



## London Borough of Hammersmith & Fulham

### CABINET

28 APRIL 2014

#### HOUSING DEVELOPMENT PROGRAMME: RATIONAL HOUSE PROGRESS UPDATE AND CONTRACTOR APPOINTMENT

#### Report of the Cabinet Member for Housing - Councillor Andrew Johnson

#### Open Report

A separate report on the exempt Cabinet agenda provides commercially-sensitive information relating to the withdrawn contractor for the Rational House development sites.

**Classification:** For Decision

**Key Decision:** Yes

**Wards Affected:** All Wards

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## 1. EXECUTIVE SUMMARY

- 1.1. In order to take forward development of housing on intermediate size sites, the Council established a framework with City House Projects Limited (CHPL) in December 2012. CHPL is a subsidiary company of Rational House and was created to provide all the services and commercial expertise necessary to deliver Rational House homes. Rational House and AECOM (a Fortune 500 company) have recently entered into a Collaboration Agreement to deliver Rational House homes exclusively for a ten year period. The formal backing of AECOM provides significantly greater capacity to deliver Rational House homes at scale.
- 1.2. Following Cabinet approval in May 2013, CHPL were instructed to progress securing planning consent for the pilot site on the Spring Vale estate, Brook Green, which was achieved in July 2013 for a scheme

comprising ten units (6 DMS and 4 private for sale). In addition to the pilot site, CHPL was also instructed to undertake design to planning for sites at Becklow Gardens and Barclay Close estates. Resident consultation has been undertaken at both sites and planning consents have been secured for the schemes which comprise 19 units (9 DMS and 10 private for sale). It is now proposed that CHPL progress design to secure planning for a 26 unit Rational House scheme at Jepson House site in accordance with the approved Business Plan objectives.

- 1.3. In May 2013, Cabinet approved the appointment of Willmott Dixon Housing (WDH), using the National SCAPE Framework, as the main contractor to deliver the Rational House schemes. However in December 2013 the Council was notified that WDH was withdrawing from the process and that they no longer wished to progress the developments. The decision by WDH to withdraw as the main contractor for the Rational House development sites has led to delays to the programme and the need to identify a new contractor.
- 1.4. For the pilot site it is therefore proposed that AECOM Construction Services be appointed, without competition, as the main contractor by waiving the Council's Contract Standing Order 9.2 Section 3 on the grounds that this is in the Council's overall interest, as this will:
  - minimise programme delays
  - provide greater cost/programme certainty sooner
  - management fees, prelims, overheads and profits will be on same terms as the SCAPE framework agreement levels
  - individual sub-contractor works packages will be market tested by AECOM Construction Services on an open book basis
  - complement CHPL's existing agreement with AECOM for design and development management services
- 1.5. A value engineering exercise has been undertaken and the base build cost for the pilot development site at Spring Vale provided by AECOM Construction Services is £2.35m, which is 6 per cent below (10%<sup>1</sup> allowing for building cost inflation in the intervening period) the previously approved base build cost of £2.5m as contained in 13<sup>th</sup> May 2013 Cabinet report. This equates to a base build cost of £2,500 per square meter (excluding abnormal costs) in comparison with previous figure of £2,600 per square meter. This has been achieved through value engineering, AECOM absorbing the investment cost in the infrastructure required to manufacture the panels, and CHPL waiving their licence fee.
- 1.6. Following a range of detailed site investigation surveys a number of significant abnormal site costs have been identified at Spring Vale including the need for the diversion of a sewer, removal of contamination relating to Japanese Knotweed and ground conditions requiring piled foundations. The total abnormal costs, including the related professional fees, are estimated at £739k in addition to the base build cost.

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<sup>1</sup> Building Cost Information Services (BCIS) data for the period Q1 2013 to Q1 2014 shows construction cost inflation of 4.2%

- 1.7. Notwithstanding that some of the abnormal costs can be met from the project contingency previously set aside, there is a need for an additional funding of £488k to progress the scheme. It can be noted that the increased development costs can be more than off-set by the increase in Gross Development Value and the total scheme return to the Council, including retained equity, has increased from £2.1m to £2.8m (based on an updated sales valuation report by Savills in March 2014).
- 1.8. Further, it is proposed that a single contractor framework be established to take forward the Council's remaining direct housing development sites (excluding Spring Vale). The procurement would include public works with a financial value above the EU threshold, thereby requiring an OJEU compliant competitive procurement process to be undertaken.

## **2. RECOMMENDATIONS**

### **In relation to the Pilot Site at Spring Vale, Brook Green**

- 2.1. To note progress to date with the Rational House development sites as part of the Council's direct housing development programme (as per the approved Business Plan 2013-17); and the increased delivery capacity due to greater collaboration between Rational House and AECOM (a Fortune 500 company)
- 2.2. To note that Willmott Dixon Housing (appointed through the National SCAPE Framework) has withdrawn as the main contractor for the Rational House development sites
- 2.3. To note that a value engineering exercise has been carried out and a reduction in base build costs of 6 per cent (10%<sup>2</sup> allowing for building cost inflation in the intervening period) has been achieved compared to costs reported in May 2013
- 2.4. That approval be given to appoint AECOM Construction Services, without competition, as the main contractor for the Spring Vale scheme and expenditure of £2,781,000 (to be funded from the approved housing development programme Business Plan funding envelope) for construction costs; and that the Council's Contract Standing Order 9.2 Section 3 be waived on the grounds that this is in the Council's overall interest for the reasons set out in section 6 of the report
- 2.5. To note that due to site specific abnormal issues on the Spring Vale scheme, the overall development cost has increased; and therefore that approval be given for additional capital expenditure of £488,000 (to be funded from the approved housing development programme Business Plan funding envelope) as set out in detail in section 7.3 and 7.4 of the report

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<sup>2</sup> BCIS data for the period Q1 2013 to Q1 2014 shows construction cost inflation of 4.2%

- 2.6. To note that AECOM Construction Services will undertake an open book sub-contractor tendering exercise for the Spring Vale scheme

### **In relation to the Single Contractor Framework Procurement**

- 2.7. That approval be given to initiate a regulated OJEU procurement (Open procedure) to establish a single contractor framework to deliver the remaining housing development programme sites (excluding Spring Vale and the Hidden Homes schemes); and that a report be submitted to Cabinet with a recommendation on final selection of the preferred contractor
- 2.8. That authority be delegated to the Cabinet Member for Housing, in conjunction with Executive Director of Housing and Regeneration, to make decisions during the procurement process in order to identify the preferred contractor
- 2.9. That approval be given for expenditure of £50,000 (from the previously approved Housing Development Programme business plan revenue funding) for legal fees to appoint Sharpe Pritchard to advise on the single contractor framework procurement; and £15,000 (from the previously approved Housing Development Programme business plan revenue funding) for CHPL to undertake tender evaluations

### **Rational House Development Programme**

- 2.10. To note the initial appraisal undertaken for the Jepson House development site; and that approval be given for the expenditure of £185,677 (within the existing approved Housing Development Programme budget envelope) for professional fees to instruct City House Projects Limited (under the existing framework agreement) to undertake resident consultation, site investigation surveys, and design to planning (RIBA stage D) which is in line with the previously approved Business Plan funding
- 2.11. To note the Business Plan analysis of the recommendations of this report as set out in section 11 of the report

## **3. REASONS FOR DECISION**

- 3.1. The Cabinet approved, on 24 June 2013, the Housing Development Programme Business Plan 2013 – 2017, for the direct delivery of new low cost home ownership opportunities in the Borough in pursuance of the Council's adopted Housing Strategy "Building a Housing Ladder of Opportunity".
- 3.2. This report provides a progress update for the Rational House programme as part of the Council's direct housing development programme and seeks approval in relation to contractor appointments and funding to progress the relevant schemes in the approved Business Plan.

## 4. BACKGROUND

- 4.1. The Council is currently pursuing three strands of housing development using its own land, under its own leadership to achieve its housing aims and objectives set out in the Housing Strategy *Building a Housing Ladder of Opportunity*:
- § Hidden homes programme for small sites – generally less than 5 units per site
  - § Innovative housing built using modern methods of construction for intermediate sites (Rational House) – generally between 5 – 50 units per site
  - § Joint Venture to deliver on selected larger Council owned development sites – 50+ units per site
- 4.2. A Business Plan for the first two work strands (direct housing delivery) was approved by Cabinet on 24<sup>th</sup> June 2013. The third work strand, the Joint Venture, will have separate governance arrangements and its own business plan.
- 4.3. The direct housing development programme remains focused on delivering 100 Discount Market Sale (DMS) and 33 private homes by March 2016. An update on progress for each work strand is presented below.

### Hidden Homes Update

- 4.4. The hidden homes programme presented in the Business Plan targeted delivery of 14 new homes (13 DMS and 1 private unit) across seven sites, in addition to the completed (in 2012) scheme at 67/68 Becklow Gardens for 2 DMS units. The completed development at Becklow Gardens realised sales proceeds of £468k against development costs of £123k, producing a positive gross return of £345k (including retained equity).
- 4.5. Planning consents have been secured for six of the seven sites. Practical completion was achieved for the Bloemfontein Road scheme in March 2014. Following sales completion the two new units will realise sales proceeds of £520k against development costs of £192k, producing a positive gross return of £328k (including retained equity). Practical completion for two further sites will take place in April 2014. Two additional sites, with planning consents, started on site in February 2014 and are due to complete in summer 2014.
- 4.6. As part of the programme the Cabinet also approved the disposal of underutilised amenity land at Verulam House, Hammersmith Grove, following limited expenditure to secure planning consent for a new private 4 bedroom family dwelling. The land was sold at auction by Savills on 10<sup>th</sup> December 2013 for £930k and the sale was completed on 17 January 2014, generating a surplus of £908k net of town planning and sales costs for reinvestment in provision of DMS homes.

### *Innovative Housing Built Using Modern Methods of Construction (Rational House) Update*

- 4.7. The new build innovative housing programme presented in the business plan targeted delivery of 51 new homes (36 DMS and 15 private units) across the four sites.
- 4.8. Planning approvals have been secured for the Spring Vale (6 DMS and 4 market sale homes), Barclay Close (3 DMS and 3 market sale homes) and Becklow Gardens (6 DMS and 7 market sale homes) schemes totalling 15 DMS and 14 market sale homes. Further update is provided in section 5 of the report.
- 4.9. Initial feasibility work has been undertaken for the scheme on the Jepson House estate and approval to proceed with design to RIBA stage D is now recommended - further detail is provided in section 10 of this report.

### *Housing & Regeneration Joint Venture Update*

- 4.10. On 3 February 2014, Cabinet approved the establishment of a housing and regeneration Joint Venture with Stanhope Plc. The 50/50 Joint Venture will be in place for 15 years with an option to extend for a further 5 years.
- 4.11. The Joint Venture will take forward for development the first two Opportunity Sites at Watermeadow Court and Edith Summerskill House. It is proposed that 301 homes will be developed on these two sites of which 119 (40%) would be DMS.

## **5. RATIONAL HOUSE DEVELOPMENT PROGRAMME PROGRESS**

- 5.1. In order to take forward the intermediate size development sites the Council established a framework for innovative housing built using modern methods of construction and associated design and development management services with City House Projects Limited (CHPL) as the single provider on 10<sup>th</sup> December 2012. 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. AECOM provide professional cost consultancy, project/development management, planning and engineering services to CHPL, through a sub-consultancy agreement, to deliver the Rational House product. AECOM is well established in each of the respective fields and is a Fortune 500 company.

### *Pilot Site – Spring Vale*

- 5.2. Following Cabinet approval in May 2013 CHPL were instructed to undertake resident consultation, site investigation surveys, and design to planning (RIBA stage D) for the pilot development site on the Spring Vale estate. A detailed resident engagement exercise has been completed and

planning approval was secured for the scheme in July 2013 comprising ten units (6 DMS and 4 private for sale units).

- 5.3. A range of detailed intrusive site investigation surveys have been completed including contamination, daylight sunlight, rights of light, asbestos, ground condition, topographic, bat survey, secure by design, code for sustainability assessments, etc. This highlighted a number of site specific abnormal issues that it was not possible to accurately assess/cost prior to the completion of the surveys. These include a requirement to divert a grade three sewer, address ground contamination issues including Japanese Knotweed, requirement to use piled foundations, and to undertake works to increase the width of Ceylon Road to allow for the new vehicle access. The original site boundary has also been enlarged to include provision of a new area of green space following resident consultation. Through the detailed design process it has been possible to find design solutions to ensure the development remains viable and support from the local community has been maintained. Further financial details are provided in section 7 of the report.

#### Becklow Gardens and Barclay Close

- 5.4. In addition to the Spring Vale pilot site CHPL was also instructed to undertake design to planning (RIBA stage D) for two further sites at Becklow Gardens and Barclay Close estates. Resident consultation has been undertaken at both sites and planning approvals have been secured for the two schemes which comprise 19 units in total (9 DMS and 10 private for sale). Detailed resident consultation was also undertaken particularly at Becklow Gardens in relation to the re-provision of a play area and parking provision. Resident engagement is ongoing in the detailed design of the play area to ensure provision of a high quality facility that would be utilised by the local community.
- 5.5. Site investigation surveys have also been completed for these sites which have not identified any significant site abnormal issues, thereby reducing significant delivery risks for these schemes.

#### Contractor Appointment

- 5.6. In May 2013 the Cabinet approved the appointment of Willmott Dixon Housing (WDH), using the National SCAPE Framework, as the main contractor to deliver the Rational House schemes.
- 5.7. WDH was engaged to deliver the Spring Vale, Barclay Close and Becklow Gardens schemes and was due to provide a fixed price for the Spring Vale scheme on 27 January 2014 following the completion of the detailed design to RIBA stage E. This would have enabled a start on site to be achieved by 5<sup>th</sup> March 2014. On 17 December 2013 the Council was notified that WDH was withdrawing from the process and that they no longer wished to continue with any of the developments.

- 5.8. To minimise delays and the level of abortive costs associated with the withdrawal of WDH the Council has instructed CHPL (under the existing framework agreement) to step in and progress with detailed design to RIBA stage E for the Spring Vale scheme. This will minimise the abortive costs associated with WDH withdrawal as CHPL will seek to enter into contracts with each of the sub-contractors. It will also reduce delays to the programme as this work can be progressed whilst approval is sought to appoint a new contractor.
- 5.9. See section 10 of the report for detail of progress on Jepson House the fourth site being delivered using the Rational House model.

*Collaboration Agreement between Rational House and AECOM*

- 5.10. Rational House and AECOM have recently entered into a Collaboration Agreement to deliver the Rational House exclusively for a ten year period. The formal backing of AECOM provides significantly greater capacity to deliver the Rational House homes at scale.
- 5.11. AECOM professional technical and management support services, listed on the Fortune 500 as one of America's largest companies, provide a blend of global research, local knowledge, innovation and technical excellence in delivering transportation, development and environmental solutions globally. Working in over 170 countries, AECOM services include; architecture, engineering, design, planning, science, management and construction.
- 5.12. The establishment of the agreement between AECOM and Rational House will retain Rational House as the brand of the house and AECOM will become the delivery vehicle bringing all services under one roof. The key features of the new arrangement are:
- § The Rational House design team will be involved in the design of all residential dwellings to be delivered by AECOM Construction Services
  - § AECOM will build a dedicated supply chain for the Rational House homes for all components and not just the main structure
  - § Rational House and AECOM will form a Strategic Board Chaired by the Director of Rational House, with Board members from both companies including the AECOM Europe CEO
  - § AECOM will invest £500k in 2014 business plan to invest in new people and in research and design
- 5.13. This will provide an integrated turn-key offer to deliver Rational House developments from site appraisal through to construction and operation.
- 5.14. The Council has been granted a 'Foundation Partner' status by the Rational House partnership to reflect the Council's investment and the leading role in supporting the development and delivery of the Rational House product. As a result the Council will benefit from discounts to both build cost and professional fees on Rational House product provided a sufficient pipeline of development is confirmed. For example, the Council's current framework agreement with CHPL will enable it to potentially benefit



from a discount (between 5 – 12.5%) on professional fees for future CHPL schemes if multiple schemes are instructed.

## **6. APPOINTMENT OF AECOM CONSTRUCTION SERVICES AS THE MAIN CONTRACTOR FOR THE SPRING VALE SCHEME**

- 6.1. The withdrawal of WDH has caused delays to the housing development programme whilst a new contractor is appointed. The Council is keen to minimise delays and ensure programme and cost certainty is achieved as quickly as possible. Therefore, for the pilot site at Spring Vale (which has a construction value below the OJEU threshold) it is proposed that AECOM Construction Services be appointed without competition as the main contractor by waiving the Council's Contract Standing Order 9.2 Section 3, on the grounds that this is in the Council's overall interest.
- 6.2. AECOM Construction Services are a leading contractor who has experience of delivering residential schemes, built using modern methods of construction within dense urban environment. Appointment of AECOM Construction Services as the main contractor will complement the Council's existing agreement with AECOM (via CHPL) in relation to the design and development management services for the Rational House programme.
- 6.3. AECOM Construction Services are proposing to work at risk to provide a fixed price by May 2014 to deliver the Spring Vale scheme, which will enable start on site to be achieved by early June 2014. The management fees, prelims, overheads and profits will be based on the previously tendered SCAPE framework agreement levels and each of the individual sub-contractor works packages will be market tested to produce the final fixed price fee. This process will be done on an open book basis and the Council will attend all tender openings. Details of the revised costs are provided in section 7 of the report.
- 6.4. The option of a full tender exercise to appoint a new contractor for the Spring Vale pilot scheme was considered which would result in a considerable delay to the programme, in the order of six months. Therefore, it is considered beneficial for the Council to appoint AECOM Construction Services for the pilot scheme, whilst a separate procurement exercise is undertaken for the wider housing development programme (see section 8 of the report), on the basis that this will:
  - minimise programme delays
  - provide greater cost/programme certainty sooner
  - management fees, prelims, overheads and profits will be on same terms as the SCAPE framework agreement levels
  - individual sub-contractor works packages will be market tested on an open book basis
  - complement existing agreement with AECOM for design and development management services

### Detailed Design

- 6.5. Prior to instructing the construction contract for Spring Vale it is necessary to complete the detailed design for the scheme to RIBA stage E, which will enable the Council to:
- minimise any abortive costs associated with the work completed by WDH
  - provide greater certainty to the sub-contracts, which will allow for more competitive pricing and reduced caveats/restrictions
- 6.6. To complete this work the Council has instructed CHPL, using the existing framework agreement, to undertake the detailed design work. The current framework contains provisions for additional design services and associated survey work.
- 6.7. Under this agreement CHPL have 'stepped in' by picking up from where WDH left off. They have entered into a new contract ("step in contract") based on the existing framework agreement between CHPL and the Council, with each of the sub-contractors appointed by WDH (Ground contamination and M&E engineers). The contract value of these works is in line with the previously instructed fees to WDH minus the works completed to date. The liability for these works has been transferred to CHPL and the Council retains the intellectual property rights to all designs and drawings as set out in the Council's framework agreement with CHPL.

## **7. SPRING VALE COST PLAN AND VALUE ENGINEERING**

- 7.1. On 13 May 2013, the Cabinet approved the total development costs for the Spring Vale scheme of £3.44m. A summary of the approved costs is set out in table A.

### Base Build Cost

- 7.2. The base build cost (excluding abnormal costs) provided by AECOM Construction Services in February 2014 is £2.35m, which is 6 per cent (10%<sup>3</sup> allowing for building cost inflation in the intervening period) below the previously approved base build cost of £2.5m<sup>4</sup>. This equates to a base build cost of £2,500 per square meter (excluding abnormal costs) in comparison with previously reported base build cost of £2,600 per square meter (May 2013)<sup>5</sup>. The reduction has been achieved through value engineering, AECOM absorbing investment costs in the infrastructure required to manufacture the panels, and CHPL waiving their licence fee (2% of construction cost).

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<sup>3</sup> BCIS data for the period Q1 2013 to Q1 2014 shows construction cost inflation of 4.2%

<sup>4</sup> Including £100k construction contingency

<sup>5</sup> Based on Gross Internal Area of 950m<sup>2</sup> (10,200ft<sup>2</sup>)

### Abnormal Costs

- 7.3. As set out in paragraph 5.3, following a range of detailed site investigation surveys a number of significant site abnormal issues were identified. The total abnormal costs following completion of the value engineering exercise is £739k, comprising:
- A. AECOM Construction Services costs in relation to abnormal costs of £427k including:
    - £90k for piled foundations
    - £17k for ground contamination
    - £42k for sewer diversion
    - £62k for enlarged green area and landscaping
    - £54k for other abnormals
    - £62k for prelims overheads and profits
    - £100k fixed price risk premium (contingency)
  - B. LBHF Transport & Highways department costs in relation to design and construction works to widen Ceylon Road of £124k
  - C. Associated professional fees of £188k

- 7.4. Therefore, in order to absorb the identified abnormal costs<sup>6</sup> it has been necessary to draw on the entire approved project contingency, which results in a net shortfall after the value engineering exercise of £288k against the approved total scheme budget of £3.44m. Furthermore, whilst the Council is seeking to enter into a fixed price construction contract, it is considered prudent to retain £200k of project contingency going forward. Therefore, there is a need for additional funding of £488k to progress the pilot scheme.

### Updated Cost Plan

- 7.5. Savills have provided an updated sales valuation report in March 2014 following the original valuation which was undertaken in March 2013. The updated valuation demonstrates that the GDV for the Spring Vale scheme has increased from £5.5m to £6.7m<sup>7</sup>.
- 7.6. Therefore, it is possible to off-set the increased scheme development costs by the increase in GDV of the private homes over this period. A summary of the updated cost plan is presented below:

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<sup>6</sup> Including an increase of £12k for sales fees as a result of the increased GDV

<sup>7</sup> Savills advised an average sales value of £630/ft<sup>2</sup> in March 2013; this has increased to £760/ft<sup>2</sup> in March 2014 based on Net Internal Area of 8,800ft<sup>2</sup> (820m<sup>2</sup>).

<b>Table A</b>	<b>Previously approved cost plan (May 13)</b>	<b>Variations</b>	<b>Revised cost plan (March 14)</b>
<b>Gross Development Value</b>	<b>£5,550,000</b>	<b>£1,173,000</b>	<b>£6,723,000</b>
Development costs:			
- base build and externals	£2,504,000	(£150,000)	£2,354,000
- abnormal costs			
a) AECOM fixed price construction costs	n/a	£427,000	<u>£427,000*</u>
<b>Total fixed price contract</b>			<b>£2,781,000</b>
b) LBHF Highways costs (Road widening)	n/a	£124,000	£124,000*
- professional fees associated with abnormal costs	n/a	£188,000	£188,000*
- professional fees	£360,000	£0	£360,000
- sales and marketing fees	£82,000	£12,000	£94,000
- statutory fees	£185,000	£0	£185,000
- project contingency	£313,000	(£113,000)	£200,000
<b>Total Development Costs</b>	<b>£3,444,000</b>	<b>£488,000</b>	<b>£3,932,000</b>
Available return:			
- Development surplus (additional cash for reinvestment)	£687,000	£101,000	£788,000
- Retained equity (by Council)	£1,419,000	£584,000	£2,003,000
<b>Total Council Return</b>	<b>£2,106,000</b>	<b>£685,000</b>	<b>£2,791,000</b>

\* Abnormal costs total £739,000

- 7.7. Based on the central business case assumption the surplus is £788k (20 per cent surplus on cost).
- 7.8. The central business case assumptions include £200k project contingency (reduced from the original 10 per cent project contingency) as the Council will be entering into a fixed price contract with AECOM construction services, and assumes a DMS household income of £38.3k per annum (a further £115k cash surplus could be realised by raising the DMS household income to £43.3k). The average household income for DMS homes has increased from £36k to £38.3k to ensure the project achieves a 20 per cent surplus on cost, which is the test of financial viability required by the Housing Development Programme Board.

7.9. The table below sets out the surplus on cost in £'000 and % terms of changes in Savills Open Market Values (OMV) to the private units and total scheme costs.

Change in private OMV			Change in total scheme costs				
2B M'nette	3B House	Sale	10.0%	5.0%	0.0%	(5.0%)	(10.0%)
£'000	£'000	NDV	4,325	4,128	3,932	3,735	3,538
652	1,073	(10.0%)	19.8 0.5%	216.0 5.2%	412.2 10.5%	608.4 16.3%	804.6 22.8%
688	1,133	(5.0%)	207.3 4.8%	403.7 9.8%	600.1 15.3%	796.5 21.3%	992.8 28.1%
725	1,193	0.0%	394.8 9.1%	591.4 14.3%	787.9 20.0%	984.5 26.4%	1,181.1 33.4%
761	1,252	5.0%	582.3 13.5%	779.0 18.9%	975.8 24.8%	1,172.6 31.4%	1,369.3 38.7%
797	1,312	10.0%	769.7 17.8%	966.7 23.4%	1,163.7 29.5%	1,360.6 36.4%	1,557.6 43.9%

**Note:**

1. Private for sale units comprise two maisonettes & two family houses
2. OMV central case is based on Savills low-range valuation
3. Total scheme costs include construction costs, professional & statutory fees, sales & marketing fees and contingency

7.10. In the event that sales values are realised at 10% below the lower end of the Savills range the development surplus would be reduced to £412k. In addition, should the construction costs also increase by 10 per cent the scheme would still breakeven, achieving a surplus of £20k, excluding the DMS equity and assuming DMS household income of £38.3k.

7.11. See section 11 below for details of the Business Plan assessment.

## 8. PROCUREMENT TO ESTABLISH A SINGLE CONTRACTOR FRAMEWORK

8.1. It is proposed that a single contractor framework be established to take forward the Council's remaining housing development programme (excluding Spring Vale scheme as set out above). The procurement will include public works with a financial value above the EU threshold, thereby requiring an OJEU compliant competitive procurement process to be undertaken.

8.2. In order to maximise bidder interest in the framework it is advisable to adopt the most robust and efficient procurement route. Based on

procurement and legal advice received it is considered that an EU compliant regulated Open procurement procedure be adopted to establish the contractor framework.

- 8.3. A Contract Notice will be published in the OJEU after the Cabinet approval setting out the scope of the framework. Similar information will be published on the Council's website in accordance with Contracts Standing Orders and on the London Tenders Portal that will be used for managing the procurement process.
- 8.4. It is recommended that authority be delegated to the Cabinet Member for Housing in conjunction with the Executive Director of Housing and Regeneration to make decisions during the procurement process. The final selection of the preferred contractor will be reported back to Cabinet on completion of the procurement process.
- 8.5. Indicative programme for procurement of a single contractor framework is set out below:

<b>Event</b>	<b>Timetable</b>
Cabinet approval to proceed	28 April 2014
Publish OJEU notice and tender (single stage ITT/PQQ)	12 May 2014
Submission of completed PQQ/ITT	20 June 2014
Evaluation	w/c 23 June 2014
Tender Appraisal Panel	w/c 21 July 2014
Cabinet Process	September 2014
Contract Award	October 2014

## **9. SINGLE CONTRACTOR PROCUREMENT IMPLICATIONS FOR BARCLAY CLOSE AND BECKLOW GARDENS SCHEMES**

- 9.1. On 13 May 2013 Cabinet approved the instruction to CHPL to undertake resident consultation, site investigation surveys and design for the Becklow Gardens and Barclay Close schemes to planning (RIBA stage D). This has been undertaken for both sites and planning approvals have been received.
- 9.2. The withdrawal of WDH as the main contractor for both sites has resulted in delays to the programme whilst the new single contractor framework is procured. To minimise delays the Council has instruct CHPL, using the existing framework agreement, to undertake detailed design for both

schemes to RIBA stage E. The current framework contains provisions for additional design services and associated survey work. This will also include the discharge of all pre-commencement planning conditions.

- 9.3. In addition, as part of the procurement exercise, contractors will be required to price both schemes based on the detailed design, which will enable start on sites to be achieved sooner on completion of the OJEU procurement exercise in October 2014.

## **10. JEPSON HOUSE SITE DEVELOPMENT SCHEME**

### *Design Solutions to Address Resident and Planning concerns*

- 10.1. The proposed development site, located on the Jepson House estate in Fulham, presents an infill development opportunity on an area of the estate that is currently taken by parking and garages. The site comprises low quality hard standing and sits parallel to Pearscroft Road and Sandilands Road.
- 10.2. The initial hidden homes scheme proposed in the Business Plan for this site was based on a traditional design/construction method, and comprised of 23 homes (21 DMS). It was estimated that the scheme would achieve a GDV of £7.01m, at a development cost of £4.23m and return a surplus of £850k for reinvestment in housing and regeneration purposes.
- 10.3. Initial consultation was undertaken, as part of the hidden homes programme, with residents of the Jepson House estate and wider area in 2012. This included a resident drop-in event on 20 November 2012 and questionnaire survey of local residents.
- 10.4. There was a strong response to previous consultation both in terms of attendance at drop-in events and questionnaire returns. A number of concerns were raised through the consultation process, these included:
- § Quality of the design proposals
  - § The possibility of providing more estate parking than the current provision
  - § Impact of daylight/sunlight levels for existing residents
  - § Protecting the provision of garages
- 10.5. Furthermore, in the initial discussion with the statutory planning authority concerns were also raised about the design proposals, in particular the relationship between the proposed new development and the existing street scene, provision of required private amenity space, parking, etc.
- 10.6. Due to the constrained nature of the site and the inherent design challenges it is therefore proposed that this scheme be progressed as a Rational House designed scheme instead, which is better suited for developments of this nature.

- 10.7. CHPL have undertaken an initial assessment and produced a development proposal comprising 26 units (21 DMS and 5 private units). The more efficient design and site layout that can be achieved through the Rational House design allows for lower rise residential accommodation to be delivered within the constrained urban infill site.
- 10.8. The revised development will deliver 21 DMS units (as per the business plan target) and an additional 3 private units (5 in total) in a more integrated and sympathetic design which compliments the existing street scene and will comply with the London Housing Design Guidelines and Lifetime Homes Standard. Initial planning discussion on the revised Rational House design proposals is encouraging.

Financial Viability Appraisal

- 10.9. The initial financial viability appraisal for the Jepson House scheme (based on the Rational House design) is presented below:

Jepson House Appraisal Summary

Gross Development Value	£13,850,000
Development costs	£6,248,000
<b>Available returns<sup>8</sup>:</b>	
<i>Development surplus (additional cash for re-investment)</i>	£1,258,000
<i>Retained equity (by the Council)</i>	£6,974,000

- 10.10. The revised scheme has an increased GDV of £13.85m returning a total surplus for reinvestment in housing and regeneration purposes of £1.26m on an increased development cost of £6.25m. This represents an increased GDV of £6.8m, development costs of £2.02m and a cash surplus of £400k compared to the previous proposal. The increase in the GDV is a result of a larger scheme and updated sales valuation provided by Savills in November 2013.
- 10.11. Based on the CHPL fee schedule (agreed as part of the framework agreement) it is estimated that the professional fees required to undertake all necessary resident consultation, site investigation surveys and design to planning (RIBA stage D) for the Jepson House scheme is £185,677.
- 10.12. Therefore, approval is sought to instruct CHPL to progress detailed development proposals for this scheme, including detailed sensitivity analysis. Where appropriate the work will be let in phases to minimise any abortive costs. The Housing Development Programme Board have considered and endorsed the proposal.
- 10.13. A further report will be brought before Cabinet in due course requesting approval to proceed with the development (in accordance with the previously approved scheme of delegation set out in the Business Plan), which will contain a full development appraisal with full sensitivity analysis.

<sup>8</sup> £567k of GLA grant and £63k of internal grant pool funding are allocated to this project



## **11. BUSINESS PLAN ASSESSMENT**

- 11.1. Since the approval of the housing development programme Business Plan in June 2013 detailed resident consultation has been undertaken and planning consents received for a number of the development sites. This has resulted in some variations to costs and revenues which have been reported in the quarterly update reports.
- 11.2. Key changes have been the increased size of the Jepson House scheme, the identification of a number of abnormal site issues on the Spring Vale estate and delays to the programme following withdrawal of WDH. These variations are being managed within the overall agreed development funding envelope currently.
- 11.3. Full details of the changes will be presented in the annual Business Plan review and will include re-profiling of some schemes in the Business Plan resulting in more sites being pushed to the latter phase of the development programme. This will be kept under review by the housing development programme board.

## **12. CONSULTATION**

- 12.1. The provision of new housing and in particular affordable home ownership has been identified as a key objective for the Council. The implication of this process will see existing residents, living on the identified estates, impacted both during and after the delivery of the new properties. Therefore, before any scheme can be undertaken it will be important for the Council to carry out a resident consultation exercise on each of the sites and for the results to be properly assessed.
- 12.2. Detailed resident consultation has been undertaken as part of the scheme development at Spring Vale, Becklow Gardens and Barclay Close. This has included:
  - § Ward Councillor briefings
  - § TRA engagement
  - § Resident newsletter
  - § Additional letters to leaseholders
  - § Drop-in session to enable residents to engage in site design
  - § Presentations to tenants and leaseholder area forums
- 12.3. The outcome of the consultation has informed the scheme development and planning consents have been secured for each scheme.
- 12.4. Further resident engagement will be undertaken prior to the construction work at each of the development sites to introduce the contractor and provide residents with further details regarding the development process.
- 12.5. A similar approach to resident consultation will be adopted for the Jepson House scheme.

### **13. EQUALITY IMPLICATIONS**

- 13.1. As per the Equality Act 2010, the Council must consider its obligations with regards to the Public Sector Equality Duty (PSED). It must be carry out its functions (as defined by the Human Rights Act 1998) with due regard to the duty and its effect on the protected in a relevant and proportionate way. The duty came into effect on 6<sup>th</sup> April 2011.
- 13.2. An initial Equality Impact Analysis (EIA) has been undertaken. It shows that the development sites, when reviewed against the profile of those on the HomeBuy register, to be of medium relevance to, have a positive impact on the following groups:
- § Age (especially younger age groups)
  - § Disabled people (and the Council recognises that some disabled people may require more assistance to benefit)
  - § Women
- 13.3. There will also be impacts on women and men, as set out in the EIA, where pram sheds will be moved. This is because this will cause disruption and the degree to which this occurs will vary from site to site. However, there will be no loss of the facility and so this will be mitigated by the re-provision of the facility.
- 13.4. Full EQIA assessment will be undertaken on a scheme by scheme basis as part of the planning application process.

### **14. LEGAL IMPLICATIONS**

- 14.1. The Council has the power to enter in to contracts of the type and nature envisaged by this report under the Localism Act 2011 among others.
- 14.2. Paragraph 3 of section 1 of Council's Contract Standing Orders (CSOs) permit their requirements to be waived in particular circumstances specifically they provide that a prior written waiver to them may be agreed by the *Appropriate Persons* (as defined in the table in paragraph 3.1 of the CSOs) if they are satisfied that a waiver is justified because:
- (i) the nature of the market for the works to be carried out, or the goods to be purchased, or the services to be provided has been investigated and is demonstrated to be such that a departure from the CSOs is justifiable; or
  - (ii) the contract is for works, goods or services that are required in circumstances of extreme urgency that could not reasonably have been foreseen; or
  - (iii) the circumstances of the proposed contract are covered by legislative exemptions (whether under the *Public Contracts Regulations 2006*, *EU Directives* or English law); or

- (iv) it is in the Council's overall interest; or
  - (v) there are other circumstances which are genuinely exceptional. A departmental record of the decision approving a waiver and the reasons for it must be kept in accordance with CSO 18.2 or CSO 18.3. The provisions *contained* in this paragraph cannot be considered if the *Public Contracts Regulations 2006 (EU Procedure)* applies.
- 14.3. Clearly it is a matter for the Appropriate Person to decide whether they are satisfied that any of the grounds in the paragraph are made out so as to justify the waiver. However in this case in addition to the waiver being in the interests of the council (ground (iv) above) as the author of the report suggests; ground (i) and ground (v) are also relevant given the WDH's withdrawal can be considered exceptional as can the fact another contractor is prepared to take over the development on the terms being considered.
- 14.4. *Implications confirmed/verified by: Keith Simkins, Principal Solicitor, 07739315347 / 020 7361 2194*

## **15. FINANCIAL AND RESOURCES IMPLICATIONS**

### **Spring Vale**

- 15.1. Approval is requested to commit £3.93m for investment in Spring Vale to develop ten new properties (including six affordable). Funding for this will be provided from the Decent Neighbourhood's Fund as set out in the approved Housing Development Programme Business Plan 2013-17 (24 June 2013).
- 15.2. A fixed price contract will be entered into with AECOM Construction Services to complete the construction works at a value of £2.78m ( this also includes abnormal costs for piled foundations, ground contamination, sewer diversion and other abnormal costs as set out in Section 7). The fixed-price contract will reduce the risk of construction cost overruns. The Housing Development Programme Board will review and monitor the progress and viability of the scheme.
- 15.3. The development appraisal includes a Project Contingency of £200k. The main construction work is set out in the proposed Fixed Price Contract, however £951k of costs will not be covered by that contract. This contingency will be closely monitored throughout the development with any movements requiring prior approval from the Housing Development Programme Boards.
- 15.4. Section 7 refers to the financial sensitivity analysis which has been carried out to provide the Council with assurance of the proposal's viability within a range of sensitivities. For example, increasing the Spring Vale costs by 10 per cent reduces the development appraisal surplus to £395k (from £788k).

- 15.5. The Council is due to receive £27k of GLA grant per DMS unit on practical completion i.e. £162k in total. Each scheme is required to meet the 20 per cent surplus on cost investment hurdle; the scheme is able to recycle the full value of GLA grant money into other schemes via the Council's internal grant pool and still meet the 20 per cent surplus on cost hurdle.
- 15.6. It should be noted that there are payback conditions associated with the grant and therefore a process will be established to ensure that the Council's liability to repay is closely monitored and managed.
- 15.7. The variations to the Spring Vale scheme and the wider housing development programme will be reported in the Business Plan annual review in June 2014

### **Single Contractor Framework**

- 15.8. Approval is requested for expenditure of £50k for legal fees on appointing Sharpe Pritchard to advise on Single Contractor Framework procurement and £15k for CHPL professional fees. Funding for this will come from the approved Housing Development Programme Business Plan funding.

### **Jepson House**

- 15.9. Approval is requested for expenditure of £185,677 to be spent with City House Projects Limited for resident consultation, site investigation surveys, and design to RIBA planning stage D. This will be released in phases in order to minimise risk. Assuming the scheme proceeds this will be funded from the Housing Development Programme funds held within the Decent Neighbourhoods Fund, should the scheme not proceed then cost can be contained within the allowance made within the Housing Revenue Account 2014-15 budget for Housing Development Programme revenue costs.
- 15.10. The financial viability appraisal for the Jepson House scheme has been reassessed based on the Rational House design. The revised scheme has an increased GDV of £13.85m returning a total surplus for reinvestment in housing and regeneration purposes of £1.26m on an increased development cost of £6.25m. It requires a contribution from the internal grant pool of £63k to meet the 20% surplus on cost threshold the Council requires schemes to make. This can be accommodated within the internal grant pool. This revised scheme represents an increased GDV of £6.8m, development costs of £2.02m and a cash surplus of £400k compared to the previous proposal. The increase in the GDV is a result of a larger scheme and updated sales valuation provided by Savills in November 2013
- 15.11. A further report will be brought before Cabinet requesting approval to proceed with the scheme which will contain a full development appraisal and sensitivity analysis.

15.12. *Comments have been completed by Francis Mills, Senior Accountant on the Housing Development Programme, Extension 1632.*

## **16. RISK MANAGEMENT**

16.1. Risks considered in the body of this report are associated with delivery of the pilot development site on the Spring Vale estate and achieving programme and cost certainty for the wider housing development programme. Risk management continues to be applied within the programme. This is an ongoing process monitored, with mitigation identified, by the Housing and Regeneration Department.

16.2. The key risks are set out below:

§ **Cost overrun:** The Council will be entering in to a fixed price contract with AECOM Construction Services to deliver the Spring Vale new build scheme, which will minimise the risk of cost overrun. In addition, it is proposed that £200k project contingency is retained. For the wider housing development programme the Council will be undertaking a competitive procurement exercise to establish a single contract framework. This will provide a fully integrated supply chain to deliver the Rational House product and provide the Council with greater cost certainty going forward.

§ **Programme overrun:** The withdrawal of WDH has led to delays to the delivery of the Housing Development Programme. The Council is seeking to minimise the delay to the pilot development site by entering into a contract directly with AECOM Construction Services. Further, this has necessitated re-profiling of schemes in the Business Plan with the effect of more sites being pushed to the latter phase of the development programme. This will be kept under review by the Housing Development Programme Board. Establishment of a single contractor framework will provide greater capacity for the Council to undertake a larger volume of delivery at the latter stages of the programme. Progressing detailed design work at the first 3 sites will also minimise delays due to WDH withdrawal.

16.3. *Implications verified/completed by: Eric Holroyd, Development Officer – 020 8753 2734*

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

17.1. It is noted that the withdrawal of WDH has led to delays to the delivery of the Housing Development Programme. The Council is seeking to minimise the delay to the pilot development site (Spring Vale) by proposing to enter into a contract directly with AECOM Construction Services.

17.2. The base build cost (excluding abnormal costs) provided by AECOM Construction Services in February 2014 is £2.35m, which is 6 per cent

(10%<sup>9</sup> allowing for inflation in the intervening period) below the previously approved base build cost of £2.5m.

- 17.3. If this course of action were not taken and a further procurement undertaken a further delay of at least 6 months would result and the tendered price could increase.
- 17.4. The development site has a construction value below the OJEU threshold (£2.35m compared to threshold £4.322m). That being the case legal advice is that there is no need to advertise the contract Europe wide under the Public Contracts Regulations (PCR) unless it is considered to have a cross border interest. By not advertising, there is a risk of a challenge from a contractor not given the opportunity to tender for the contract.
- 17.5. A waiver of the Council's Contract Standing Orders (CSOs) by the appropriate Cabinet Member and the Leader of the Council is also required to award this contract to AECOM Construction Services. Members must be satisfied that the grounds set out in section 3.1 which justify the waiver of CSO's are satisfied.
- 17.6. *Implications verified/completed by: (Robert Hillman, Procurement Consultant [Projects] x1538)*

#### **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.	All relevant reports previously published		

<sup>9</sup> BCIS data for the period Q1 2013 to Q1 2014 shows construction cost inflation of 4.2%