REPORT TITLE: COUNCIL HOUSING SCHEME, ROWLINGS ROAD, WEEKE, FINAL BUSINESS CASE APPROVAL

28 AUGUST 2019

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

Contact Officer: Andrew Palmer  Tel No: 01962 848293 Email apalmer@winchester.gov.uk

WARD(S): ST BARNABAS

PURPOSE

This report seeks final approval to enter into a build contract with FE Chase to construct 7 new Council properties at Rowlings Road, Weeke, Winchester for the sum of £1,109,048.21 (excluding VAT). Approval is sought in accordance with Financial Procedure Rule 7.4 for the capital expenditure of £1,430,205 for the project, as set out Appendix 1 and easements, wayleaves and related agreements with utility suppliers, telecom/media providers and neighbours in order to facilitate the development.

RECOMMENDATIONS:

1. That the Corporate Head of Housing be authorised to award a design and build contract with FE Chase to construct 7 new properties at Rowlings Road, Weeke, Winchester for the sum of £1,109,048.21.

2. That in accordance with Financial Procedure Rule 7.4, capital expenditure of £1,430,205 as set out in Appendix 1 be approved.

3. The Strategic Director – Services Interim be authorised to accept an increased Contract retention sum (as set out in paragraph 11.5) in lieu of a Performance Bond
4. That the Corporate Head of Asset Management be authorised to negotiate and agree terms to enter into easements, wayleaves and related agreements with utility suppliers, telecom/media providers and neighbours in order to facilitate the development.

5. That the Service Lead – Legal be authorised to enter into the design and build contract with FE Chase and 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 Delivering Quality Housing Options – the scheme will provide 7 affordable rented properties for the Districts residents

2 FINANCIAL IMPLICATIONS

2.1 The scheme has been included in the HRA new build capital programme 2019/20 which was part of CAB3098 (HSG) Housing Revenue Account (HRA) Budget Option Paper approved by Cabinet (HSG) on the 30th January 2019

2.2 The financial viability outcomes are summarised in Appendix 1. In order to meet affordability, the affordable rents have been set at 70% of market rent levels. The viability assumes rent levels at CPI + 1% for the next 5 years, in line with the rent standard and CPI only for future years. The total scheme cost is £1,430,205, equivalent to 91.39% of the property valuation level and under the 95% maximum test. The outline business case CAB2997 assumed a total scheme cost of £1,443,500, the current cost being £13,295 below this figure. The scheme is mainly funded by prudential borrowing of £1,245,665, with internal subsidy, including right to buy allowance, of £184,540. The loan funding is estimated to be repaid by year 35, driven from the annual net rental income. The scheme is due to start on site in August 2019 with practical completion assumed to be October 2020.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 The report requests the authority to negotiate and enter into agreements and contracts for the purpose of housing delivery by the Council at Rowlings Road. The Council has power to enter a contract with a third party by virtue of section 111 of the Local Government Act 1972, providing the power to do anything is calculated to facilitate, or is conducive or incidental to the discharge of any of its functions. Under section 1 of the Localism Act 2011, the Council has the power to undertake any activity a normal person could undertake, for the benefit of the authority, its area or persons resident or present in its area. The Council may be satisfied it has the enabling power(s) to award and enter into the relevant agreements.

3.2 The Council has an obligation as a best value authority under section 3 of the Local Government Act 1999 to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.” By following due process the Council’s Contract Procedure Rules, the Council will have observed its other statutory duties, including in regard to the duty to obtain best consideration.

3.3 A Prior Information Notice (PIN) was used to gain market interest in this opportunity and 8 contractors were invited to tender. The evaluation award criteria was based on 100% cost and 6 compliant tenders were received. The
winning tenderer represents best value to the council as set out in the Exempt Appendix 1.

3.4 Whilst a Judicial Review challenge is always a possibility where, as in these circumstance, the Council fully comply with the correct procedures, the risk of a successful challenge is considered minimal.

4 WORKFORCE IMPLICATIONS
4.1 None – within existing Business Plan objectives

5 PROPERTY AND ASSET IMPLICATIONS
5.1 7 new properties to be held within Housing Revenue Account, the scheme consists of 4 x 1 bed flats and 3 x 2 bed houses

6 CONSULTATION AND COMMUNICATION
6.1 A consultation event was carried out in July 2017 where the majority of attendees supported the provision of affordable housing on this site. A TACT member spoke in support of the scheme at the Cabinet (Housing) Committee meeting on the 22 November 2017 where the outline business case was presented to and debated by the Committee.

7 ENVIRONMENTAL CONSIDERATIONS
7.1 The scheme meets current planning and Building Regulation requirements on sustainability, additionally the contractor proposes to enhance these by the inclusion of a further 25% reduction on CO2 emissions from the Building Regulations standard through the use Photovoltaic Panels, an enhanced fabric specification and restricting water use to 105ltrs per person per day. The properties will have the ability to have Electric Vehicle charging points fitted if required by residents through the installation of appropriate cabling & ducting.

8 EQUALITY IMPACT ASSESSEMENT
8.1 The Council’s Housing Strategy was subject to an Equality Impact Assessment which has been considered by Officers and no update is required.

9 DATA PROTECTION IMPACT ASSESSEMENT
9.1 None
10 RISK MANAGEMENT

10.1 The principal risk is that residents adjoining garage area may come forward and claim rights of access over garage forecourt area. Counsel advice was sought which set out the Council’s rights to carry out development and how it could defend any claim (if made). At the planning stage care was taken to ensure those adjoining residents who wish to maintain access across the site were allowed to do so.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Mitigation</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Sub soil investigations</td>
<td>Ground radar surveys undertaken to establish drainage connections</td>
<td></td>
</tr>
<tr>
<td>Community Support</td>
<td>Consultation event held to determine community support</td>
<td></td>
</tr>
<tr>
<td>Timescales</td>
<td>Scheme has proceeded in accordance with project plan</td>
<td></td>
</tr>
<tr>
<td>Project capacity</td>
<td>Within existing Business Plan objectives</td>
<td></td>
</tr>
<tr>
<td>Financial / VfM</td>
<td>Tenders returned under budget</td>
<td></td>
</tr>
<tr>
<td>Legal Third party easement claim</td>
<td>Counsel opinion sought which confirmed Council’s access rights</td>
<td>Negotiated settlement was rejected by claimant, who has made no further contact or counter-offer</td>
</tr>
<tr>
<td>Innovation</td>
<td>Traditional construction proposed by contractor as most cost effective</td>
<td>Modular construction considered but rejected due to access constraints and cost</td>
</tr>
</tbody>
</table>

11 SUPPORTING INFORMATION:

11.1 The Rowlings Road development consists of 7 properties, 4 x 1 bed flats and 3 x 2 bed houses. The scheme was granted planning consent on 11 April 2018 with 1 objection received.

11.2 The site currently consists of 30 garages and a large forecourt area situated behind existing Council houses in Rowlings Road, Weeke. All garage occupants have been served with a Notice to terminate their garage tenancies and where they have requested garages in Rowlings Road (west) garage area have prioritised for their use.
11.3 The scheme was tendered on the basis of a standard Design and Build contract. 8 Companies were invited to tender of which 6 returned Tenders by the specified date as set out below:

a) Tender A £1,109,048.21
b) Tender B £1,149,987.54
c) Tender C £1,140,210.00
d) Tender D £1,643,280.34
e) Tender E £1,466,967.73
f) Tender F £1,509,910.40

11.4 Ridge was retained by the Council as Employers Agent for the scheme and have managed the Tender process on the Council’s behalf. They examined the returns in detail and have recommended the Council accept the lowest tender (tender A above), returned by FE Chase, for the sum of £1,109,048.21 (excluding VAT). FE Chase has constructed a number of schemes for the Council since 2014 and has proved to be a very competent contractor.

11.5 FE Chase are experiencing difficulties in obtaining a Performance Bond, due to the limited number available in the market and their other works contracts with Bonds which takes them over their Company limit (for Bonds). It is proposed that for the Rowlings Road, in place of a Performance Bond, to have an enhanced retention, from 5% up to 10% for 6 months then reducing to 5% after 6 months by which time the high risk items such as ground works would have been completed. This approach was adopted at a recent similar New Homes Scheme at Mayles Lane. In addition included within the contract is an LABC warranty with added insolvency cover, however, whilst giving additional protection this does not take the place of a Performance Bond. Approval is sought to use an enhanced retention of 10% for 6 months instead of a Performance Bond.

11.6 A revised viability assessment is contained in Appendix 1 which shows that the scheme meets the Council’s viability criteria. The total scheme cost including fees is £1,430,205 which is 91.39% of the market value of the properties. The rent of the properties is proposed as 70% of market value which allows the loan repayment by year 35 and a positive Net Present Value (NPV).

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 The Council could sell the site for private development however one of the main priorities is to provide affordable rented properties for the Districts residents. At the consultation exercise community support was received for an affordable rented scheme rather than a development for sale.
BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

New Homes Development, Rowlings Road, Weeke, Winchester – Approval of Outline Business Case and Procurement Process – CAB2997(HSG), 22nd November 2017

Other Background Documents:-

None

APPENDICES:

Appendix 1: Financial Viability Assessment
# Financial Viability Assessment – Rowlings Road

<table>
<thead>
<tr>
<th>Heading</th>
<th>Analysis</th>
<th>Criteria</th>
</tr>
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<tbody>
<tr>
<td>Units</td>
<td>4 x 1 bed flats (AFF)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3 x 2 bed houses (AFF)</td>
<td></td>
</tr>
<tr>
<td>Total Scheme cost</td>
<td>£1,430,205</td>
<td></td>
</tr>
<tr>
<td>Market Value of dwellings</td>
<td>£1,565,000</td>
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<tr>
<td>Total scheme cost as a % of market value</td>
<td>91.39%</td>
<td>&lt; 95%</td>
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<tr>
<td>Net present value</td>
<td>£31,893</td>
<td>&gt; £0</td>
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<tr>
<td>Interest Cover</td>
<td>111.86%</td>
<td>&gt;= 110%</td>
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<tr>
<td>Loan repayment year</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Rent as % of open market rent</td>
<td>All properties at 70% of Market Value</td>
<td>Affordable properties maximum 80%, subject to not exceeding LHA</td>
</tr>
<tr>
<td>Rents per week based on 52 week year (AFF)</td>
<td>1 bed flat £117.12 x 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 bed flat £96.92 x 1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2 bed house £161.54 x 3</td>
<td></td>
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