

Report to Cabinet
13 July 2016
Report of Executive head of regeneration and development
Subject Award of contract for housing development at Goldsmith Street

Item

10

KEY DECISION

Purpose

To seek approval to award of a contract and funding relating to the construction of 105 houses at the Goldsmith Street site.

Recommendations

1. To award the contract for the development of 105 houses at Goldsmith Street to R G Carter, subject to council approving an increase in the overall project budget;
2. To recommend to council the increase in the non housing capital budget as outlined in this report;
3. To delegate the decision to agree the final contract sum, subject to a maximum of the figures in this report, to the executive head of service for regeneration and development, in consultation with chief finance officer and the deputy leader and portfolio holder for council housing;
4. To approve the use of £817,233.12 of S106 commuted sums held for the purposes of providing affordable housing towards funding this project; and
5. To approve that rents for Passivhaus properties are set at 5% above formula rent to assist with the additional costs of developing such properties and reflecting the savings for tenants in energy bills.

Corporate and service priorities

The report helps to meet the corporate priority a healthy city with good housing

Financial implications

The Goldsmith Street development has a current approved total budget of £15million for design and construction, split on the basis of 79 dwellings in the HRA and 26 dwellings in the non-housing capital programme.

The construction cost will be a maximum of £14,982,848.23.

With all professional fees for design and project management the total project budget will be a maximum of £17million. The budget for 2016/17 does not need to be increased due to the delay in starting on site, however council approval is sought to increase the overall project budget.

Ward/s: Mancroft

Cabinet member: Councillor Stonard - Resources and business liaison
Councillor Harris – Deputy leader and council housing

Contact officers

Andrew Turnbull 01603 212778

Andy Watt 01603 212691

Background documents

None

Report

Background

1. In 2013, cabinet took the decision to develop Goldsmith Street for new housing. The council appointed NPS (Norwich) to act as development agent for the site and planning permission was granted in October 2015.
2. The 105 properties have been designed to achieve the full Passivhaus standard. Delivering to the Passivhaus standard brings benefits both to the environment and also to tenants, who will be able to enjoy health benefits and significant cost savings on energy bills.

Procurement Process

3. NPS (Norwich) - acting as the council's development agent for the project has undertaken a tender process to procure a contractor. All contractors that are members of the council's 'Fabric First' Framework in Lot 2 were invited to tender for the contract.
4. The framework contractors were selected on the basis of 70% Quality and 30% Price. As we had already weighted heavily towards quality to select framework partners it was agreed that the tenders for this particular project would be scored more heavily on price with a weighting of 70% cost and 30% quality. Two developers have responded to the tender.
5. After the initial period of evaluation in January 2016 it was found that both tendered prices were considerably above the available budget. Therefore a period of value engineering clarification was undertaken during which both suppliers were asked to come up with:
 - a) A tender sum which was compliant to the agreed amended version of the original tender specification.
 - b) Any alternative priced tenders.
6. Following this process revised tenders were received:

Compliant Bids

Company	Cost
R G Carter Ltd	£15,833,523.05
Developer B	£17,114,622.31

7. As the compliant tenders were still above budget it was agreed to consider the alternative tenders:

Company	Cost	Cost Score	Quality score	Total Score
R G Carter Ltd	£14,982,848.23	70.00	17.46	87.46
Developer B	£17,114,622.31	61.64	25.56	87.20

8. On receipt, the quantity surveyor has clarified items with the contractors and confirmed that all items have now been fully priced with no arithmetical errors.
9. Work is underway with R G Carter to clarify detailed costings and understand additional savings that can be achieved. On the basis of the tenders received we have issued an 'intention to award contract' notice, subject to cabinet approval, to R G Carter on 9 June 2016, with a 10 day stand still period.
10. The contract will be awarded subject to these being satisfactory and approval of the final contract sum as per the recommended delegation.
11. The current proposal for the development is a split of 79 dwellings for social rent and 26 private dwellings, either for market sale or private rent. The table below shows the current approved budget:

	2014/15	2015/16	2016/17	2017/18	2018/19	Total
HRA - borrowing	£256,900	£653,100	£6,140,680	£1,276,660	£62,296	£8,389,636
HRA – RTB Receipts	£110,100	£279,900	£2,631,720	£547,140	£26,699	£3,595,559
HRA - Total	£367,000	£933,000	£8,772,400	£1,823,800	£88,995	£11,985,195
Non-housing capital programme - borrowing			£2,716,600	£217,200	£29,500	£3,017,300
Current Total Budget	£367,000	£933,000	£11,489,000	£2,095,000	£118,495	£15,002,495

12. The total budget required for the project is made up of the construction cost as per the tenders received (including contingency), survey works, professional fees for the design of the dwellings, demolition and site clearance works, planning fees and on-going project management and quantity surveying services.

13. Following the assessment of the tenders received the budget required for the same tenure split is:

	2014/15	2015/16	2016/17	2017/18	2018/19	Total
HRA - borrowing	£256,900	£653,100	£2,415,000	£4,922,767	£238,000	£8,485,767
HRA - RTB Receipts	£110,100	£279,900	£1,035,000	£2,460,000	£102,000	£3,987,000
HRA – S106 commuted sum	£0	£0	£0	£817,233	£0	£817,233
HRA - Total	£367,000	£933,000	£3,450,000	£8,200,000	£340,000	£13,290,000
Non-housing capital programme - borrowing			£1,000,000	£2,600,000	£110,000	£3,710,000
Required Total Budget	£367,000	£933,000	£4,450,000	£10,800,000	£450,000	£17,000,000

14. The increase in budget to the HRA of £1,304,805 is offset by the increased use of RTB one for one receipts (£391,441), which mitigates the risk of having to pay these monies back with interest, and the use of £817,233 of S106 commuted sum monies. This means the increase in HRA borrowing is £96,131. It is anticipated that this can be covered by a virement within 2016/17 from underspends elsewhere in the Housing Revenue Account planned capital spend so that no overall increase in planned HRA funding is required.
15. The increase required in the non-housing capital programme is £696,700. There is sufficient budget allocated in the 2016/17 budget due to the delay in starting on site, however full council approval will be sought to increase the overall project budget.
16. The current split of the development between 79 dwellings for social rent and 26 private dwellings is an indicative allocation between the HRA and non-housing capital programme based upon the share of properties funded by each budget; however the final split will be subject to the actual properties that are identified as the most suitable for private development. We are currently assessing the business case for private development, based upon market advice on sales and rental values for the area.
17. Once the final contract sum is known and the costs of the individual properties allocated we can finalise the business case for the private development and offer the dwellings to Norwich Regeneration Ltd.

Alternative Options

18. Should the business case for private development not stack up for Norwich Regeneration Ltd we have considered other options and the budget implications of these.

Disposing of 26 dwellings to a registered provider of affordable housing.

19. This option would be subject to discussion with local registered providers:

	2014/15	2015/16	2016/17	2017/18	2018/19	Total
HRA - borrowing	£256,900	£653,100	£2,415,000	£4,922,767	£238,000	£8,485,767
HRA - RTB Receipts	£110,100	£279,900	£1,035,000	£2,460,000	£102,000	£3,987,000
HRA – S106 commuted sum	£0	£0	£0	£817,233	£0	£817,233
HRA - Total	£367,000	£933,000	£3,450,000	£8,200,000	£340,000	£13,290,000
RP			£1,000,000	£2,600,000	£110,000	£3,710,000

20. Subject to cabinet approval, the council could grant fund the registered provider with 30% RTB one for one replacement receipts, amounting to £1,113,000 which should make this a viable option for a registered provider. This would maximise the use of RTB receipts to a total of £5,100,000 and mitigate the risk of the council having to return these along with associated interest payments.

Developing the whole site for council housing at social rents

21. The table below shows the maximum required total budget if the whole development was to be developed by the council for social rent:

	2014/15	2015/16	2016/17	2017/18	2018/19	Total
HRA - borrowing	£256,900	£653,100	£3,115,000	£6,742,767	£315,000	£11,082,767
HRA – RTB Receipts	£110,100	£279,900	£1,335,000	£3,240,000	£135,000	£5,100,000
HRA – S106 commuted sum				£817,233		£817,233
Total HRA Budget	£367,000	£933,000	£4,450,000	£10,800,000	£450,000	£17,000,000

22. This option requires an additional £2,693,131 of HRA borrowing. The HRA is currently anticipating underspend from other budgets for which a virement could be granted to cover this additional budget requirement. This option would also allow for the maximum use of RTB receipts. However, because further information is awaited on the level and timing of the high value void determination payment the council will be required to make to fund right to buy sales by registered providers other options for the 26 planned private dwellings continue to be pursued.

23. It should also be noted that in the DCLG guidance on rent setting for local authorities there is flexibility to set rents at up to 5% above formula rent for individual properties. It is recommended that we take advantage of this flexibility for this development (equivalent to an average £4 per week additional rent) and other Passivhaus developments, to assist with offsetting the additional development cost, particularly as the evidence shows that residents would make significant savings on fuel bills.

Recommendation

24. To award the contract for the development of 105 houses at Goldsmith Street to R G Carter, subject to council approving an increase in the overall project budget;

25. To recommend to council the increase in the non housing capital budget of £696,700 as outlined in this report;

26. To delegate the decision to agree the final contract sum, subject to a maximum of the figures in this report, to the executive head of service for regeneration and development, in consultation with chief finance officer and the deputy leader and portfolio holder for council housing;

27. To approve the use of £817,233.12 of S106 commuted sums held for the purposes of providing affordable housing towards funding this project; and

28. To approve that rents for Passivhaus properties are set at 5% above formula rent to assist with the additional costs of developing such properties and reflecting the savings for tenants in energy bills.

Integrated impact assessment



NORWICH
City Council

The IIA should assess **the impact of the recommendation** being made by the report
Detailed guidance to help with completing the assessment can be found [here](#). Delete this row after completion

Report author to complete

Committee:	Cabinet
Committee date:	13 July 2016
Head of service:	Andy Watt
Report subject:	Award of contract for housing development at Goldsmith Street
Date assessed:	21 June 2016
Description:	To confirm the award of a contract and funding relating to the construction of 105 houses at the Goldsmith Street site.

	Impact			
Economic (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Finance (value for money)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Provision of more council homes will improve overall affordability of the housing stock. This represents a prudent use of financial resources to meet corporate priorities
Other departments and services e.g. office facilities, customer contact	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
ICT services	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Economic development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	This project will provide employment opportunities, opportunities for local contractors and businesses and will generate local spending for the benefit of the wider economy. Providing more housing is important in supporting sustainable economic growth and prosperity.
Financial inclusion	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Providing additional social rented housing will advance financial inclusion by helping to improve housing affordability
Social (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Safeguarding children and adults	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Building more council homes to meet changing needs will help provide accommodation for vulnerable adults and children.
<u>S17 crime and disorder act 1998</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Human Rights Act 1998	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Health and well being	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The provision of sufficient and decent quality housing is essential to ensuring decent levels of health and well being

	Impact			
Equality and diversity (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Relations between groups (cohesion)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Eliminating discrimination & harassment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Advancing equality of opportunity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Environmental (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Natural and built environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Provision of high quality new homes will enhance the built environment of this area. In addition works are being undertaken to improve the green space adjacent to the site.
Waste minimisation & resource use	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Pollution	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Sustainable procurement	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Energy and climate change	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The new homes have been designed and will be built to a higher environmental standard than building regulations, which will bring benefits to both the environment and tenants, when compared with standard build types.

	Impact			
(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Risk management	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	The new homes will be subject to the Right to Buy which represents a risk to the council.

Recommendations from impact assessment
Positive
Overall the project will provide more council homes which will improve overall affordability of the housing stock. The investment priorities represent a prudent use of financial resources to meet corporate priorities and will provide local employment opportunities.
Negative
The Right to Buy risk is mitigated as the 'cost floor' means that any monies spent on developing or maintaining these properties for 15 years can be deducted from any discount.
Neutral
Issues