

CABINET

21 September 2021

Title: Refurbishment of Redundant Units via Habitat for Humanity Model – Update	
Report of the Cabinet Member for Community Leadership & Engagement and the Cabinet Member for Finance, Performance & Core Services	
Open Report	For Decision
Wards Affected: Village and Mayesbrook	Key Decision: Yes
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Accountable Strategic Leadership Director: Lisa Keating, Strategic Director, My Place	
Summary: <p>This report provides an update to Cabinet on the original decision made on 17 September 2019 (Minute 48) regarding an arrangement with Habitat for Humanity (HfH) in respect of works to several empty and dilapidated flats above shops within the General Fund commercial property portfolio, which included the approval of leases to HfH for three properties (496 Gale Street, 16a Woodward Road and 4-5 Royal Parade, Church Street).</p> <p>This update report sets out the basis of the original schemes, the impact of the delays due to the Covid pandemic, the subsequent discussions with HfH and the proposed amendments to the terms that were agreed in the September 2019 Cabinet Report. These revised terms maintain the original social and community outcomes of the schemes whilst ensuring the schemes remaining value for money for the Council.</p>	
Recommendation(s) <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none">(i) Confirm the Council's commitment to the original schemes at 496 Gale Street, 16a Woodward Road and 4-5 Royal Parade, Church Street, Dagenham, based on the identified outcomes and the benefits derived from the East Street pilot project;(ii) Agree, in accordance with the provisions of paragraph 6.6 (h) of the Council's Contract Rules, to waive tendering requirements and directly award the contract to deliver and manage the works on the three properties to Habitat for Humanity (HfH);(iii) Approve the revised terms of the arrangement with HfH, as set out in the report;(iv) Approve an increase to the Capital Programme of £574,000, to be funded by General Fund borrowing, over 2021/22 to 2022/23, as detailed in paragraph 5.11 of the report; and	

- (v) Delegate authority to the Strategic Director of My Place, in consultation with the Cabinet Member for Community Leadership and Engagement and the Strategic Director, Law and Governance, to finalise all the terms and enter into the appropriate contracts and all other necessary agreements with HfH to enable the projects to be delivered.

Reason(s)

The proposals contribute to the Council's vision and priorities set out in the Corporate Plan:

- Develop place-based partnerships.
- Shape great places and strong communities through regeneration
- Enable greater independence and protect the most vulnerable.

1. Introduction and Background

- 1.1 At the meeting on 17 September 2019, Cabinet received and approved a report on the terms of an arrangement with Habitat for Humanity (HfH) regarding the refurbishment of three further dilapidated flats above shops, to be used to accommodate care leavers identified by Children's Care and Support (<https://modgov.lbbd.gov.uk/Internet/documents/s133762/Redundant%20Units%20Report.pdf>) .
- 1.2 The model for the additional units identified within the report (496 Gale Street, 16a Woodward Road and 4-5 Royal Parade, Church Street) was to refurbish and let them, based on the original pilot scheme undertaken with HfH at 35b East Street, Barking, which refurbished a flat above a shop unit that was subsequently let to vulnerable people (care leavers) from the Children's Care & Support Service, who use the properties for independent living, as per the terms of the original approval.
- 1.3 The reason for choosing HfH and the benefits of using this particular model, were outlined in the September 2019 Cabinet Report and included the exciting possibility of working with a global charity who provide decent, affordable homes for vulnerable people in housing need in locally appropriate ways around the world. The model is based around the values of HfH of empowerment and partnership by engaging different sectors of society (voluntary, private and public) in helping communities to provide local solutions to housing and community needs. HfH work across the Country carrying out a range of construction-based projects to bring empty and underused buildings back into good community use as affordable rented homes for groups in local need such as vulnerable people and disadvantage young people.
- 1.4 As part of the overall package within the schemes, HfH have secured grant funding from nationwide foundations to provide on-site construction skills training for young people in colleges to learn practical on-site construction skills and this unique model is therefore more than just a construction related project with the method of delivery providing much wider social and community value working with an ethical and responsible partner who have access to interest free grant funding.
- 1.5 The pilot project at East Street provided training for several young people from Barking & Dagenham College who were apprentice students and through that

relationship, enabled 5 young people with learning disabilities receive long-term work-readiness training on site, through the HfH REACH programme.

- 1.6 The model is aimed at bringing back into use several properties, whilst creating social and community benefits during the construction phase and providing accommodation for care leavers once works are completed.
- 1.7 Due to the nature of the works, Planning approval is only required for 4-5 Royal Parade (which has already been obtained). Specifications have been prepared for all three properties and works to the first of the three identified properties (496 Gale Street Dagenham) was due to start in 2020. Some works were undertaken (site clearance and preparation etc) but then ceased due to the Covid Pandemic.

2. Current Position and Revised Terms

- 2.1 With lockdown restrictions having eased, HfH have reviewed the schemes and updated the Council on the impact that the pandemic has had on progressing the works. These included, the increased costs of the works due to the effect on the construction industry resulting from the pandemic, (cost and availability of materials), Brexit (supply chains) and subsequent amendments to the specification, as well as the associated cost of borrowing that HfH were able to secure due to market fluctuations that have occurred since 2019.
- 2.2 The overall outcome of these changes has therefore prompted some suggested changes to the original terms set out in the September 2019 Cabinet decision, which Cabinet are asked to approve in this report.
- 2.3 The original terms were based on HfH funding the works through a combination of interest free grants and financial borrowing through a third party. Prior to works commencing, HfH would have entered into a lease with the Council for a period that allowed the repayment of the loan (via the terms set out in the 2019 Cabinet Report). At the end of this period, the lease would have ceased with no further payments required and the Council would continue using the refurbished units.
- 2.4 With the interest rate that HfH were able to secure for the loan element of the works, having changed during the pandemic, the recent review of the schemes found that due to these interest rate changes, the repayment terms were no longer value for money for the Council and that a new financing model was required to ensure the schemes continued to meet their original objectives and outcomes.
- 2.5 The proposed terms recently discussed with HfH is for the Council to fund the works using the Council's own borrowing, with payment made to HfH upon successful completion (and sign-off) of the works and receipt of warranties and certificates. HfH would still appoint the contractor (using a tendering process) and have a recognised industry standard building contract in place. The Council (as client) will have a separate agreement with HfH that safeguards both the Council's and HfH's interest in the model and the use of the building.
- 2.6 HfH will continue to contribute a grant element (secured through their various funders), that will contribute 24% of the cost for each scheme. The grants have been secured on the basis that the properties are used to provide accommodation for 'vulnerable people', hence the intention to use these properties for care leavers,

who would otherwise be accommodated by other means. An agreement will therefore be created outlining these terms and Children’s Care and Support have confirmed that they have significant demand for these types of properties and have committed to working in partnership on the various schemes.

- 2.7 The overall model therefore, will require a waiver, permitting the Council to enter into a direct contract with HfH. This is sought under Rule 6.6 (h) that “there are other circumstances which are genuinely exceptional” on the basis of the deal being proposed with the grant funding offer.
- 2.8 This new approach to the funding of these schemes ensures that the Council obtains value for money, whilst continuing to receive the social and community value and outcomes from the schemes and it is proposed that all three schemes are similarly financed.
- 2.9 The impact on the cost changes on the individual schemes are outlined in the table below:

Scheme	Original Works Cost Estimate (Sept 2019)	Revised Cost Estimate (Aug 2021)
496 Gale Street, Dagenham	£189,000.00	Total Cost (TC) £221,944.00 (works & fee) Grant: £53,267.00 (24%) TC less Grant: £168,677.00 Which would be the payment made to HfH and the amount funded by LBBB borrowing and represents a 17.4% increase.
16a Woodward Road, Dagenham	£191,000.00	Total Cost (TC): £213,471.00 (works & fees) Grant: £51,233.00 (24%) TC less Grant: £162,238.00 Which would be the payment made to HfH and the amount funded by LBBB borrowing and represents a 11.8% increase
4-5 Royal Parade, Church Street, Dagenham	£358,000.00	Total Cost (TC): £437,257.00 (comprising £117,951.00 commercial & £319,306.00 residential)-works & fees Grant: £76,633.00 (24%) TC less Grant: £242,673.00 (residential) Which would be the payment made to HfH and the amount funded by LBBB borrowing and represents a 22% increase. Note. The total cost includes £117,951 for the cost of works of the grd flr commercial premises, which has been allowed for within the GF Capital Programme (Project FC05018 Stock Condition Works). The grant only applies to the residential accommodation.
Total Borrowing		£573,588.00 (to be added to the capital programme)

- 2.10 An initial review of the pilot scheme at 35 East Street, Barking, which was occupied from December 2019, was recently conducted which confirmed that the schemes continue to deliver the intended outcomes for Children's Services in providing quality accommodation for care leavers, which are owned and administered by the Council's General Fund.

3. Options Appraisal

- 3.1 This report seeks to amend the terms of the arrangement originally agreed by Members in September 2019, which set out the original options, which remain relevant and consistent with these revised terms.

4. Consultation

- 4.1 The revised terms set out in this report are the outcome of consultation with Habitat for Humanity (HfH) alongside Finance, Inclusive Growth, Legal Services, Children's Commissioning and Children's Care and Support colleagues, to ensure both the original outcomes are maintained and the terms represent value for money for the Council. The proposals in this report were considered and endorsed by the Assets and Capital Board at its meeting on 14 July 2021.

5. Financial Implications

Implications completed by: Joel Gandy, Finance Business Partner

Gale Street

- 5.1 Under the original Cabinet paper, the plan for 496 Gale Street, was to enter a lease arrangement with Homes for Humanity (HfH) similar to the East Street Project. The Council would then pay a fixed annual rental amount for a set period of years until the lease expired to cover the cost of financing the refurbishment.
- 5.2 Once the works were completed and fixtures and fittings were in place, Children Services would then utilise the new accommodation space for care leavers. The service would pay for the rent set at the Single Person Allowance Rate (currently £101.63 per week) claimable by the care leavers. These extra available spaces would help alleviate the pressure of finding accommodation for care leavers at risk of becoming homeless.
- 5.3 As outlined in this updated report to Cabinet, early clearance work by HfH on Gale Street was started shortly before the pandemic and then put on hold. A revised project cost was put forward in late May 2021 which outlined that both the cost of construction and external borrowing by HfH was projected to have risen for the scheme.
- 5.4 The cost of construction is driven by market and environmental factors and therefore little we can do to minimise this. However, HfH are a global building charity therefore are expected to secure economies of scale.
- 5.5 The cost of borrowing has been revisited and this report proposes that the Council use its borrowing capability to secure a more competitive interest rate, thereby reducing the financing cost of the scheme. Indeed, the internal borrowing rate also

allows for a Treasury Management margin, so if there are unforeseen factors this can be flexed as a mitigation measure.

- 5.6 The benefit of working with HfH is in utilising their specialised skillset and access to grant funding to reduce the net cost to the authority of repurposing asset space that has become dilapidated. Therefore, this paper recommends a direct award route.
- 5.7 It is therefore recommended to request an addition to the 2021/22 Capital Programme of £168,677 to be financed by LBBB borrowing. The assets are not part of the Housing Revenue Account.
- 5.8 Whilst the costs have changed, the financial benefit of the scheme is apparent. Children’s Services currently place care leavers in private settings costing on average £350 per week per person. Gale Street (the first project) will offer 3 places each at the Single Person Allowance Rate. The care leaver budget is under pressure therefore the implementation of this scheme will assist in cost avoidance for the service which is on average estimated at £13,000 per annum per place.

Future Schemes

- 5.9 16A Woodward Road and 4-5 Royal Parade Church Street, both also in Dagenham, were originally identified in the previous cabinet paper. It is not unreasonable for these schemes to also be advantageous to the authority and provide further cost avoidance opportunities. It is proposed that these schemes will be scoped and managed via Assets & Capital Board in due course. In addition, Royal Parade, will also refurbish two business spaces available for commercial let, thereby making these units easier to let and generate additional income for the authority.
- 5.10 Across the three currently identified schemes, the total borrowing outlay is estimated at £574,000. The latter two schemes, if approved, would be expected to be completed in 2022/23.
- 5.11 The table below reflects the Capital Programme requirement, to be funded by General Fund borrowing, across the three schemes:

Capital Programme <i>Addition</i>	2021/22 <i>£'000</i>	2022/23 <i>£'000</i>	Total <i>£'000</i>
496 Gale Street	169		169
16a Woodward Road		162	162
4-5 Royal Parade, Church Street		243	243
Total	169	405	574

6. Legal Implications

Implications completed by Kayleigh Eaton, Senior Contracts and Procurement Solicitor and Ann Towndrow, Property Solicitor, Law & Governance

- 6.1 This report seeks permission to amend the previously agreed route to deliver the works at the three addresses identified in this report. The proposal is now that the

main contract with HfH for these projects will be based on management contracts, rather than property contracts. It is then proposed that HfH will enter into separate contracts in its own name with the contractors carrying out the works. Collateral warranties will then be entered into protecting the Council's interests.

- 6.2 As HfH have not been procured, a waiver of the Council's Contract Rules will be required, waiving the requirement to tender for the services they will be providing in overseeing and managing the works. The total fees payable to HfH for managing these works over the three projects is below the UK procurement threshold so a waiver can be granted under rule 6.6 of the Council's Contract Rules.
- 6.3 This report states that HfH will appoint building contractors following a tendering process. This process should be compliant with the Council's Contract Rules.
- 6.4 In order for the schemes, and hence the Council, to continue to benefit from the grants available to HfH, it is expected that the third parties providing the grants will require an undertaking from the Council to use the properties for accommodation for vulnerable people and care leavers. A contractual commitment to the terms will be dealt with by way of separate agreements entered into at the same time.
- 6.5 Pending the building contracts being entered into, HfH are being allowed to commence some preparatory works to the properties at its own risk under temporary licences to occupy.

7. Other Implications

- 7.1 **Procurement Issues** - The procurement of the Contractors will be conducted by HfH and as such will be required to conform to the Council's Contract Rules and in the event the works exceed the current UK threshold for works, then the process will need to be PCR 2015 compliant. The waiver process for the current schemes and potential additional schemes (assumed will be sub threshold in aggregated terms) is deemed as compliant with the Councils requirements.
- 7.2 **Risk Management Issues** - This update considers the impact of the risk associated with proceeding with the original terms of the deal agreed by Cabinet in September 2019 and proposes an alternative proposal which reduces the financial risk to the Council, whilst still delivering the same outcomes.
- 7.3 **Corporate Policy & Equality Impact Issues** – The schemes continue to support the original objectives of the model agreed by Cabinet in September 2019, whilst amending some of the financial terms. The model has also built a relationship between HfH and Barking & Dagenham College that provides trainee opportunities for young people.
- 7.4 **Safeguarding Adults & Children's Issues** – The schemes will continue to support the original objectives of the model agreed by Cabinet in September 2019, with Children's Care & Support continuing to nominate the residents who will reside at the properties and the schemes will provide much needed move-on accommodation for care leavers

- 7.5 **Crime and Disorder Issues** – There are no general crime and disorder issues, and these schemes will bring back in use, properties that remain in a poor condition and subject to the potential of attracting anti-social behaviour and criminal damage.
- 7.6 **Property / Assets Issues** – This update considers the property asset impacts of the schemes that will deliver refurbished properties to be accommodated by tenants nominated by the Council and deliver the outcomes outlined in this report which meet property asset objectives.

Public Background Papers Used in the Preparation of the Report: None

List of Appendices: None