

REPORT TITLE: FINAL BUSINESS APPROVAL – THE VALLEY, NEW HOMES DEVELOPMENT

20 MARCH 2019

REPORT OF PORTFOLIO HOLDER: LEADER WITH PORTFOLIO FOR HOUSING

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WARD(S): ST LUKES

PURPOSE

In October 2017, the Council approved the business case for the development of a 77 home scheme at the Valley in Stanmore.

This report sets out progress and the outcome of the recent procurement process. It seeks authorisation to proceed with The Valley new homes scheme and enter into a building contract with Galliford Try Building Ltd to construct the 77 properties.

RECOMMENDATIONS:

1. That the Corporate Head of Housing be authorised to enter into a design and build contract to construct 77 properties at The Valley, Winchester with Galliford Try Building Ltd for the sum as detailed in exempt appendix 1.
2. That in accordance with Financial Procedure Rule 6.4, capital expenditure of up to £18,931,151, including contingency funding and estimated fees as set out in exempt appendix 2 be approved.
3. That the Corporate Head of Asset Management 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.

IMPLICATIONS:

1 COUNCIL STRATEGY OUTCOME

- 1.1 This scheme supports Delivering quality housing options – the scheme will provide a mix of affordable rented and shared ownership properties for the District's residents

2 FINANCIAL IMPLICATIONS

- 2.1 The scheme has a total cost of £18,931,151. The scheme has attracted external subsidy of £3,003,000 from Homes England and has a total net cost to the Housing Revenue Account (HRA) of £16,769,151 (excluding Homes England Grant). Provision for funding has been included in the HRA new build capital programme 2019/20. Financial details are set out in the Supporting Information section of the report.
- 2.2 Whilst development costs are high, the viability assessment indicates a positive net present value of £169,741, at year 39 and a net scheme cost as a percentage of market value of 91.3% .

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 The scheme was procured using a two-stage design and build tender process through the Southern Construction Framework (approved via CAB2973 (HSG)).

4 WORKFORCE IMPLICATIONS

- 4.1 None – within existing Business Plan objectives

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 The proposed scheme provides 77 new affordable homes on land within the Council's ownership.

6 CONSULTATION AND COMMUNICATION

- 6.1 Two main consultation events were held with the local community during 2016 where comments helped inform the design process prior to the submission of the planning application. A separate drop-in event was held during the same period for residents of the elderly persons' scheme opposite the site.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 The scheme was granted planning consent in July 2017 following the submission of detailed information on the issues of ecology, traffic implications and sustainability. All of the homes meet current planning guidelines on energy and water sustainability.

8 EQUALITY IMPACT ASSESSEMENT

8.1 none

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 none

10 RISK MANAGEMENT

10.1 The principal risk identified through the detailed design process is the issue of ground conditions, particularly as the majority of the development will be on a sloping site. This has been mitigated through the Contractor accepting the below ground risks of the project within the tender proposals.

Risk	Mitigation	Opportunities
<i>Property Sub surface issues</i>	Contractor has accepted all sub-surface construction risks	Contract sum could have been reduced if Council accepted sub-surface risks
<i>Community Support</i>	Planning consent granted with minimal public objection	
<i>Timescales – Start on site delayed</i>	Detailed design work and discharge of planning conditions before contract award. Design and Build contract to be drafted ready to sign following Cabinet approval	
<i>Project capacity</i>	Staff resources allocated	
<i>Financial / VfM Scheme viability</i>	Two-Stage Design & Build contract approach should assist in reducing unforeseen costs by transferring risk to the contractor	
<i>Legal</i>	Full title search was carried out at the project inception stage and advice on procurement issues obtained	
<i>Innovation</i>	Standard brick and block construction to be used	
<i>Reputation</i>		
<i>Other</i>		

11 SUPPORTING INFORMATION:

- 11.1 Cabinet approved the outline business case for The Valley new build scheme in October 2017 as well as the two-stage design and build contract route for the procurement of the building contract for the 77 homes
- 11.2 Full planning consent was granted for 67 dwellings with a further 10 approved with outline consent in July 2017, 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 overall scheme mix is now:-
- (i) 32 x 1 bed rented flats
 - (ii) 7 x 2 bed rented flats
 - (iii) 23 x 2 bed shared ownership flats
 - (iv) 11 x 2 bed rented houses
 - (v) 2 x 4 bed rented houses
 - (vi) 1 x 3 bed rented flat
 - (vii) 1 x 3 bed rented bungalow.
- 11.3 The Council engaged the services of Selway Joyce Limited, Chartered Surveyors, as its Employer's Agent and Quantity Surveyor for the scheme. They were instructed to provide procurement options advice to help determine the most effective and efficient approach to tendering for this particular project. The final selection of the two-stage tender procurement route took into account the constraints and objectives of the project
- 11.4 Having recommended a two-stage approach, Selway Joyce Limited looked at potential OJEU (Official Journal of the European Union) 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 two-stage approach, they 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
- 11.5 The tender was subsequently undertaken as part of the two-stage tender process through the Southern Construction Framework and the successful contractor, Drew Smith Limited, part of the Galliford Try Group were contracted under the Pre-Construction Services Agreement to complete RIBA Stage 4 design, draft the Contractor's proposals and obtain competitive trade tenders. They were tasked with inviting a number of trade contractors to secure a minimum of three competitive subcontracts for each trade to

incorporate into the Contract Sum Analysis to provide a Contract Sum that they would enter into via a JCT Design and Build contract.

11.6 The Council's appointed Employer's Agent, Selway Joyce Ltd, reviewed the submission and scrutinised the trade package returns and other costs to agree a contract sum to recommend to the Council. The initial contract sum received in early December was significantly above the estimated contract sum. Following examination and negotiation by Selway Joyce Ltd, the contract sum was reduced. The principal savings were achieved by working with individual sub-contractors whose trade packages were the most costly, reviewing designs and seeking greater efficiencies.

11.7 The total scheme cost is £18,931,151, including pre and post-contract fees and design contingency. The full Tender Report from Selway Joyce Ltd can be found at exempt appendix 1.

12 Funding

12.1 Homes England has provided a grant of £3,003,000, which was based on the original budget estimates. As the actual cost is now substantially more than budgeted negotiations are on-going with Homes England to see if they would provide any additional grant funding. A verbal update on progress will be provided at the Cabinet (Housing) Committee meeting.

12.2 23 of the homes will be of shared ownership leasehold tenure, which is projected to initially contribute £2,162,000 of sales income.

12.3 The total net capital funding requirement for the Housing Revenue Account (HRA) is therefore £16,769,151 less HE grant of £3,003,000. The scheme was approved via the HRA Budget 2019/20 & Business Plan report CAB3111 (HSG), 30th January 2019 with an approved total scheme cost of £15,970,000. The updated total scheme cost for the Valley scheme will be included in the next HRA Budget paper scheduled for June 2019.

13 Financial Viability

13.1 Using the Council's viability criteria for benchmarking new build schemes the market valuation exceeds the build costs with a positive Net Present Value (NPV) of £169,741 at year 39. A summary is provided in Appendix 2 of the report

14 OTHER OPTIONS CONSIDERED AND REJECTED

14.1 When the initial Tender was returned significantly over budget various cost reduction options were considered. This involved excluding certain phases of the development where construction costs were particularly high. However, this did not help with the scheme viability as these phases contained the majority of the houses which provide higher rent levels and market values. Whilst excluding individual phases would reduce the overall capital funding

requirement there would also be a reduced grant made available from Homes England to take into account.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

CAB 2973(HSG) The Valley, Stanmore, Approval of Outline Business Case and Procurement Process, 4 October 2017

Other Background Documents:-

None

APPENDICES:

Exempt Appendix 1 - Tender Report, The Valley

Exempt Appendix 2 - Summary viability assessment