



London Borough of Hammersmith & Fulham

# CABINET

10 December 2012

**ESTABLISHMENT OF A FRAMEWORK FOR INNOVATIVE HOUSING BUILT USING MODERN METHODS OF CONSTRUCTION & ASSOCIATED DEVELOPMENT MANAGEMENT SERVICES**

**Report of the Cabinet Member for Housing – Councillor Andrew Johnson**

**Open Report**

**Classification : For Decision**

**Key Decision: Yes**

**Wards Affected: All**

**Accountable Executive Director:** Melbourne Barrett, Executive Director of Housing & Regeneration

**Report Author:** Matin Miah, Head of Area Regeneration Programmes

**Contact Details:**

Tel: 020 (8753 3480)

E-mail:

matin.miah@lbhf.gov.uk

## 1. EXECUTIVE SUMMARY

- 1.1. This report seeks approval to establish a framework for innovative housing built using Modern Methods of Construction (MMC) and associated development management services. The framework will be formed of a single provider and can be accessed by the tri-borough authorities.
- 1.2. A separate report on the exempt Cabinet agenda provides exempt financial information regarding the pilot development site.

## 2. RECOMMENDATIONS

- 2.1. That approval is given to establish a framework for innovative housing built using Modern Methods of Construction and associated development management services with City House Projects Limited as the single provider.

- 2.2. That approval is given for expenditure of £50,000 with City House Projects Limited, to be funded from previously approved s106 budget, for professional services to undertake consultation, site investigation surveys, and design of the pilot site to RIBA stage C as set out in section 6 of the report.
- 2.3. That a further Cabinet report be presented, following resident consultation and detailed development viability appraisal, setting out detailed development proposals for the pilot site and approval for further funding to proceed.
- 2.4. That approval is given to use the SCAPE framework to appoint contractor for innovative housing built through the framework.
- 2.5. Note that officers will review potential for additional development sites and report back to Cabinet with a detailed development and funding programme for future sites.

### **3. REASONS FOR DECISION**

- 3.1 Based on the tender assessment process the submission from City House Projects Limited was identified as the most economically advantageous to the Council to establish a framework for innovative housing built using MMC & associated development management services.

### **4. INTRODUCTION AND BACKGROUND**

- 4.1. In April 2011, Cabinet approved the establishment of a local housing development company structure to allow the Council to generate and retain development profits through the development of new housing on Council land. This has created a major opportunity for the Council to deliver housing and regeneration outcomes using its own land, under its own leadership. There are three main strands of work which are currently being considered through this structure:
  - (A) Hidden homes programme for small sites – generally less than 5 units per site
  - (B) Innovative housing built using modern methods of construction for intermediate sites – generally between 10 – 50 units per site
  - (C) Joint Venture Vehicle (JVV) to deliver on selected larger Council owned development sites – between 50 – 200 units per site
- 4.2. Notwithstanding that this report focuses on the innovative housing built using MMC workstream a brief summary of the other two workstreams is shown below for information.

(A) Hidden Homes Programme

- 4.3. A pilot programme of seven small housing development schemes was approved by Cabinet in January 2012, to create 25 new affordable units over two years.
- 4.4. Cabinet approved expenditure of £2.7 million, from the decent neighbourhoods fund, for this pilot programme. This will be drawn down on a site by site basis. Where appropriate and viable, it is expected that a small proportion of the surplus generated through the developments can be reinvested on associated minor improvement works to the blocks and amenity areas of the relevant estates.
- 4.5. The first development was recently completed at Becklow Gardens, where two new units were built and are being sold to applicants on the Council's HomeBuy register. Sale proceeds including retained equity of £468,000 are being realised against development costs of £123,000, producing a positive gross return of £345,000 (including retained equity). The next development sites are at Verulam House, Sulgrave Gardens and The Grange (Lytton Estate), with additional schemes in the pipeline being actively worked up. The next 3 sites offer the potential for 7 new properties with a range of bedroom sizes. Residents at each of the estates have been consulted regarding the proposals and have inputted into the design process. Planning consent has been secured for the next 3 sites which, subject to final financial viability, are due to start on site in Spring 2013.

(B) Joint Venture Vehicle

- 4.6. In addition to the Hidden Homes programme and in order for the Council to deliver at scale on selected larger Council owned development sites the Council is seeking to partner with a credible Private Sector Partner (PSP) through a Joint Venture Vehicle (JV).
- 4.7. The JV will comprise a governance structure within which the Council can retain equal control and influence site delivery, whilst also enabling the Council to access the skills, resources and capacity of the PSP. This approach will reduce the level of risk to which the Council is exposed and enable the Council to access funding from the private sector. This route allows the Council to derive greater value from disposal of surplus land through the sharing in development profits, in addition to attracting land value.
- 4.8. On 12 November 2012, Cabinet authorised the initiation of an OJEU procurement process to identify a PSP, with the view to establishing a JV by January 2014. The initial two sites that are to be redeveloped through this route are Watermeadow Court and Edith Summerskill House.

*(C) Innovative Housing Built Using Modern Methods of Construction*

- 4.9 In addition to the above two strands of work, there is a third area where officers consider it appropriate to pursue direct housing delivery, through the local housing development company.
- 4.10 In 2007 the Council appointed CB Richard Ellis, property consultants, to complete a review of all Housing Revenue Account land to assess the potential for new housing development, which provided a long list of development sites. Officers have reviewed this list and identified a package of potential intermediate size infill development sites that may be suitable for between 10 - 50 new homes. However, these are relatively constrained sites, adjacent to or surrounded by existing residential developments, and therefore would benefit from innovative solutions in terms of design and construction. These schemes will be larger than the hidden homes sites but considered to be still of a scale where there is expertise within the Council to manage the full development risk and benefit from all of the development upside.
- 4.11 Therefore, for the intermediate size development sites it is considered beneficial to seek to develop exemplary housing built using MMC that could deliver high quality housing that meet planning, sustainability and viability requirements. MMC is a term used to describe a number of construction methods (e.g. volumetric, panellised, hybrid) that differ from traditional construction methods such as brick and block. Primarily this form of construction is manufactured off-site within the control environment of a factory. The panels or modules are then brought to site for construction.
- 4.12 The key advantages of building with MMC are that housing supply can be increased through efficiencies both in construction time and development costs achieved using MMC. As much of the work is conducted off-site in a factory, the impact on the local community in terms of noise, dust and traffic movements associated with conventional construction sites is also reduced.
- 4.13 The Council has identified a pilot site on the Spring Vale Estate which is considered to be suitable for development using MMC. Details of the pilot site are presented in section 6 of this report.

**5. RATIONAL HOUSE**

- 5.1 In June 2012 the Council initiated an OJEU procurement exercise to establish a framework for innovative housing built using MMC ('Product') and associated development management services ('Services'), which can be accessed by the tri-borough authorities and/or their subsidiary companies. The Product and Services will be provided by a single provider (Provider) and can be called down for individual sites as required. Details of the procurement exercise are set out in section 9 of the report.

- 5.2 City House Projects Limited (CHPL) has been selected as the preferred bidder following the procurement exercise. CHPL is a subsidiary company of Rational House and was created to provide all the services and commercial expertise necessary to deliver the Rational House product. As a subsidiary company CHPL has access to the Rational House brand and all intellectual property relating to the design of the product. The CHPL partners, Davis Langdon (cost consultancy, project & development management), AECOM (engineering, site surveys) and 3DReid (design and planning) are established in their respective fields.
- 5.3 Rational House was formed to create a new family city dwelling for the 21st century. It is an ambitious attempt to provide quality homes at affordable costs and address urban planning issues, urban character and density. The Rational House team has created a blueprint for contemporary living: a modern house that distils the most successful characteristics of family homes of the past. The initiative responds to changing needs by creating highly flexible and adaptable family homes. In areas of urban regeneration, Rational House has the ability to offer family homes that can also fit into tight urban spaces.
- 5.4 The first Rational House prototype was successfully constructed on Biscay Road in Hammersmith and sold in 2011. Further details of the Biscay Road house is provided in Appendix 1.
- 5.5 In summary, the key characteristics of Rational House are set out below:
- Can deliver high density low rise developments (the typical product unit, two storey house with basement, is capable of achieving a density of 426 habitable rooms per hectare, on a plot of 27 meters by 54 meters, a density that is almost double that reached by typical London terraced housing on an identical piece of land)
  - Is capable of rapid assembly using MMC in a variety of configurations to create family dwellings and/or flats of different sizes
  - Can be aggregated to form pleasant and familiar urban forms, including terraced streets, town squares and mews courts, but can also be inserted individually or in small numbers into existing difficult and dimensionally challenging infill sites
  - Is highly flexible in its fitting-out, capable of accommodating changing family structures and ages, and permitting subdivisions and recombinations of tenancies
  - Is easily adaptable to other uses both at the outset of development and also later in the life cycle of the fabric (i.e. small offices, convenience and food retailers and/or live work accommodation)
  - Provides generous standards for internal floor space, high ceilings and natural light, and provides an essential minimum of private outdoor amenity space, whilst maintaining relatively high density
  - Has a high-quality external appearance which is clean and modern, but also complements the existing street scene in Hammersmith and Fulham

- Conforms to current Building Regulations and complies with important non-mandatory standards, including the London Housing Design Guide, the Code for Sustainable Homes (min. Level 4), Lifetime Homes and Secure by Design, making it a product which is endorsed by mainstream mortgage and other lenders
- Can be provided to a cost which is competitive in the context of new urban housing, offering different levels of quality, both in build form and fit-out, that make it suitable for affordable and the private for sale units

## **6. PILOT DEVELOPMENT SITE**

- 6.1 The proposed pilot development site, located on the Spring Vale Estate in Brook Green, presents an infill development opportunity on an area of estate amenity land. The site comprises 425sqm low quality hard standing on the corner of Ceylon Road and Porten Road, which has historically been underutilised as estate parking (only a third of the parking capacity is currently let). It would be possible to convert the site to create between 8 and 12 new homes and also re-provide an element of car parking with a revised layout. The new housing development would create an opportunity to rebuild the traditional street scene and provide much needed new affordable housing. Further site details are provided in Appendix 2.
- 6.2 As part of their tender response, CHPL have proposed an indicative ten unit scheme for the proposed pilot site (see Appendix 3) which envisages:
- 2 family houses (3/4 bedroom)
  - 6 flats (1 bedroom)
  - 2 maisonettes (2 bedroom).
- 6.3 Summarised in the exempt Cabinet report is the outcome of the indicative development appraisal for the proposed pilot development site.
- 6.4 Based on the tender submitted by CHPL it is estimated that the professional fees required for CHPL to undertake all necessary resident consultation, site investigation surveys and design to RIBA stage C for the proposed pilot site will be £50,000. This will allow a detailed development viability appraisal to be undertaken in order to establish full project funding requirement to undertake this development.
- 6.5 It should be noted that at this stage the Council is only committing to £50,000 of expenditure with CHPL. A further report for each project under this programme will be brought before Cabinet requesting approval, which will contain a full development appraisal with full sensitivity analysis and a cash flow forecast. The report(s) will consider the other financial and development risks; approve the appointment of building contractors and the innovative housing provider, the financing requirements, and the arrangements for transferring the site to the housing development company.

- 6.6 It is anticipated that the development will be undertaken through H&F Housing Development Ltd (HFD), utilising the model used for the Hidden Homes Programme. HFD will need to secure a loan at a commercial interest rate from the Decent Neighbourhoods Fund, for the purposes of undertaking development of new housing built under this work stream.
- 6.7 In addition, officers will review potential for further intermediate size development sites that would be suitable for Rational House development and report back to Cabinet with a detailed development and funding programme in due course.

## **7. BUILDING CONTRACTOR**

- 7.1 In addition to the establishment of the framework, the Council will also need to seek early engagement of a contractor to undertake the construction of new housing as part of this programme. The early engagement of a contractor, as set out in the Government Construction Strategy 2011, has been demonstrated to create efficiency within the design and development process.
- 7.2 It is proposed that the building contractor be appointed using the national SCAPE framework. This is a single contractor framework, set up by Scape System Build Limited (a wholly owned local authority company based in the Nottingham & Derby areas). It is renewed every 4 years with the current framework running from 2010 to 2014. The single contractor appointed to the SCAPE framework National Contractor lot for this period is Willmott Dixon Capital Works Ltd.
- 7.3 The use of the SCAPE framework would provide the Council with the opportunity to accelerate contractor appointment, whilst minimising upfront risk, as the contractor will undertake pre-construction design and feasibility work prior to entering into any contractual relationship with the Council. The framework also offers improved programme and cost certainty, provides a commitment to local employment with subcontractors taken from a certain distances of project locations and avoids the potential risk of not being able to secure suitable bids through an open tender process given the current difficult market conditions.
- 7.4 The Council joined the SCAPE framework in 2012 at nil cost, following necessary legal and procurement checks, which enables the Council to call-down building contractor services as required. SCAPE charge a 0.5 per cent fee on net build cost (i.e. before the contractor's overhead and profit is applied) for the use of the framework to appoint the building contractor for each development site.

## **8. CONSULTATION**

- 8.1 Before sites can be taken forward for development it is important for the Council to carry out detailed resident consultation and for the results to be properly assessed and taken on board.

8.2 Therefore, it is proposed that for each development site a range of consultation approaches will be used which may include:

- Ward Councillor briefing
- TRA engagement
- Resident newsletter
- Letters to tenants/leaseholders
- Drop-in session/design exhibitions
- Questionnaires
- Formal planning consultation

## **9. FRAMEWORK PROCUREMENT**

- 9.1 To identify the innovative housing and development management services provider the Council completed an open OJEU procurement exercise, which was administered through the London Tenders Portal.
- 9.2 A notice was published on 23 June 2012 in the Official Journal of the European Union (OJEU) (Reference: 2012/S 119-197419) and on the Council's website on 19 June 2012. Applicants were required to submit a formal response by 31 July 2012.
- 9.3 The assessment process comprised a qualifying stage (pre-qualification questionnaire) and an evaluation stage (invitation to tender). Bidders were required to pass the qualifying stage for their bids to be assessed at the evaluation stage. The evaluation stage comprised two separate elements:
- Quality (70 per cent)
  - Pricing (30 per cent)
- 9.4 Tenderers were assessed on a combination of price and quality to identify the most economically advantageous tender to the Council.
- 9.5 The outcome of the assessment process was presented to the Tender Appraisal Panel (TAP). In order to demonstrate an open and transparent procurement process, the TAP adopted and followed the principles set out in the Public Contracts Regulations 2006.
- 9.6 All the legal documentation was prepared by external lawyers on behalf of the Council.
- 9.7 Based on the assessment process the tender submission from City House Projects Limited was identified as the most economically advantageous to the Council. Details of the tender assessment is provided in the exempt Cabinet report.



- 9.8 The framework agreement will be established for a four year period and the maximum value of Development Management Services the Authority will be able to call down is £1.5m.

## **10. RISK MANAGEMENT**

- 10.1. Upon establishment of the framework and formal selection of the pilot development site, detailed site due diligence and scheme viability assessments will be undertaken. In addition, resident and other stakeholder consultation will be undertaken. This will inform the detailed scheme proposal which will be subject of a further Cabinet report in due course. The phased approach to financial commitment to the development is intended to minimise Council's exposure to financial and any reputation risks, however it should be noted that at this stage there is a risk of a charge to the Housing Revenue Account of £50k as further detailed in the Finance & Resources Implications section of the report.
- 10.2 The Rational House prototype building in Hammersmith has been successfully built (within a very constrained urban residential site) and sold on the open market. As part of the tender appraisal process the Council has undertaken a financial check on the winning bidder and further due diligence will be undertaken as part of developing detailed scheme proposals. CHPL partner organisations, Davis Langdon, AECOM and 3DReid are established in their respective fields.
- 10.3 Management of risk relating to the proposal are the responsibility of the Housing and Regeneration Department. A risk register exists for the purpose of recording and monitoring the departmental risks and this will be updated to reflect the report content.

## **11. EQUALITY IMPLICATIONS**

- 11.1 As per the Equality Act 2010, the Council must consider its obligations with regard to the Public Sector Equality Duty (PSED). It must carry out its functions (as defined by the Human Rights Act 1998) with due regard to the duty and its effect on the protected characteristics (below) in relevant and proportionate a way. The duty came into effect on 5th April 2011. The protected characteristics are:

- Age
- Disability
- Gender reassignment
- Marriage and civil partnership
- Pregnancy and maternity
- Race
- Religion/belief (including non-belief)
- Sex
- Sexual orientation

- 11.2 At a later date, the Council will need to have due regard for the potential implications that any proposals for housing development would have. The duty to have "due regard" to the various identified "needs" in the relevant sections of the Equality Act 2010 does not impose a duty to achieve results. It is a duty to have "due regard" to the "need" to achieve the identified goals.
- 11.3 Should firm proposal come forward for housing development on the pilot site or an alternative site it will be necessary to assess this against the various protected characteristics and groups and to what extent they will be affected as a result of such a proposal. The implications of any proposal would be demonstrated as part of the next Cabinet report and Equality Impact Assessment (EIA).
- 11.4 Notwithstanding the content of the EIA – which would be prepared for an individual site should any proposal come forward; the Council need to be satisfied that the consultants (subject to appointment) have demonstrated that their research and findings take account of all protected characteristics in their recommendations back to the Council. The Council ultimately remains responsible for inquiring into any gaps, and using the findings to inform the EIA.

## **12. FINANCIAL AND RESOURCES IMPLICATIONS**

- 12.1 As noted in the risks section above, officers have carried out financial assessment of bidders as part of the tender appraisal process, and the results of this were incorporated in the scoring.
- 12.2 The exempt Cabinet report sets out the financial results of the initial development appraisal at Spring Vale Estate. Sensitivity analysis has been conducted to demonstrate that the proposal is financially viable based on the current indicative figures within a range of tolerances.
- 12.3 Section 6.4 requests approval to incur professional fees of £50k. This will allow a detailed development viability appraisal to be undertaken before proceeding with any proposed development, thereby minimising the risk of entering into binding commitments at an earlier stage. The costs are likely to be revenue in character due to the fact that they will be incurred before the development of the site has been approved by Cabinet and because of the nature of the expenditure to be incurred.
- 12.4 The Council currently holds a series of Section 106 agreement funds of £791k in total which are ring fenced for use for affordable housing and regeneration purposes. The professional fees of £50k, together with existing approved calls on this balance, bring the total potential call on these funds to £969k. In the event that costs charged against this pot all crystallise, and prove not be capitalisable or rechargeable, then there would be a net charge to the HRA of £178k in 2013/14.

12.5 It should be noted that at this stage the Council is only committing to £50,000 of expenditure with CHPL. A further report for each project under this programme will be brought before Cabinet requesting approval, which will contain a full development appraisal with full sensitivity analysis and a cash flow forecast. The report(s) will consider the other financial and development risks; approve the appointment of building contractors and the innovative housing provider, the financing requirements, and the arrangements for transferring the site to the housing development company.

### **13. LEGAL IMPLICATIONS**

13.1 The proposed establishment of a framework for innovative housing built using MMC and associated development management services with City House Projects Limited as the single provider after following an OJEU procurement process for setting up the framework has been advised on by M/s Sharpe Pritchard LLP and would appear to be in compliance with the EU Public Procurement Laws. The Council is obliged to follow a Standstill period following publication of the decision to award.

13.2 The appointment of a contractor for construction under a framework set up by SCAPE would also be in compliance with EU Public Procurement Laws and the Council's Contract Standing Orders. An Access Agreement has already been executed with SCAPE to facilitate this.

### **14. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

14.1 The Corporate Procurement Team has been represented on the Tender Appraisal Panel and provided advice throughout the tendering process. The tendering process has complied with the Public Contracts Regulations 2006 (as amended) and the Council's Contracts Standing Orders. Consequently, the Director supports the recommendation to award the framework agreement to City House Project Limited based on the assessment of their tender submission identifying it as the most economically advantageous to the Council.

14.2 A contract award notice must be published in OJEU within 48 days of the award of the framework.

#### **LOCAL GOVERNMENT ACT 2000**

#### **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext of holder of file/copy</b>	<b>Department/ Location</b>
1.	Housing Development Company Cabinet Report, April 2011 (published)	Matin Miah	HRD