

DECISION TAKER: CABINET MEMBER FOR HOUSING AND ASSET MANAGEMENT – COUNCILLOR KELSIE LEARNEY

REPORT TITLE: NEW HOMES SCHEME – OUTLINE BUSINESS CASE – WITHERBED LANE

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WARD(S): WHITELEY AND SHEDFIELD

## PURPOSE

This report seeks approval of the outline business case to construct four dwellings to be affordable homes located at Witherbed Lane, Segensworth including the submission of a planning application and obtaining tenders to construct the scheme.

The proposals contained in this report support the target contained in the Housing Development Strategy of building 1,000 homes between 2021 and 2030. Additionally, the report's proposals support, and are consistent with the Council Plan priority of achieving carbon neutrality in the district by 2030.

## RECOMMENDATIONS:

1. Authorise the Corporate Head of Asset Management to prepare and submit a planning application to the statutory planning authority to obtain planning permission for the construction of four residential properties at Witherbed Lane, Segensworth.
2. Authorise the Corporate Head of Asset Management to approve expenditure of pre-construction costs up to £75,000 and that this work proceeds at a financial risk to the Council.
3. Authorise the Corporate Head of Asset Management to prepare procurement documentation and subject to planning approval to invite tenders to undertake the design and build of four properties at Witherbed Lane, Segensworth, using

a standard JCT Design and Build Contract the results of which will be reported back to Cabinet prior to an award of contract.

4. Authorise the Corporate Head of Asset Management to negotiate and agree terms for easements, wayleaves and related agreements with utility providers, telecom/media suppliers, the Highways Authority and neighbours in order to facilitate the development subject to final decision by Cabinet to proceed with the proposed scheme.
5. Approve a deviation from the tender evaluation model within Contract Procedure Rules (60% cost / 40% quality) to use a tender evaluation model giving more emphasis to quality than cost (60% quality / 40% cost).

## IMPLICATIONS:

### 1 COUNCIL PLAN OUTCOME

- 1.1 The building of new energy-efficient council homes assists in the delivery of Council Plan outcome – Homes for All. This strategy sets out how the Council can achieve *‘All homes to be energy efficient and affordable to run’* by *‘Building significantly more homes ourselves’* and *‘Moving the energy efficiency of new and existing homes towards zero carbon’*. The proposed scheme will be constructed to the highly energy-efficient PassivHaus Building Standard and certified as such. This approach aligns with the Council’s commitment to tackling the climate emergency. It will also meet the requirements of Approved Document M4 (2) Accessible and adaptable dwellings.

### 2 FINANCIAL IMPLICATIONS

- 2.1 The scheme meets the Councils financial viability test criteria as follows:
- Scheme Net Present Value (NPV) – PASS
  - Interest cover – PASS
  - Total Scheme Cost (TSC) / market value – PASS
- 2.2 The proposed scheme has a positive NPV of £261,463, rental income covering interest costs, and the assessed indicative market value of the scheme exceeding its net costs. This is based on indicative rents at 70% of market rent.
- 2.3 The financial commitment to submit a planning application and start the tender process has been budgeted for within the Housing Revenue Account
- 2.4 The Total Scheme Cost (TSC) is estimated at: £1,040,667 including a risk contingency and uplift to achieve PassivHaus building standard. This represents an average build cost of £260,166 per unit.
- 2.5 The financial appraisal is contained in Exempt 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.
- 2.6 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 remains viable and sustainable.
- 2.7 With the exception of individual grants and funds hypothecated for particular schemes, the funding of the overall programme is undertaken annually to maximise the Council’s financial flexibility and this means decisions upon the final mix of funding have yet to be made.

Please see Exempt Appendix 1 for further details on scheme viability.

### 3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 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.
- 3.2 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.
- 3.3 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.
- 3.4 Baker Ruff Hannon has been appointed by the Council as Employer's Agent for this project and has provided a report (Appendix 2) outlining procurement and contract options.
- 3.5 The report recommends a single-stage tender process, and adopting a design and build approach using a standard JCT contract.
- 3.6 The recommended tender evaluation model (60% quality / 40% cost) places emphasis on quality to facilitate the appointment an experienced contractor to minimise the performance gap given that building to the Passivhaus standard is new to the UK construction industry.
- 3.7 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 Ward councillors have been consulted from an early stage and support the proposed scheme.
- 4.2 There has been direct consultation with immediate neighbours. Due to the site's location – an isolated residential road within an industrial estate – it was possible to contact residents of the six properties on Witherbed Lane directly

with details of the proposed scheme. Two of the six neighbours responded to the consultation and raised concerns about parking and the existing road surface. Adequate parking in line with planning requirements will be provided for the four proposed new homes and these homes will be situated beyond the current houses on Witherbed Lane, all of which have off-street parking. For these reasons it is not anticipated that vehicles associated with the proposed new homes will affect parking for the current residents of Witherbed Lane. The condition of the road surface will be photographed by the contractor prior to commencing work on site so any deterioration resulting from construction traffic will be apparent and can be rectified after building work is complete. Where possible and practicable these concerns will be addressed.

- 4.3 An online consultation was hosted on Citizen Space from 19 – 31 May 2021: <https://winchester.citizenspace.com/housing/witherbed-lane-consultation/>. No responses were received.
- 4.4 TACT (Tenants and Council Together) has had the opportunity to comment on the New Homes programme which this scheme forms a part of and will be invited to comment on these specific plans prior to submission of a planning application.

## 5 ENVIRONMENTAL CONSIDERATIONS

- 5.1 These homes will be built and certified to the PassivHaus building standard so will be highly energy-efficient meaning residents will use less energy and have lower bills. This fabric first approach to construction supports the Council's ambition to be a carbon neutral district by 2030.
- 5.2 Green Box Associates – an experienced and certified PassivHaus design consultancy – has been appointed to: develop PHPP models; review designs; advise on renewables; and support PassivHaus certification. Green Box has shown that these homes' carbon emissions will be reduced by 44% (based on SAP 12 methodology) as a result of the energy efficiency measures and the use of low and zero carbon technologies.
- 5.3 High levels of airtightness will necessitate mechanical ventilation with heat recovery. An air-source heat pump will provide heating and hot water.
- 5.4 An ecological assessment has been conducted by Eco Support recommending the following measures: ecologist to supervise felling of oak tree containing potential bat roost features; suitable external lighting to protect bats; four bat boxes; Dormouse Mitigation Strategy; protect boundary trees; protect nesting birds; and provide two hedgehog homes.

## 6 EQUALITY IMPACT ASSESSEMENT

- 6.1 The Council's Housing Strategy and Housing Development Strategy are relevant to this decision and were subject to an Equality Impact Assessment which has been considered by Officers in the preparation of this report and project and no update is required. Officers will re-evaluate the public sector equality duty on an on-going basis as this project progresses.

## 7 RISK MANAGEMENT

- 7.1 The scheme proposed is the Council's second PassivHaus project and first that will be undertaken using a design and build contract. The Employer's Agent has considerable experience overseeing PassivHaus projects and the procurement process will aim to secure competitive tenders from building contractors with commensurate experience. A risk register will be maintained and updated throughout the project.
- 7.2 The main risk is tender prices exceeding available budget – this is linked to current buoyancy of the building sector and relative novelty of building to the PassivHaus standard in the UK. There is a risk that suitable building contractors do not submit tenders or submit inflated tenders reflecting current high levels of demand and increasing costs of building materials.

<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<b><i>Property – PassivHaus performance gap (not built as designed)</i></b>	Clerk of Works to monitor. PassivHaus certification. Appointed Employer's Agent has considerable experience overseeing PassivHaus projects.	Identify and share any performance gap / build issues that arise in order to learn lessons from this pilot project.
<b><i>Community Support – planning objections</i></b>	Direct consultation with affected neighbours. Sympathetically designed scheme in keeping with local area.	Maintain involvement with local residents and improve visual amenity of Witherbed Lane benefiting existing residents / homes.
<b><i>Timescales – ecology work to take place at particular times of year (avoiding nesting seasons) could delay start on site</i></b>	Instruct seasonal ecology work outside of build contract to enable timely starting on site	Include recommendations from ecology report to benefit wildlife in immediate area and demonstrate best practice.
<b><i>Project capacity – lack of New Homes capacity (no project support officer in post) / staff shortage leading to delays</i></b>	Share project plan and agreed timescales with colleagues to escalate in case of staff absence	To fully understand all elements of project management and administration involved
<b><i>Financial / VfM – tender prices exceed available budget</i></b>	Select procurement route that provides greatest flexibility in terms of products and materials i.e. Design and Build	Work with new contractor who is willing to upskill and learn about PassivHaus to work with the Council

<b>Legal</b> – <i>successful procurement challenge</i>	The tender process will be conducted in accordance with Contract Procedure Rules and PCR2015. The Procurement Team will support the process.	Work with bidders to include consultation feedback
<b>Innovation</b> – <i>building to PassivHaus standard</i>	Experienced Employer's Agent overseeing project	New building standard. Reduced energy bills for residents.
<i>Reputation</i>		
<i>Other</i>		

## 8 OTHER KEY ISSUES

8.1 None

## 9 SUPPORTING INFORMATION:

- 9.1 **Site** – the site is 2,254 sqm of Council-owned land, adjacent to a railway line and close to the M27. The site contains low vegetation and a number of self-seeded semi-mature trees which are of little arboricultural value. It is currently an unused pocket of land between the railway cutting and six existing semi-detached homes on Witherbed Lane.
- 9.2 **Planning** – this report is seeking approval to submit a planning application for the development of four new affordable housing units. Pre-application advice about the proposed development has been sought and taken into account.
- 9.3 **Procurement** – this report is also seeking approval to tender for a design and build contract inviting building contractors to submit tenders to complete the detailed design and build of these four new affordable homes at Witherbed Lane, Segensworth. A design and build approach is recommended to reduce the Council's financial risk by transferring this to the contractor. The relative simplicity of the build has led to a single-stage tender process being recommended. In their procurement options report (Appendix 2) the Council's Employer's Agent has recommended this single-stage procurement and a Design and Build approach, using a standard JCT contract. The Employer's Agent has indicated that quality will be a significant factor to consider when evaluating tenders to ensure an appropriate appointment so a deviation from the council's tender evaluation model is being sought to increase the weighting on quality (60% quality / 40% cost) and 10% of the quality element will be allocated for social and environmental factors. As the council's first Passivhaus scheme using a Design and Build contract it is critical to appoint a competent and experienced contractor to guard against the quality of the design and build being compromised to make financial savings. Weighting tender evaluations in favour of quality, places emphasis on value which should minimise the performance gap between building design and operation

given that building to the Passivhaus standard is not yet commonplace in the UK construction industry.

- 9.4 **Accommodation** – there are four affordable rented homes proposed: 2no. 3bed 5person; and 2no. 2bed 4person. These new homes will be sensitively designed to be in keeping with the existing aesthetic. The new properties will each have a garden and adequate parking provision. Homes will meet the Nationally Described Space Standards and will comply with Building Regulations Approved Document M4 (2) Accessible and adaptable dwellings, and Building Regulations Approved Document Part Q Security.
- 9.5 **Building standard** – the new homes will be built to the PassivHaus building standard (and certified) which ensures a high level of airtightness and therefore low energy demand. An air-source heat pump will provide heating and hot water. Mechanical ventilation with heat recovery will ensure fresh air circulation. No photovoltaic panels are included because the area is shaded by large trees. Green Box Associates has been appointed to model energy demand (using PassivHaus software) for the proposed homes and to oversee the PassivHaus certification process which starts during the early design stage and continues through to practical completion.
- 9.6 **Ecology** – initial ecology and bat emergence surveys have been completed and recommendations from the ecological report will be implemented. No evidence of dormice has been found. Bat and bird boxes will be included to promote biodiversity along with hedgehog houses and runs between gardens to provide routes through gardens to the surrounding woodland. Proposals will benefit the retained trees by allowing light to encourage low level vegetation which in turn will support small mammals, reptiles and insect life.
- 9.7 **Consultations** – ward councillors have been consulted on the scheme from an early stage and are supportive of the proposed new homes. The residents have been approached directly due to the small number affected and none objected to the principle of some further development in Witherbed Lane. No responses were received to the online consultation.
- 9.8 **Financial viability** – the scheme is financially viable as shown in Exempt Appendix 1. It passes the financial tests that have been applied, detailed in 2.1 above. The new homes are proposed for rent at 70% of market value and are to be held within the Housing Revenue Account.
- 9.9 **Abnormals** – designing and building to the PassivHaus Building Standard and complying with Approved Document M4 (2) attracts additional costs. The site also requires piled foundations (recommendation from ground investigation report) that are more expensive. These costs are reflected in the TSC.
- 10 **OTHER OPTIONS CONSIDERED AND REJECTED**



#### 10.1 **Two alternative building standards:**

- Building Regs compliance (+19% Dwelling Emissions Rate improvement on Part L1B)
- AECB (Association of Environmental Conscious Building) building standard
- Above options were both considered but are lower than the PassivHaus building standard; because PassivHaus is achievable and practicable on this relatively simple build and is in line with the Council's carbon reduction targets, it is the building standard that has been adopted.

10.2 **Alternative building contract:** a traditional procurement route was considered and the advantages – including maintaining more control of the build – were considered but this route was disregarded in favour of a design and build route using a standard JCT contract that transfers risk to the contractor enabling the council to better control the cost.

10.3 **Do nothing:** would result in no new homes being built on site and no increased rental income to the Council. Not considered good use of asset.

10.4 **Build six houses:** the pre-application planning received resulted in a reduction of units on the site being proposed.

#### BACKGROUND DOCUMENTS:-

##### Previous Cabinet/Committee Reports or Cabinet Member Decisions:-

None

##### Other Background Documents:-

None

#### APPENDICES:

Exempt Appendix 1 – Financial viability assessment

Appendix 2 – Procurement and contract options report