).
- 8.2 In terms of equality and social implications, the proposals will increase the supply of affordable housing which will be of benefit to disadvantaged groups and therefore in compliance with the city council's public sector equality duty..
- 8.3 The homes will be built to AECB/passivhaus low energy building standards of energy efficiency which will reduce running costs for tenants. .Significant environmental works to the open space surrounding the blocks will help facilitate a healthier living environment for new and existing tenants.
- 9 <u>DATA PROTECTION IMPACT ASSESSMENT</u>
- 9.1 None required

9.2 RISK MANAGEMENT

9.3 The scheme has been subject to a full risk assessment and the risk register is regularly reviewed at the Winnall Project Board meeting. The principal risk identified through the detailed design process are the issues of contamination in the ground and the diversion of utilities. These risks have been reduced through detailed ground and utilities investigations, so that the provisional cost included in the contract sum has been minimised as far as possible. There is also a risk that the contract sum will increase if the contractor is unable to start on site in early August 2021.

Risk	Mitigation	Opportunities
Property	Detailed surveys of	
Delays due to	utilities and ground	Contractor has
contamination or due to	condition, together with	programmed further site
unforeseen utility	detailed designs have	investigations once start
diversions	mitigated risks.	on site is achieved
Delays due to lack of	Risk of delays to	Contractor to place early
availability of materials	materials reaching site	order of materials such as
		bricks
Community Support	Planning consent granted	Contractor to arrange a
Small number of	with minimal public	community event once

residents object to proposals	objection	project is approved
Timescales – Start on site delayed due to: *Need to discharge precommencement planning conditions	Detailed design work and discharge of most pre- commencement planning conditions before contract award. Design and Build contract to be drafted ready to sign following	Contractor is ready to start on site on 1 August if project is approved. Contractor has highlighted the risk that costs will increase due to inflation if start on site is not
*Garage licensees have not vacated their garage	Cabinet approval.	achieved on 1 August
*Hampshire Highways delay in approval of highways works including S278 and S38 agreements – extent of adopted road not yet	Most garages have been cleared ready for demolition. Potential risk that Hampshire Highways will delay scheme but early contact has been made.	
agreed *Contract amendments may delay start on site	Contract amendments under discussion	
Project capacity	Staff resources allocated	
Financial / VfM Scheme viability	Two-Stage Design & Build contract approach should assist in reducing unforeseen costs by transferring risk to the	Several procurement routes were explored before approving the two stage approach
Risk of increase to contract sum due to contamination and need for utilities to be diverted – provisional sum in contract price.	contractor. Contract sum is fixed apart from a provisional sum for contamination/asbestos and utility diversions. However contractor has accepted risk cost of preliminaries and time.	Financial appraisal includes a sum for contingency
Risk of contract sum being increased due to a number of outstanding items not yet fully agreed, including specification details	Likely to be savings on some items and additional expenditure on others	Any additional expenditure will improve the quality of the specification.
Legal	Full title search was carried out at the project inception stage and advice on procurement issues was obtained	
Innovation	Light weight steel frame.	Modular construction was

	AECB standard for energy specification	considered; however it was estimated to add a further 20% to the scheme cost and was rejected as an option
Reputation	The scheme has been presented as a mix of shared ownership and sub-market rent. The latter relies on Housing Company or other vehicle to own or lease the units	The scheme could be developed as an affordable housing scheme; however community support has been received for a mixed tenure model
Other		

10 SUPPORTING INFORMATION:

- 10.1 Cabinet approved the outline business case for Winnall Flats new build scheme in December 2019 as well as the two-stage design and build contract route for the procurement of the building contract for the 76 homes through the Southern Construction Framework.
- 10.2 The original option agreed by Cabinet in December 2019 was to consider a partnership with Pocket Living to deliver Block A as a discounted market sale product for local key workers and younger households. After negotiations, Pocket Living withdrew from the project when it became clear they couldn't meet the property values required to make the scheme viable. Block A is now proposed to be shared ownership dwellings. It is the preference of the local community and local Members that an alternative form of affordable housing is provided in Block B to meet the needs of key workers and younger households which is a priority in the Council Plan. Authorisation is sought to allow the CHAM to continue to negotiate with a third party or Housing Company to achieve this objective.
- 10.3 Full planning consent was granted for 76 dwellings in May 2021. The overall scheme mix is in 2 x 5 storey blocks of flats and 3 individual houses:-
 - (i) Block A 14 x 1 bed/1 person shared ownership flats 18 x 2 bed/3 person shared ownership flats
 - (ii) Block B 41 x 1 bed/1 person flats for sub-market rent
 - (iii) 3 x 2 bed/4 person shared ownership houses
- 10.4 The small 1 bedroom flats in blocks A and B are 40sqm which meets the nationally described space standards for single person occupancy. As part of addressing any nitrate impact so that planning permission can properly be

granted, the council is committed to ensuring these flats are not overoccupied: an occupancy condition will therefore be included in the tenancy agreement for the rented units limiting occupancy to single persons and will be enforced by the council as housing authority. The shared ownership flats will also include an equivalent occupancy condition in the leases limiting occupancy to 2 persons.

- 10.5 Wates Construction Limited having been appointed under a Pre-Construction Services Agreement through the Southern Construction Framework have developed the design for the Winnall Flats project to facilitate a planning submission and develop a Contract Sum on an open book basis. The open book process required trade packages to be tendered to a minimum of three subcontractors with the resulting tender returns being analysed and compared. All tender returns were shared with Welling the Council's appointed Employer's Agent and Quantity Surveyor and thoroughly and extensively reviewed. This resulted in a series of detailed questions being presented to Wates which were reviewed and discussed.
- 10.6 Welling confirm that each of the trade contractors whose tenders were carried forward to the Contract Sum were the most commercially competitive in all instances and without exception. All other elements of the Contract Sum were similarly and comprehensively reviewed for value for money and where appropriate compliance with requirements of the SCF. This included but not limited to design fees, preliminaries and all on-costs.
- 10.7 Welling confirm that the two-stage tender process has been appropriately administered and suitably concluded. The resultant Contract Sum which includes all pre-construction costs falls within an acceptable range for a project of this nature when making allowance for all relevant considerations and being cognisant of all abnormal items. Therefore the proposed Contract Sum represents value for money. Welling recommend that the Council accept the proposal in order to facilitate an expedient start on site.
- 10.8 The total scheme cost is £18,840,000, including pre and post-contract fees and design contingency. The full Tender Report from Welling can be found at exempt appendices 1 and 2.

11 Funding

- 11.1 An indicative Homes England funding bid for £1,050,000, will be submitted to fund the shared ownership element of the scheme (Block A and the houses). This equates to £30,000 per shared ownership dwelling and is subject to negotiation and final agreement with Homes England.
- 11.2 A CIL funding application for £755,000 has been made. This is required to fund the removal of the access road to Earle House, the creation of a community park and improved access to the network of footpaths within the Winnall estate. This is not required for the new homes but will provide significant health and well-being benefits to existing and new residents.

- 11.3 £400,000 estate improvement grant funding has been proposed to improve the estate areas excluding the new community park. This includes new paths, planting and bin stores for the existing flats.
- 11.4 35 of the homes will be of shared ownership leasehold tenure, which is projected to initially contribute £ 2,990,821 of sales income.
- 11.5 The total net capital funding requirement for the Housing Revenue Account (HRA) is therefore £13,628,179 after taking account of all specific funding sources. The scheme budget was approved via the HRA Budget 2021-22 & Business Plan report CAB3290 11/2/2021 with an approved total scheme cost of £17,943,309. The updated total scheme cost for the Winnall scheme is now £18,840,000, an increase on the approved budget of £896,691.

12 <u>Financial Viability</u>

- 12.1 The scheme is financially viable as both an all affordable housing scheme where Block A (and houses) are shared ownership and Block B is affordable rented, and a hybrid scheme where Block A (and houses) are shared ownership and Block B is delivered through a council owned Housing Company or third party organisation.
- 12.2 The council's and local communities' preference is that the second hybrid option is preferable if a suitable third party ownership vehicle can be established. As previously noted authority is requested for the CHAM to continue investigations to establish a suitable vehicle as the construction phase progresses.

13 Other approvals

- 13.1 Disposal of the Open space The potential loss of the open space at Winnall Flats site was advertised in accordance with S123 (1) (2A) of the Local Government Act 1972 for a period of 2 consecutive weeks in September 2020. There were no comments or objections made in response to the advertisement. There was one objection received in response to an article in the Hampshire Chronicle in March 2020. The resident objected to the plans due to concerns about fire risk, insufficient parking and bats roosting in the trees. These issues have been addressed in the planning application. Members are requested to confirm the disposal of the open space.
- 14.2 Tenure 35 of the new homes on the site will be for shared ownership. In September 2020, MCHLG introduced a new shared ownership model which will reduce the minimum initial ownership stake from 25% to 10% and will enable purchasers to then buy further shares in smaller instalments of as little as 1%. The financial appraisal has taken account of the new shared ownership model. The sales manager will offer the initial ownership stake at 10% where appropriate. Members are requested to approve the sale of the shared ownership homes.

- 13.2 The remaining 41 new homes on the site will be let at sub-market rents either through a council owned Housing Company or through a third party organisation that is able to let properties on assured shorthold tenancies (ASTs) at sub-market rents. The financial appraisal assumes the rents at 90% of open market rents. Members are requested to approve the use of Block B to provide sub-market rental units on ASTs.
- 13.3 Nitrates mitigation two options are being progressed to address the recommended Grampian condition on the planning consent to mitigate the nitrates produced by the scheme. One option is to create a wetland area on a site owned by the council in Micheldever. The other option is to purchase nitrates credits from a third party prior to occupation of the scheme. Members are asked to approve the nitrates mitigation plan for the project in perpetuity.
- 13.4 The small 1 bedroom flats in blocks A and B are 39sqm which meets the nationally described space standards for single person occupancy. As part of addressing any nitrate impact so that planning permission can properly be granted, the council is committed to ensuring these flats are not over-occupied: an occupancy condition will therefore be included in the tenancy agreement for these rented units limiting occupancy to single persons and will be enforced by the council as housing authority. The shared ownership flats will also include an equivalent occupancy condition in the leases limiting occupancy to 2 persons
- 13.5 Two council schemes which are due for completion in June 2021 include a number of shared ownership and discounted market sale units. The Valley scheme was approved by Cabinet, CAB3112(HSG) 20/03/21 and has 23 x 2 bedroom flats to be sold as shared ownership homes. The site off Hookpit Farm Lane (approved by Cabinet CAB 3147(HSG)) in Kings Worthy includes 8 shared ownership homes with a mix of 2, 3 and 4 bedroom houses and 2 x 2 bedroom houses to be sold as discounted market sale homes. Approval is sought for the sale of the homes across the two sites in keeping with the Housing Development Strategy agreed by Cabinet on 10 March 2021 (CAB3291).

14 OTHER OPTIONS CONSIDERED AND REJECTED

- 14.1 Whilst the Council have no obligation to proceed to Contract, Welling suggest it is highly probable that should the Winnall Flats project be re-tendered on a competitive basis the resulting process would create a significant delay with the prospect of cost increases over the tender and build period. This option is therefore rejected.
- 14.2 The Winnall Flats Project Board considered the proposal to let Block B at affordable rents on secure tenancies. This option is also financially viable. However it doesn't meet the objectives of the project, communicated to stakeholders throughout the development of the project, to provide housing for low paid workers, including younger people and key workers, earning around and below median incomes who are not necessarily on the Hampshire

- Homes Choice Register. A significant number of small flats such as those being provided, let through Hampshire Home Choice, are likely to create housing management issues.
- 14.3 The Project Board considered the additional cost to provide significant improvements to the environment around the flats and to the entrances to the existing flats. They agreed that these costs should be included in the project with additional funding from elsewhere (CIL and estate improvement funding)

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

<u>CAB 3198</u> WINNALL FLATS – APPROVAL OF OUTLINE BUSINESS CASE & PROCUREMENT PROCESS 23 December 2019

Other Background Documents:-

None

APPENDICES:

Exempt Appendix 1 - Tender Report, Winnall Flats site Exempt Appendix 2 - Contract sum analysis, Winnall Flats site

Exempt Appendix 3 – Summary Outcome of the financial viability assessment Exempt Appendix 4 – Inputs and Assumptions used in the financial viability assessment