

DECISION-MAKER:	COUNCIL
SUBJECT:	WOODSIDE / WIMPSON LANE DEVELOPMENT BUDGET AND CONSTRUCTION CONTRACT COMMITMENT
DATE OF DECISION:	20 SEPTEMBER 2017
REPORT OF:	THE LEADER OF THE COUNCIL

CONTACT DETAILS

AUTHOR:	Name:	Fiona Astin	Tel:	02380 917646
	E-mail:	fiona.astin@southampton.gov.uk		
Director	Name:	Mike Harris	Tel:	02380 832882
	E-mail:	mike.harris@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY

Confidential appendix 1 contains information deemed to be exempt from general publication based on Category 3 of paragraph 10.4 of the Council's Access to Information Procedure Rules. In applying the public interest test this information has been deemed exempt from publication due to confidential sensitivity.

BRIEF SUMMARY

Development of this site will provide a new Housing With Care facility of 83 self-contained units, 1 guest sleep-over studio and extensive communal areas associated with this type of facility and similar to the recent development at Erskine Court. There will also be a 15 unit general needs housing block which will be let to over-50s through a Local Lettings Policy.

The scheme now has planning consent and following a procurement process a price for construction has been agreed with Drew Smith Limited (now owned by Galliford Try Partnership). Approval is now sought to the full capital cost for the scheme (£26.014M) and to give delegated authority to enter into contract with the building contractor. The budget will require additional funding of £3.031M to meet the full capital cost of the scheme, as set out in the following table:

	£M
Current approved Woodside/Wimpson Scheme budget	22.983
Transfer from ECO - City Energy Scheme (70% of increase)	2.122
Retained Right-to-Buy capital receipts (30% of increase)	0.909
Revised Woodside/Wimpson Scheme Budget	26.014

Delegated authority is also sought to proceed with the sale and leaseback of the completed development and to use the scheme as a pilot project to explore scheme based service charges. Both delegations are subject to further investigation of the financial and legal implications of the proposals.

RECOMMENDATIONS TO COUNCIL:		
	(i)	Approve a transfer of £2.122M from the ECO – City Energy Scheme to the Estate Regeneration - Woodside/Wimpson Scheme within the Housing Revenue Account Capital Programme.
	(ii)	Approve the addition of £0.909M to the Estate Regeneration - Woodside/Wimpson Scheme within the Housing Revenue Account Capital Programme, funded from retained Right-to-Buy Capital Receipts.
	(iii)	Approve total capital expenditure of £26.014M on the Woodside/Wimpson Scheme, from the provision within the Housing Revenue Account Capital Programme, phased £0.614M in prior years, £2.488M in 2017/18, £10.579M in 2018/19, £10.822M in 2019/20 and £1.511M in 2020/21.
	(iv)	Delegate authority to the Head of Capital Assets after consultation with the Leader; the Service Director; Finance and Commercialisation and the Service Director; Legal and Governance to enter into a JCT Design & Build Contract with Drew Smith Ltd.
	(v)	Delegate authority to the Head of Capital Assets after consultation with the Leader; the Service Director; Finance and Commercialisation and the Service Director Legal and Governance to consider the implications for the Council and subsequently, if appropriate, to agree terms for the sale and lease back of the completed development as well as the Erskine Court development completed in 2016.
	(vi)	Delegate authority to the Director of Adults, Housing and Communities after consultation with the Leader; the Head of Capital Assets, Service Director: Legal and Governance and the Service Director; Finance and Commercialisation to use this scheme as a pilot project to explore detailed scheme-based service charges and any implications on tenure mix.
REASONS FOR REPORT RECOMMENDATIONS		
1.	In August 2016, Cabinet approved additional expenditure of £850,000 to carry out the necessary design development to submit a detailed planning application for a new build scheme and tender the works contract for the development of the scheme described in the 'Brief Summary' section of this report. Planning consent was issued in March 2017 and a full set of tender documents was prepared thereafter.	
2.	The tender market is not particularly competitive at the moment which resulted in only one expression of interest the need to negotiate with one constructor through the OJEU-compliant First Wessex Framework. Procurement compliance with OJEU was discussed and approved by the Procurement Services throughout the tender process and a Value for Money Assessment has been carried out.	
3.	Approval is now sought for the full capital budget to proceed with building out the scheme, and to enter into contract with Drew Smith Ltd to carry out the construction under a JCT Design & Build contract.	

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

4. The Council could choose not to proceed with the project. This is now a vacant site with detailed planning consent which could be sold on the open market. However, the Council prefers to retain control of the project and carry out the development itself. Retaining control of the development also allows the Council to retain control over the letting of the building with a view to maximising the number of units available to be let to people nominated from its Housing Waiting List and Adult Social Care Panel. If the site was sold and developed by a private provider, only the portion of units legally required to be for affordable housing would be available to be let through the Housing Waiting List and Adult Social Care Panel route.

5. Two of the potential tenderers indicated very late in the process that they would only consider tendering if a two stage tendering process was used. Moving to a two stage rather than single stage tender was considered and dismissed as inappropriate to the project because of the amount of detail the Design Team had already put in to the specification.

DETAIL (Including consultation carried out)

6. The Southampton Integrated Commissioning Unit has identified a significant shortfall in the availability of 'Housing with Care' to meet the needs of a growing elderly population. Including the recent development of Erskine Court 169 units are available within the city. ICU research suggests that a further 457 units are required in addition to the Woodside/Wimpson Lane proposal.

7. This scheme will provide a new Housing With Care facility of 83 self-contained units, one guest sleep-over studio and extensive communal areas associated with this type of facility. There will also be a 15 unit general needs housing block which will be let to over-50s through a Local Lettings Policy.

8. The 83 Housing With Care units will be let to people nominated through the Council's usual processes as being suitable and likely to benefit from living in this kind of environment. They can be of any age provided that this type of housing provision is suitable for their needs.

9. In the process of obtaining planning consent, the usual statutory planning consultation process was undertaken on the proposed scheme. No objections were made (save for some queries raised by one Councillor, which were addressed satisfactorily) and therefore the application was dealt with through delegated authority and consent granted accordingly.

10. The scheme design and specification has been developed in some detail, having taken on board lessons from the Erskine Court scheme. Some elements of the design and components at Erskine Court worked extremely well – and these have been largely replicated in the new scheme. However, some other elements of the Erskine Court scheme could be improved upon. This was through a combination of the Council's inexperience as a developer of this type of scheme and the procurement route giving the constructor significant levels of discretion over some elements. Therefore, on this project a Design Team was appointed who worked up the design and specification in more detail in order to avoid incorporating the less successful aspects of the Erskine Court scheme.

11.	The scheme incorporates a hybrid approach to Mechanical & Electrical installation with a view to reducing running costs and future-proofing the building. There is low temperature under-floor heating which is powered by a combination of geothermal energy, boosted by air source heat pumps, with a gas boiler back-up only being required in the coldest periods. The scheme also maximises solar PV panels on the roof and makes provision for future battery storage of power generated. This has a higher capital cost but as stated will lead to lower running costs.
12.	The last scheme cost estimate was prepared in July 2016 with an estimated start on site in the first quarter of 2017 and gave a construction cost estimate of just under £19m. However, the design has been further developed since then, construction costs have continued to escalate at much higher than the general rate of inflation (exacerbated by uncertainties around labour supply and the change in exchange rate since the EU referendum). The lack of competition for tenders is also a significant factor. These factors combined to result in higher construction costs. A full copy of the tender report can be found at confidential Appendix 1, as provided by our Employer's Agent.
13.	This report seeks approval to cover the full tender price including provisional sums and a project contingency of approximately 2% of the tender sum. The JCT Design & Build contract will also allow for all parties to identify potential cost savings during the contract period – any changes arising from these will be dealt with as part of the usual contract management procedures.
14.	Recent financial checks have been carried out on Drew Smith Ltd and Galliford Try Partnership which do not reveal any particular concerns about their financial capacity or stability. NHBC insolvency cover will be obtained and a Parent Company Guarantee will be requested. The contract allows for monthly payments against the value of work to date by way of a monthly valuation process, limiting the Council's exposure to potential losses. It should be noted that Drew Smith are involved in a large number of construction contracts locally, so the risk of over-exposure to one supplier needs to be carefully monitored.

RESOURCE IMPLICATIONS

Capital/Revenue

15.	The approved budget for the Woodside/Wimpson scheme is £22.983M, including £1.350M for demolition and feasibility. An additional £3.031M is required to meet the latest total cost estimate for the scheme of £26.014M, including fees and a contingency budget. It is proposed that £2.122M is transferred from the budget for the ECO – City Energy Scheme, which is no longer required in its entirety, as set out in the recommendations. The remaining part of the increase (£0.909M) will be met from the retained Right-to-Buy capital receipts, which are available up to 30% of the total cost. (AD)
16.	This report recommends that Council give delegated authority for the sale and lease back of both Erskine Court and this project. This is similar to the approach being taken with regeneration of plot 2 at Townhill Park. Interest in providing funding through this route has been received from a number of institutions such as Legal & General and the Prudential and it is expected that a lease arrangement would allow a transfer of the asset back to the Council at the end of the lease for a nominal sum. In due course the balance of the

	<p>receipt from Erskine and the receipt from selling this scheme would then be used to fund the next Housing With Care project which would then be sold and the process repeated. Further investigation will be undertaken to consider the financial implications with regards VAT, leasing and taxation and these will be reported back to the Council Capital Board before any delegated decision is taken to a sale and lease back of the 'housing with care' schemes, as further Council approval may be required.</p>
17.	<p>It should be noted that the buildings will cost more to provide than the expected receipt from a sale and leaseback, however this will be offset by the option to reacquire the asset at the end of the lease for a nominal sum. This is not unusual for these types of schemes provided by either Councils or Registered Providers. The housing provided is in line with Council strategy and meets the needs of vulnerable people requiring Housing With Care facilities, as well as people from the Council's waiting list in need of affordable housing.</p>
18.	<p>A Financial Appraisal has been produced, based on a number of financial assumptions, by the project Development Agents, Vivid Homes. They have used an industry-standard Financial Appraisal tool (SDS ProVal) to prepare these figures. This tool allows a sophisticated financial analysis of a development project from both a development period and long term investment point of view. The Appraisal assumes that all units will be let on an Affordable Rent (80% of Market Rent) basis.</p>
19.	<p>The Financial Appraisal uses an array of assumptions, including management and maintenance allowances, a major repairs allowance from year 11 onwards, rental inflation at RPI + 1% from year 3 onwards, interest on short and long term borrowing, and an allowance for voids and bad debts. These allowances may not accurately reflect the Council's own experiences. In future, Council should consider preparing its own financial assumptions based on its experiences of managing and maintaining its stock.</p>
19.	<p>One of the most significant assumptions used in the Financial Appraisal from the Council's point of view is the service charges. When letting at Affordable Rents, these are capped at 80% of Market Rents and the costs of running the scheme must be borne by the Landlord within that rental income. In other words, the gross rental income is eroded by the running costs. A Registered Provider (RP) landlord such as Vivid would account for a considerable portion of this income erosion through detailed service charges (a Housing With Care service charge could be in the region of £50 to £70 per week). The RP would carry out detailed calculations of the anticipated running costs of the scheme and seek to recover those costs in line with service charge legislation and guidelines. In turn, the detailed service charge items are used to set up scheme-specific budgets which can then be monitored and reported against. Currently, SCC uses a flat rate (with a few minor adjustments for such things as communal digital TV provision and an over 60s supplement) service charge across all its stock. This causes budgetary challenges when making specification decisions and in running the building when complete. It also means that if the Council were to choose to sell or market rent any of the units within the scheme, it is exposed to the risk of being challenged over subsidising private individuals from income derived from Council tenants.</p>

20.	In the circumstances, delegated authority is sought to consider calculating and charging detailed service charges on this scheme as a pilot project. This would also enable tenure diversification should the Council decide at a later date to sell or market rent some of the Housing With Care units in order to improve the scheme finances. If this recommendation is approved, detailed calculations will be drafted and modelled using a Financial Appraisal tool and further consideration will be given to the financial implications. Any resulting tender diversification options will be presented to Cabinet or Council for consideration, as appropriate.
<u>Property/Other</u>	
21.	This scheme is a brownfield development on the site of previous ageing Council housing stock. The new construction will meet modern design and Building Regulations, incorporates elements of future-proofing and will come with a 12 month defects period, NHBC guarantee, and some individual elements of the construction will carry longer guarantee periods.
22.	The scheme caters for an ageing population as well as other people in housing need whose quality of life and capacity to live independently will be enhanced by the facilities provided.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
23.	Section 11(6) of the Local Government Act 2003 relates to the Council's ability to retain and use Right to Buy receipts to fund affordable housing.
<u>Other Legal Implications:</u>	
24.	Part of the land is subject to an old restrictive covenant, imposed in 1939, which requires approval of any development scheme, plans and specification by the owner. Legal Services have confirmed that this covenant is no longer enforceable and therefore presents no impediment to the proposed redevelopment.
25.	Further details of the pilot service charge scheme will be considered by Legal Services prior to any legal documents being completed to ensure this scheme is lawful and charges are legally enforceable. In addition further details on the supported/extra care scheme will be considered to ensure this complies with the Welfare Reform and Work Act 2016 so that supported housing costs can be paid out of state benefits, if appropriate.
26.	Legal Services will also consider the use of HRA funds for this particular project to ensure government guidance and the Council's S11 (6) agreement are complied with. This may necessitate some modifications to the final legal documents.
POLICY FRAMEWORK IMPLICATIONS	
27.	<p>These proposals are aligned to the following priorities set out in the Council Strategy 2014-17:-</p> <ul style="list-style-type: none"> • Prevention & early intervention; • Protecting Vulnerable People;

	<ul style="list-style-type: none"> • Good Quality & Affordable Housing; and • A sustainable council.
--	--

KEY DECISION?	No
----------------------	----

WARDS/COMMUNITIES AFFECTED:	Millbrook and Maybush for the construction
------------------------------------	--

--

<u>SUPPORTING DOCUMENTATION</u>

Appendices

1.	Tender report prepared by Welling Partnership dated 22 August 2017 (Confidential)
----	---

Documents In Members' Rooms

1.	None
----	------

Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
---	----

Privacy Impact Assessment

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
---	----

Other Background Documents Not applicable
--

Other Background documents available for inspection at:
--

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
-------------------------------------	---

1.	None
----	------