CABINET

18 October 2022

Title: Gascoigne Estate (East) Phase 3B Redevelopment Project	
Report of the Cabinet Member for Finance, Growth and Core Services	
Open Report with Exempt Appendix 4 (relevant legislation: paragraph 5 of Part I of Schedule 12A of the Local Government Act 1972)	**For Decision**
Wards Affected: Gascoigne	**Key Decision:** Yes
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Accountable Director: Ed Skeates, Director of Development, Be First	
Accountable Strategic Leadership Director: Philip Gregory, Strategic Director, Finance and Investment	

Summary

A progress update on the regeneration of the Gascoigne Estate was provided to Cabinet in April 2021, which identified a target start on site date of March 2023 for Gascoigne Estate (East) Phase 3B (GEP3B). This is a critical development phase in the regeneration of the Gascoigne Estate, which will deliver 334 new homes (50% affordable), and significant improvements to the public realm, replacing the existing LPS blocks, which are in extremely poor condition.

GEP3B is included in the Be First Business Plan 2022-27 approved by Cabinet in March 2022. However, since the Business Plan was agreed, there has been significant cost inflation in the construction sector, which are impacting on the Council's ability to deliver schemes to the budgets set out in the Business Plan. These cost increases have been driven by the continued impact on the cost of materials and labour of Covid, Brexit, and the introduction of more stringent building regulations. These impacts have intensified during 2022 as a result of the war in Ukraine.

Consequently, there are a number of projects within the Be First Business Plan that are yet to start on site that have experienced significant cost increases since the previously reported figures, including GEP3B.

At the April 2021 meeting, the Cabinet gave delegated authority to the Managing Director, in consultation with relevant Members and officers and on the advice of the Investment Panel, to progress the future development phases within the Gascoigne Estate. However, due to the significant additional costs experienced since then, which have affected the financial performance of GEP3B, it is appropriate for the Cabinet to reconsider its commitment to this project.

Planning permission has been granted subject to the signing of the s.106 agreement. GLA grant of c.£16.1m has been secured, subject to starting on site by March 2023. To date 154 properties have been vacated, with 22 properties still to be decanted.

A procurement exercise has been undertaken from Lot 2 of the Be First Development Framework, with Wates being identified as the preferred contractor. However, based on the agreed maximum price, the project does not meet all the financial hurdle rates. There is also a risk of further cost increases in the future. A different form of contract is proposed to mitigate this risk, which seeks a more open book approach to working with the contractor during the supply chain tender process, in order to achieve value for money, and mitigate the Council's financial exposure prior to committing to the main works.

The purpose of the report is to update Cabinet and request the appropriate delegations to officers to proceed with GEP3B based on the latest cost estimate set out in this report. The project will still be subject to the full development and financial appraisal process and will require Investment Panel approval in the normal way. Should the circumstances of the project change from those set out in this report, a further update will be provided to Cabinet, and any approvals sought as required.

Recommendation(s)

The Cabinet is recommended to:

(i) Agree to award the Constructing Excellence Contract to Wates Construction Ltd Company No. 01977948(Wates) on the basis of a Gross Maximum Price ("GMP") of £142,061,994;

(ii) Approve the total development cost of £166,527,638 subject to the advisory process of the LBBD Investment Panel;

(iii) Approve the handover loan of £138,049,272;

(iv) Note the IAS Return with an NPV of -£15,885,868 and a handover loan that is repaid by year 50;

(v) Delegate authority to the Strategic Director, Finance and Investment, in consultation with the Leader, Deputy Leaders, the Cabinet Member for Regeneration and Economic Development and on the advice of the Investment Panel, to negotiate terms, agree final arrangements and enter into all necessary contract documents and ancillary agreements to fully implement and effect the delivery of Gascoigne East 3B;

(vi) Agree that the project be presented to Investment Panel to consider and advise the Strategic Director, Finance and Investment regarding his approval to deliver the main works part of the Constructing Excellence contract, once the final Contract Price has been confirmed by the contractor; and

(vii) Note that should the circumstances of the project change from those set out in the report, a further report will be presented to Cabinet.

Reason(s)

The recommendations are aligned with the four priority areas identified within the Inclusive Growth section of the Council's Corporate Plan 2020 to 2022:

- **Homes**: for local people and other working Londoners
- **Jobs**: a thriving and inclusive local economy
- **Places**: aspirational and resilient places
- **Environment**: becoming the green capital of the capital.

1. Introduction and Background

1.1 Gascoigne East Phase 3B (GEP3B) is a critical development phase in the regeneration of the Gascoigne Estate, which will deliver 334 new homes (50% affordable), and significant improvements to the public realm. The existing buildings are earmarked for demolition. Vacant possession is targeted for early 2023. To date 159 properties have been vacated, with 22 properties still to be decanted. Start on site for the construction works is currently targeted for June 2023.

1.2 A progress update on the regeneration of the Gascoigne Estate was provided to Cabinet in April 2021, which identified a target start on site date of March 2023 for GEP3B.

1.3 Cabinet agreed the Be-first business plan in March 2022, which contained a programme of schemes that Be First was aiming to progress, including GEP3B. The Cabinet agreed to delegate the decision on investing in these schemes to the Managing Director (this role is now carried out by the Strategic Director, Finance and Investment), advised by Investment Panel, once detailed feasibility and financial modelling had been carried out.

1.4 Subsequent to the approval of the business plan, the development and construction sector has continued to experience significant cost pressures. Whilst high material price inflation is not expected to continue indefinitely, prices have increased significantly in recent months, particularly in relation to steel, which has doubled in price during the last 12 months, and concrete, which has increased by 30% during this period. Construction material costs for new housing have risen by 23% in the 12 months to May according to BEIS. BCIS is reporting tender price increases of 9.1% in the year to Q2 2022. As a result of the high level of volatility in the construction sector, contractors and suppliers are holding prices for significantly shorter periods of time.

1.5 The viability impact on projects due to the increase in construction costs over the last 12-24 months has been compounded by a lack of rental and sales value growth over the same period, with rental values only 3-4% above pre-covid levels. Furthermore, operating and borrowing costs have increased, placing further pressure on viability.

1.6 A procurement process has been carried out to appoint a contractor from Lot 2 of the Be First Development Framework to deliver GEP3B, with a preferred contractor having been selected (Wates). In order to mitigate the current volatility in the construction sector, a different form of contract is proposed. It is proposed that the contractor is appointed through a Constructing Excellence (CE) contract, instead of the standard JCT Design and Build contract. The CE contract adopts a more collaborative and transparent pricing process, with the final contract price reflecting accurate tender price information from the supply chain, shared on an open-book basis by the contractor.

1.7 The CE contract is awarded based on a Gross Maximum Price (GMP), with the final contract price being submitted by the contractor once they have completed the detailed design and supply chain tendering process with their supply chain. If the final contract price exceeds the GMP, this risk sits with the Council. To mitigate this risk, the Council retains the right to terminate the contract, and not proceed with the works if the final contract price exceeds the GMP. If the final price is lower than the GMP, there is a saving sharing mechanism within the contract, enabling both parties to share the benefits of a lower price being achieved. If the contract price is lower than the GMP, the Council does not have the ability to terminate the contract in this scenario.

1.8 Based on the agreed GMP, and the current standard financial assumptions, the project does not meet all the financial hurdle rates. Options have been explored to improve the viability of the project including:

- Seeking additional grant funding (GLA/s.106/CIL)
- Further design/cost efficiencies
- Operating cost efficiencies through a comprehensive estate management strategy for the Gascoigne Estate

1.9 However, even with these additional measures, whilst a positive NPV can be achieved, the project would still not meet all the financial hurdle rates. Therefore, in the event the contractor’s final price is lower than the GMP, the Council is committed to delivering the project, even though not all the financial performance targets are met.

1.10 Notwithstanding the viability challenges, it is proposed to deliver the project now, given its importance to the regeneration of the Gascoigne Estate, and the risk of viability deteriorating further over the next 12-18 months.

1.11 The GMP is based on the current design proposals, for which planning permission has been secured, subject to signing the s.106 agreement. Whilst the design exceeds current Building, Health and Safety, and Environmental regulations, there are upcoming regulations coming into force within the next 12 months. This is a common issue with development projects, as designs are developed in a continuously changing regulatory environment. If the scheme were to be re-designed to meet upcoming regulations it is likely that the thickness of the walls and roofs would increase in order to meet more stringent thermal performance and insulation requirements. If these changes materially alter the design in terms of the height and footprint of the buildings, a new planning application would be required, resulting in a significant delay and additional cost to the project.

1.12 Consequently, it is proposed that the scheme is delivered based on the current design and programme, in accordance with the current regulations.

2. Proposal and Issues

2.1 GEP3B is a critical development phase in the context of achieving the overall placemaking and regeneration objectives for the Gascoigne Estate, and Gascoigne East in particular. Gascoigne East Phases 2 and 3a are currently on site, and will deliver over 750 new homes within the next 18-24 months. The redevelopment of GEP3B is the next phase of development, which will deliver 334 new homes (50% affordable), together with significant public realm improvements. A site plan for GEP3B, phasing plan for Gascoigne East, and overall delivery programme for Gascoigne East is provided in **Appendix 1.**

2.2 To date approximately £2.2m has been spent on the project to secure planning permission and procure a contractor, which is within the pre-development budget of £19.1m approved at Gateway 2 in September 2020.

2.3 Full planning permission has been secured (REF:21/02176/FUL), subject to the signing of the s.106 agreement. A massing and layout plan of the scheme is provided in **Appendix 2.**

2.4 A contractor procurement exercise has been undertaken through the Lot 2 of the Be First Development Framework, with a preferred contractor having been (Wates) selected to provide the following services, broken down into sections:

1. Detailed design, supply chain tendering and submission of the contract price
2. Demolition and enabling works
3. Construction works to deliver the new homes and public realm

2.5 It is proposed that the contractor is appointed through a Constructing Excellence (CE) contract (instead of the standard JCT Design and Build contract), which has a number of benefits:

- Adopts a more collaborative and transparent pricing process with the contractor during section 1.
- The contract can be terminated before commencing section 3 in the event that the GMP is not achieved.
- Incentivises the contractor to deliver value for money by sharing savings below the GMP between the parties.

2.6 The tender offer has been reviewed by Investment Panel. Due to the scale of cost increase above the cost figures previously reported to Cabinet, it was agreed at Investment Panel that a further update is provided to Cabinet prior to the final decision to appoint the works.

2.7 In order to secure the contractor and the proposed contract and GMP (subject to agreeing the final contract price) the Strategic Director, Finance and Investment on the advice of Be First and Gowling WLG has issued a Letter of Intent to Wates to enable them to undertake preliminary work to a certain stage and value including demolishing the existing buildings and securing the site.

3. Options Appraisal

3.1 A number of options have been considered for the delivery of GEP3B:

Option A - Do nothing and demolish the existing homes

3.2 Doing nothing would mean retaining the existing buildings.,. Given that many of the properties are vacant, there is a risk of squatters occupying the empty units, some of which are not safe. Significant operational deficits would be incurred, as there would be no rental income to offset the management costs.

3.3 Given this risk, and the advanced stage of the decant process, it would be prudent to demolish the existing buildings once they become vacant and manage a cleared site. Demolition is estimated to cost c.£1.5m based on the contractor's tender pricing. The security cost for GE3B is estimated at £10,000 per week, assuming the site is hoarded and secure.

3.4 This option would therefore result in the loss of 211 existing homes, incurring significant operational deficits, without securing any regeneration benefits.

3.5 Additionally, this option would have reputational implications for the Council, given the extensive resident engagement that has taken place on the development proposals, and the adverse impact a hoarded site of this size would have on the quality of the local environment.

Option B - Demolish Anderson House and refurbish the remaining homes

3.6 This option will involve demolishing Anderson house (high rise – Large Panel System block) due to its challenging condition which is well documented in the reports to the Councils Assurance Board concerning the structure of all the remaining Gascoigne LPS blocks. The Coverdales and Dovehouse Mead flats would be refurbished and re-let on a Target Rent basis.

3.7 Below shows the breakdown of the accommodation:

Unit Type	Coverdales	Dovehouse Mead	Total
1 bed	30	19	49
2 bed	20	17	37
3 bed	31	24	55
Total	**81**	**60**	**141**

3.8 An appraisal has been carried out on the assumption that the high-rise block (Anderson House) is demolished whilst the remaining 141 homes are refurbished and rented at Target Rent levels, the results of which are summarised in the following table:

3B Investment Metrics	
YR1 Surplus/Deficit	-£222k
Worst Yr Surplus/Deficit	-£170.7m (Year 42)
Cumulative Peak Deficit	-£54.9m (Year 41)
Loan Repaid in 50 Yrs?	No (Breakeven yr 89)
Net Present Value	-£48.8m
TDC excl interest	£31.5m

3.9 This option is not recommended due to:

- poor financial performance
- the significant reputational implications of decanting the existing residents, and not redeveloping the site
- the long-term operational cost risks associated with achieving more stringent environmental and regulatory standards in the future.

Option C - Pause the project, and re-tender at a later date, once the construction sector volatility and cost pressures have reduced.

3.10 Given the current cost pressures within the construction sector, which have significantly affected the financial performance of the project, pausing the scheme has been considered in order to assess the potential for improving the financial performance of the scheme through reduced costs and/or increased values in the future.

3.11 Due to the high level of volatility and cost uncertainty it is extremely difficult to accurately predict future cost trends, particularly over the next 12-18 months. Notwithstanding this, market indicators such as the BCIS, and advice from the GEP3B cost consultant in their Q2 2022 market report, forecast tender price inflation of 7.5% in 2022 and 4.5% in 2023.

3.12 In addition to general market cost inflation pressures, there are also cost pressures arising from regulatory changes during the next 12 months, specifically new Parts L, F and O of the Building Regulations, which will be enforced on developments commencing after June 2023. The changes principally relate to building thermal performance, overheating, and sustainability.

3.13 Delaying the start of the works until after June 2023 would result in a re-design of the scheme being required to comply with the new regulations, which stipulate enhanced insulation and air leakage standards that would affect wall thicknesses and building footprints.

3.14 These cost inflationary pressures over the next 12-18 months are unlikely to be offset by increases in rental or sales values over this period. Based on market commentary advice in Q2 2022 from residential agents, rents are forecast to rise by approximately 3-4% per annum in London during 2023 and 2024. This is below construction cost tender price inflation forecasts.

3.15 There is therefore a risk under this option that the viability of the project would deteriorate over the next 12-18 months.

Option D - Dispose the site with the benefit of planning permission.

3.16 This option would involve disposing of the site to a third-party developer to deliver the scheme. The sale could be conditional upon the developer building out the consented scheme. However, given the current cost and value assumptions, and the proposed tenure mix, it is unlikely that a disposal on this basis would generate a land receipt, unless the purchaser was allowed to radically amend the planning permission in order to optimise the value of the scheme. This could lead to a delay to the delivery of the scheme, reduce the level of affordable housing, and compromise design quality.

3.17 This would create reputational risk to Be First and the Council, particularly as social housing will be demolished to facilitate the redevelopment of the site, and a significant amount of public consultation has already taken place with residents about the redevelopment and regeneration of the Gascoigne Estate.

3.18 The land and buildings in Gascoigne currently sit within the HRA and under section 32 of the Housing Act 1985, the Council would be required to secure approval from the Secretary of State for disposal. There is a general consent that has been issued in 2013 that would permit a disposal of vacant land.

Option E – Enter into a build contract to deliver the consented scheme

3.19 This option proposes that the Council appoint the contractor under a Constructing Excellence contract to prepare detailed designs, procure tender prices from their supply chain in order to agree the final contract price, and carry out enabling works to prepare the site for redevelopment. This would require expenditure of approximately £12.22m prior to fixing the contract sum and awarding the main works contract.

3.20 The total development costs based on the GMP are £166.5m to be funded as follows:

£138.05m	Council borrowing
£16.1m	GLA Funding (secured)
£9.1m	RtB receipts
£3.25m	HRA funding
£166.5m	Total

3.21 Based on the current costs and financial assumptions, the project does not achieve all the financial hurdle rates. Whilst the loan is paid off within 50 years, a cashflow surplus is not achieved until year 44, illustrated in the following cashflow:

		Total	Total
Year	**Date**	**Per annum**	**Cumulative**
1	2025	-£1,356,533	-£1,356,533
2	2026	-£1,083,723	-£2,440,256
3	2027	-£2,262,821	-£4,703,077
4	2028	-£2,125,038	-£6,828,115
5	2029	-£1,982,807	-£8,810,922
6	2030	-£1,858,760	-£10,669,682
7	2031	-£1,936,165	-£12,605,847
8	2032	-£1,808,913	-£14,414,760
9	2033	-£1,677,935	-£16,092,695
10	2034	-£3,438,835	-£19,531,530
11	2035	-£1,404,301	-£20,935,831
12	2036	-£1,456,556	-£22,392,387
13	2037	-£1,114,351	-£23,506,738
14	2038	-£962,951	-£24,469,689

15	2039	-£5,008,581	-£29,478,270
16	2040	-£646,664	-£30,124,934
17	2041	-£481,516	-£30,606,450
18	2042	-£311,502	-£30,917,952
19	2043	-£136,496	-£31,054,448
20	2044	-£7,195,731	-£38,250,179
21	2045	£229,146	-£38,021,033
22	2046	£420,068	-£37,600,965
23	2047	£616,623	-£36,984,342
24	2048	£571,483	-£36,412,859
25	2049	£1,027,268	-£35,385,591
26	2050	£1,241,700	-£34,143,891
27	2051	£1,462,457	-£32,681,434
28	2052	£1,689,726	-£30,991,708
29	2053	£1,923,676	-£29,068,032
30	2054	-£13,631,129	-£42,699,161
31	2055	£2,412,506	-£40,286,655
32	2056	£2,667,773	-£37,618,882
33	2057	£2,930,577	-£34,688,305
34	2058	£3,201,124	-£31,487,181
35	2059	£3,479,657	-£28,007,524
36	2060	£3,452,554	-£24,554,970
37	2061	£4,061,639	-£20,493,331
38	2062	£4,365,580	-£16,127,751
39	2063	£4,678,476	-£11,449,275
40	2064	-£6,848,094	-£18,297,369
41	2065	£5,332,282	-£12,965,087
42	2066	£5,673,745	-£7,291,342
43	2067	£6,025,283	-£1,266,059
44	2068	£6,387,211	£5,121,152
45	2069	-£850,562	£4,270,590
46	2070	£7,143,467	£11,414,057
47	2071	£7,538,431	£18,952,488
48	2072	£7,547,030	£26,499,518
49	2073	£8,363,755	£34,863,273
50	2074	£2,127,369	£36,990,642

3.22 There is also a significant negative NPV of c.-£15.9m.

3.23 However, a positive NPV could be achieved by:

- Securing additional grant (e.g. from the GLA, extra RTB, or s.106/CIL)
- Reducing operational costs on the Market Rent (MR) units
- Increasing the rental inflation values on the MR units in line with market forecasts
- Reviewing the specification of the homes to reduce construction costs

3.24 The following table summarises the viability impact of each measure cumulatively, and the level of risk associated with each measure:

Viability Improvement Strategy		Cashflow Positive Yr	NPV £	Risk
Step	**Baseline Viability position**	**44**	**-15.8m**	
A	Additional GLA Grant £180k each LAR unit	41	-10m	High risk, as subject to GLA approval.
B	Reduction of MR unit operational costs	39	-7m	Medium risk, as within the Council's control to manage operational costs. A comprehensive estate management strategy is being developed for the entire Gascoigne Estate.
C	Increase rental inflation to 3.5% on MR & Affordable Rent (AR) to handover	37	-4.5m	Medium risk, as subject to market conditions. Assumption is below annual rental growth achieved during last 10 years of 4% p.a.
D	Add £5.9m of LBBD grant subsidy to pay for the public realm infrastructure works	34	1.6m	Medium risk, as within the Council's control to provide additional subsidy, subject to funding being available.
E	£5m VE savings through design and ERs review	33	5.7m	Medium risk, as within the Council's control to amend the design to achieve savings, although some changes may require planning consent.

3.25 Whilst the above measures achieve a positive NPV, the cashflow remains in deficit for 33 years. An annual cashflow is provided in **Appendix 3.**

3.26 In order to further improve the viability and achieve a cashflow surplus at year one, consideration was given to reducing the number of LAR homes and applying a service charge to the LAR homes. However, these measures are not recommended for this project, as they are not compliant with planning policy, or the Council's objectives of re-providing the affordable homes that would be demolished to enable the redevelopment of the site and ensuring that the affordable homes are genuinely affordable to local residents.

3.27 A higher per unit grant contribution from the GLA would be required, which is considered to be high risk, given the finite availability of GLA funding. However, discussions have commenced with the GLA to seek additional grant funding, and the principle of a hybrid funding arrangement utilising Affordable Housing Programme 21-26 funding, together with RtB Ringfence funding has been identified as a potential way forward. However, formal approval is yet to be secured, which will be sought over the coming months.

3.28 In the event that the final contract price exceeds the GMP, there are provisions within the contract allowing the Council to terminate prior to the commencement of the main works. There are no provisions within the contract for the Council to terminate the contract should the final contract price be lower than the GMP. Legal advice from Gowling WLG on the termination and break clauses within the contract is provided at **Appendix 4** to the report, which is in the exempt section of the agenda as it contains legal privileged information (relevant legislation: paragraph 5 of Part I of Schedule 12A of the Local Government Act 1972) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

3.29 This option provides the Council with the greatest degree of control over the design and delivery of what is a significant development site in a priority estate regeneration programme, delivering significant social value, as well as a financial return in the long-term. The delivery of GEP3B will also benefit the other development phases in Gascoigne East, that are already under construction and due to complete in the next 12-24 months.

3.30 This option proposes to deliver the scheme as currently designed, which meets (and exceeds) current building and safety regulations. Whilst regulations are continuously changing, and future schemes will be designed in accordance with those regulations, it is not proposed under this option to amend the GEP3B design in response to those regulations, as this would significantly delay the delivery of the project and incur additional cost.

Preferred Option

3.31 It is recommended that Option E is progressed as this:

- Enables the project to continue to be delivered based on the consented design and current programme.
- Provides the greatest degree of control over the delivery of the project.
- Optimises the benefits to local residents.
- Optimises the financial performance of the project.

3.32 However, given the viability challenges of this option it is also recommended that the following activities are undertaken to try to improve the financial performance of the project:

- Explore opportunities for additional grant funding towards the affordable homes and community infrastructure (for example s.106/Community Infrastructure Levy funding).
- Explore opportunities for reducing operating costs (and increasing net income), by developing a holistic management strategy for the entire Gascoigne Estate, that delivers a good quality service for residents, whilst achieving operational efficiencies through economies of scale.
- Review market rent values.

3.33 Once this work is complete, and the final contract price is confirmed by the contractor, the project will be presented to Investment Panel prior to commencing the main works.

4. Commissioning Implications

Implications completed by: Shanaaz Carroll, Interim Head of Commissioning & Place

4.1 Notwithstanding the significant increase in cost and potential risks to the Council as indicated throughout the report, GE3B forms part of a wider phased regeneration programme for Gascoigne East which will enhance placemaking of the wider estate improving the look and experience of the location. Wider infrastructure improvements will also benefit local residents who have engaged significantly in the development and to abandon the project will have reputational risks for the Council.

4.2 The proposed contract arrangements, as indicated in the recommended Option (E), would allow the Council to appoint the contractor under a Constructing Excellence contract to prepare detailed designs, procure tender prices from their supply chain in order to agree the final contract price, and carry out enabling works. Whilst the report identified that planning permission would be required for changes to building heights and footprint other design efficiencies are possible. Caution should be used when approaching any changes in design to ensure these do not adversely impact on residents especially given the challenges of the cost of living. This includes any reduction in insulation, windows etc to ensure heat loss is kept to a minimum.

5. Commercial Implications

Implications completed by: Hilary Morris, Commercial Director

5.1 This paper is proposing to proceed with awarding a contract to develop GEP3B which will deliver 334 new homes on a strategic regeneration site for a total cost of £174m. This represents an increase of 20% against the original feasibility proposal which was produced before the war in Ukraine with resultant utility and supply chain cost increases, and thus highlights the impact of the current inflationary environment on development activity.

5.2 As a result of the changes environment Be First have recommended moving from a standard Design & Build (D&B) form of contract to a 'Construction Excellence' contract. A construction excellence contract is different from a standard D&B contract which has clear expectations and obligations on both parties and defined allocation of risk, to one where there is shared risk with both parties potentially gaining from any price reduction's if the market stabilises. This will necessitate an increase in the emphasis on management of risk as it will formalise the Council taking on risks relating to some inflationary prices increase if prices rise during the build phase.

5.3 One of the areas in which the Council will be at risk in relation to further price rises is in utility costs or delays. The cost from these elements has been increased upwards since the original tender to provide a realistic cost in the current market, but any increase in cost above the current figure will be borne by the Council. F&G report however that the figure is at a level there is a low risk it will be exceeded. One area where the risk allocation has been changed is in relation to post tender design and development where any increases in costs will be borne by the provider.

5.4 Faithful and Gould have supported Be First's detailed negotiations throughout this tender. They have advised that when comparing the current offer to the original tendered value, the revised offer provides a more thorough assessment and realistic view for the Gross Maximum Price following the successful period of risk review, analysis, and discussion by all parties.

5.5 F&G also note that there is some protection built into the contract for the Council to exercise a break option prior to the commencement of main construction works if the Gross Maximum Price is expected to be exceeded when tenders are returned to Wates for all sub-contracted costs. This break option would take effect when all the preliminary works, are completed and would leave the Council with a cleared site which could be left as is until the market conditions improved. This option only applies to the Council, Wates have no reciprocal right to break the contract due to price increases.

5.6 Be First have been supported by Gowlings in the preparation and negotiation of this contract and a full report on contract is due to be provided shortly.

6. Financial Implications

Implications completed by: David Dickinson, Investment Fund Manager

6.1 The financial implications for Gascoigne East Phase 3B (3B) are extensive given the significant negative cashflows being forecast for both the base scenario and even the best scenario options. It is important for Members to be aware that the base scenario and the proposed options to improve the cashflows are subject to additional market pressures, especially around borrowing costs, rental growth, operational cost inflation and bad debts. It is also important to take into account the wider Investment and Acquisition Strategy (IAS) performance which is currently strong but has a number of pressures that have reduced the forecast returns which has an impact on the overall Council's financial position.

6.2 Gascoigne 3B is part of the overall Gascoigne East Phase 3. Viability for 3B is very challenging due to the number of London Affordable Rent (LAR) units that need to be provided and due to the inclusion of a number of 3 and 4 bed LAR properties. It is therefore an important scheme as it provides a good mix of homes but this mix has proven to be unviable. The original plan for the Gascoigne East schemes was that there would be some cross subsidy between phases but viability for these schemes has reduced to near breakeven.

6.3 A pre-development budget of £19.14m was initially agreed to prepare the site for development, of which approximately £2.2m has been spent. A total development cost of £143.4m and borrowing of £117.6m was originally agreed, with an HRA budget for buyout and decants of £3.2m.

6.4 The main driver behind this scheme being unviable is that costs have increased by £24.1m from £143.4m to £167.5m. As a result of this increase, the viability of the schemes has worsened, from a peak deficit of -£3.6m to -£42.7m. In addition, the number of LAR units has decreased from 132 to 90, with PRS units increasing from 116 units to 167 units.

6.5 Costs per unit have increased by £90k to £384k per unit, with the cost per unit of the larger, 4 bed units increasing to £500k per unit. A summary of the key financial metrics is provided below, comparing the financial metrics as the scheme has progressed:

3B Investment Metrics	GW2	GW3	Cabinet GW4 Base Position
Year 1 Surplus/Deficit	-£603,097	£182,566	-1,356,533
Worst Year Surplus/Deficit	Yr 8	-£946,184 (Yr 8)	-13,631,129 (Yr 30)
Cumulative Peak Deficit	-£3,603,980	-£5,205,397	-42,699,161 (Yr 30)
Cumulative Breakeven Year	Yr 21	Yr 23	Yr 44
Cumulative Surplus at YR50	£118,635,843	£135,829,179	£36,990,642
Loan Repaid in 50 YRs?	Yes	Yes	Yes
IRR	5.34	5.03%	4.49%
Net Present Value	£10,080,960	£818,673	-£15,885,868
TDC exc interest	£139,536,354	£157,510,194	£162,890,073
TDC inc Interest	£143,391,956	£161,799,104	£167,527,638
Cost / Handover Loan	£117,631,224	£140,978,300	£138,049,272
LAR	132	90	90
Affordable rent	76	77	77
PRS	116	167	167
Total Units	324	334	334
GIA (sgm)	31,375	34,712	34,712
NIA (sqm)	24,048	25,979	25,979
Construction Cost per unit	£294,897	£307,784	£384,420
Construction works	£3,139	£3,161	£3,699

6.6 The base position, before any of the mitigation options outlined in the report are progressed, is a scheme that is unviable and, if agreed and there are no improvements in the actual performance against the assumptions, will require the Council to provide additional funding to support the scheme of approximately £1.9m per year. Regardless of what the return is for the IAS, this scheme will make the return £1.9m worse based on the base position and £1m based on the best scenario outlined. The requirement for this funding is from 2025 onwards.

6.7 **IAS and Treasury Position**

6.7.1 The IAS has been established to scrutinise investment proposals and to ensure agreed schemes remain viable and that meet a number of investment hurdle rates. Previous schemes that have been agreed have been initially viable, however all schemes within the IAS have subsequently seen a deterioration in viability, with most schemes requiring a reduction in interest rate to remain viable. The reduction in interest rate, in some cases to as low as 2.1%, has only been possible due to the ability of the Council's treasury team to secure cheap borrowing, with an average cost of borrowing of 2% (this can be compared to other councils that have experienced financial difficulties where the cost of borrowing is over 3%). If the Council had an average cost of borrowing of over 3% then all residential schemes within the IAS would be unviable and there would be a significant pressure on the Council's finances.

6.7.2 The IAS also has a return target of £5.2m per year in the MTFS, which means that the return expectation for each scheme is not to breakeven, but to provide an excess return. The £5.2m includes returns from residential and commercial schemes. The investment target has not been met since it was set. Overall, there has been outperformance when taking into account the excess return from treasury management activity. The IAS has built up a reserve of £16.7m over a number of years, predominantly from treasury excess return and the current forecast is for there to be a large excess return from treasury management during 2022/23. The IAS reserve is held to mitigate the increased risk associated with the scale of redevelopment and commercial activity that the Council is undertaking. This acts as protection for the local taxpayer and aims to safeguard service delivery should the IAS fail to achieve its budgeted financial return. It should be noted that the IAS reserve could only currently cover 3 years of budgeted returns if the income target was missed.

6.7.3 The IAS has had a number of commercial successes, with Muller and potentially Welbeck providing a return to the Council, but also a much-needed return of cash to help fund the rest of the strategy, helping to reduce the need for the Council to borrow in 2022/23. These returns, which include both capital receipts and revenue income, could potentially be used to support 3B, both by funding the infrastructure costs and also by increasing the IAS reserve, which could fund the cashflows deficits for 3B. However, it would require Members to agree to use these returns to fund a scheme that is significantly unviable and would mean it would not be available for other developments or even other council services and would increase the risk on the Council’s financial sustainability.

6.8 **Leverage**

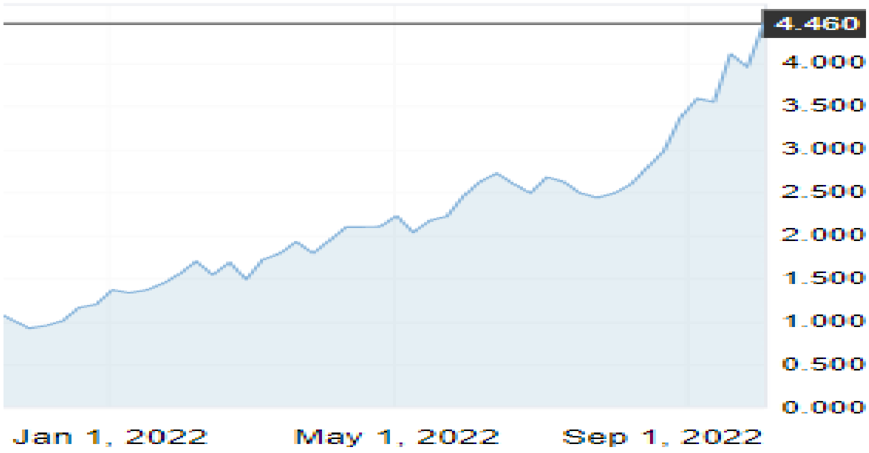
6.8.1 The £5.2m return was originally based on IAS borrowing of £100m, which increased to £350m and now is approx. £1bn. The return target of £5.2m is not forecast to be met by the £1bn of assets, with a forecast of around £4m per year. By adding 3B, the size of the funding would increase to £1.14bn but with a return that is between £1m to £2m a year lower than currently forecast. Adding 3B will both increase the borrowing but also reduce the return, reducing the return provided by the IAS from 0.5% to between 0.25% and 0.15%.

6.8.2 These returns leave very little margin available for both the Council and Reside should there be a pressure on the strategy from a variety of market conditions. It also reduces the options available to both the Council and Reside around rent increases and for future schemes that potentially may also struggle with viability issues.

6.9 **Cost of Borrowing**

6.9.1 The IAS has remained viable and has been able to build up a reserve due to treasury outperformance and by locking in cheap, long-term borrowing rates. This outperformance is also now being supplemented by some excellent returns from Muller and Welbeck and other commercial purchases.

6.9.2 However, although a significant amount of long-term borrowing has been secured (£740m) there is still a need to borrow £240m for the currently agreed schemes, predominantly for Beam Park. The £138m required for 3B will need to be borrowed in the future, along with the £240m and this is at a time when interest rates are increasing and are likely to increase further in the short-term. Below is a chart of the interest rate movements over the past year for the 25-year gilt, showing the rates have increased from 1% to nearly 4.5%. The PWLB rate is based on the value of gilts plus a margin of 0.8%, which would mean that the borrowing rate would be approximately 5.3%:



6.9.3 The Council does not need to borrow currently as it still has cash balances of over £110m and the potential sale of Welbeck, which will provide cash, but equally there are further acquisitions and developments that potentially will require funding. In addition, grant and then the sale of units purchased on Thames Road is now not forecast to be received for a number of years.

6.9.4 Overall, there is now a very large and difficult to forecast pressure within treasury from the cost of future borrowing requirements. The chart below outlines the annual interest costs when the Council needs to borrow long term to fund 3B. The 2% is the rate used to fund all the other schemes within the strategy, the 4% rate is the current forecast, the 5.5% is where rates currently are and 8% is potentially where they could go in the short-term, but this could end up being for a much longer-term dependant on wider economic factors.

Amount	Borrowing Costs	Annual Interest
138,000,000.00	2%	2,760,000
138,000,000.00	4%	5,520,000
138,000,000.00	5.5%	7,590,000
138,000,000.00	8%	11,040,000

6.9.5 Using a fairly simplistic calculation, should the Council need to use borrowing at 5.5% to fund 3B, it will result in the average annual scheme deficit increasing over the first twenty years to between £3m and £4m, and increasing to £6.5 to £7.5m per year if borrowing was at 8%.

6.9.6 It is important to note that treasury will not seek to lock in rates at these higher rates and will target the 4% (or lower) modelled but this potentially would require an increase in short-term borrowing and this would increase the risk to the Council from refinancing and also its exposure to further interest rate increases.

6.10 **Size of 3B borrowing and overall future borrowing requirement**

6.10.1 3B is one of the largest schemes in the IAS with 334 units, requiring borrowing of £138m. Its impact on the overall strategy is therefore significant and the impact of the negative cashflows will have a large impact on the overall IAS return and, as outlined in section 6.6, the size of the borrowing will have an impact. There are reasons put forward in the paper as to why this scheme should proceed and these also need to be carefully considered.

6.10.2 As a one-off investment, the IAS could potentially absorb the losses and could mitigate, to a degree, the additional borrowing costs, with the potential sale of some of the commercial schemes used to offset the borrowing requirement, as well as the use of the IAS reserve to smooth out the deficit years. However, this will mean that future schemes will need to be viable but will also need to potentially model a higher borrowing rate, potentially of 5% or even higher. It is therefore important to highlight that the build cost, borrowing costs but also the underperformance of the IAS residential schemes, will restrict the future IAS pipeline.

6.11 **Option Analysis**

6.11.1 The paper outlines a number of alternative options to not agreeing this scheme. A number of these options have not been fully reviewed and have resulted in the recommended option being to agree an unviable scheme (Option E – Enter into a build contract to deliver the consented scheme). It will be important that for future schemes, options around mothballing, alternative tenures and alternative options should be fully considered. In addition, the reputational risk of agreeing an unviable scheme should also be carefully considered against the reputational risk of not building the scheme.

6.11.2 **Option E analysis**

The paper recommends option E, which is to agree a maximum price and agreeing £12.22m of enabling works. This would mean agreeing a scheme that is significantly unviable but also with the potential that the scheme does not get built as build costs increase to a level that the builder decides that the maximum price is too low. This is a very high risk for the Council with little protection and the likely best-case scenario being the scheme is built at the price in the report.

The report does include a number of options to improve viability and the likelihood and impact of these is summarised below:

i) <u>Securing additional grant (e.g. from the GLA, extra RTB, or s.106/CIL) – Additional GLA Grant £180k each LAR unit (option A) and add £5.9m of LBBD grant subsidy to pay for the public realm infrastructure works (option B)</u>

Financial Implications: Additional GLA grant would improve the schemes viability. Larger LAR units are unviable. With a fixed LAR grant per unit, for this scheme to be viable, the LAR units will need to be restricted to one and two bed units. If the same number of units were provided but all one and two-bed, then the scheme viability would improve significantly and if the larger units were provided as AR this would again improve viability. A summary of the tenures and the unit sizes are below, with the LAR units of 3 bed and above being the main drivers behind the negative returns for this scheme.

	LAR	AR	Market Rent	Total
1b2p	4	42	41	87
2b3p			38	38
2b4p	36	34	54	124
3b4p			6	6
3b5p	**16**	1	6	23
3b6p			22	22
4b6p	**11**			11
4b7p	**23**			23
Total	**90**	**77**	**167**	**334**

Using s106 or potentially capital receipts to fund public realm infrastructure would reduce the size of the deficits but would tie up funding that could be used elsewhere.

ii) Explore opportunities for reducing operating costs (and increasing net income), by developing a holistic management strategy for the entire Gascoigne Estate, that delivers a good quality service for residents, whilst achieving operational efficiencies through economies of scale. (option B)

Financial Implications: improving operational efficiency will not just improve this schemes' viability but also the overall IAS viability. However currently there is limited information on operational costs and there is the potential for these to increase rather than decrease due to inflation and the high costs of providing this within the Council and its subsidiary companies. Urgent work on establishing the actual operational costs, a significant improvement in reporting and a plan to introduce efficiency, which should include market testing, is essential.

iii) Review market rent values. Increase rental inflation to 3.5% on MR & Affordable Rent (AR) to handover (option C)

Financial Implications: for schemes coming to market within Gascoigne, rental values have been lower than modelled, in some cases they have been significantly lower. Both the initial rent and the rent inflation that is modelled does include some optimism within the assumptions and increasing this to 3.5% would set a target that is less prudent than usually modelled and there is no reason why 3B would be able to achieve this over other schemes. This option is usually included as part of sensitivity analysis.

iv) £5m VE savings through design and ERs review (option E)

Financial Implications: reducing the build costs would, in isolation, improve viability but it is essential that this is restricted to a saving for the Council and does not impact on the quality of the scheme or result in increased maintenance and life cycle costs.

6.11.3 The options to improve viability are difficult and do not result in a scheme that has positive cashflows and will require the use of profits from the commercial schemes and section 106 contributions. Some of the proposals will impact the wider investment strategy and improving the forecast returns for the whole IAS will help absorb losses for this scheme.

6.11.4 However, there are other pressures that may result in the assumptions being worse than currently being modelled and could lead to a larger deficit. The cashflows from each option is provided below but it is important to note that the base scenario is currently the most likely option.

Year	BASE	A	B	C	D	E
1	-£1,356,533	-£1,129,376	-£1,016,213	-£937,975	-£656,736	-£469,606
2	-£1,083,723	-£856,566	-£741,139	-£660,551	-£379,311	-£192,182
3	-£2,262,821	-£2,035,663	-£1,917,929	-£1,834,938	-£1,553,698	-£1,366,568
4	-£2,125,038	-£1,897,880	-£1,777,791	-£1,692,306	-£1,411,066	-£1,223,937
5	-£1,982,807	-£1,755,650	-£1,633,159	-£1,545,096	-£1,263,857	-£1,076,727
6	-£1,858,760	-£1,631,603	-£1,506,662	-£1,416,196	-£1,134,956	-£947,827
7	-£1,936,165	-£1,709,008	-£1,581,568	-£1,488,606	-£1,207,367	-£1,020,237
8	-£1,808,913	-£1,581,756	-£1,451,767	-£1,356,251	-£1,075,011	-£887,882
9	-£1,677,935	-£1,450,777	-£1,318,189	-£1,220,046	-£938,806	-£751,677
10	-£3,438,835	-£3,211,677	-£3,076,437	-£2,975,592	-£2,694,352	-£2,507,223
11	-£1,404,301	-£1,177,143	-£1,039,199	-£935,583	-£654,343	-£467,214
12	-£1,456,556	-£1,229,399	-£1,088,695	-£982,224	-£700,984	-£513,855
13	-£1,114,351	-£887,194	-£743,676	-£634,262	-£353,023	-£165,893
14	-£962,951	-£735,794	-£589,406	-£476,980	-£195,741	-£8,611
15	-£5,008,581	-£4,781,424	-£4,632,108	-£4,516,566	-£4,235,326	-£4,048,197
16	-£646,664	-£419,506	-£267,204	-£148,479	£132,761	£319,890
17	-£481,516	-£254,359	-£99,010	£23,002	£304,241	£491,371
18	-£311,502	-£84,345	£74,110	£199,495	£480,734	£667,864
19	-£136,496	£90,661	£252,286	£381,144	£662,383	£849,513
20	-£7,195,731	-£6,968,573	-£6,803,717	-£6,671,285	-£6,390,045	-£6,202,916
21	£229,146	£456,303	£624,457	£760,552	£1,041,792	£1,228,921
22	£420,068	£647,226	£818,743	£958,617	£1,239,857	£1,426,986
23	£616,623	£843,780	£1,018,728	£1,162,480	£1,443,720	£1,630,849
24	£571,483	£798,640	£977,087	£1,124,831	£1,406,071	£1,593,200
25	£1,027,268	£1,254,426	£1,436,441	£1,588,286	£1,869,526	£2,056,655
26	£1,241,700	£1,468,857	£1,654,513	£1,810,585	£2,091,824	£2,278,954
27	£1,462,457	£1,689,614	£1,878,983	£2,039,399	£2,320,639	£2,507,768
28	£1,689,726	£1,916,883	£2,110,039	£2,274,917	£2,556,156	£2,743,286
29	£1,923,676	£2,150,833	£2,347,853	£2,517,325	£2,798,565	£2,985,695
30	-£13,631,129	-£13,403,972	-£13,203,012	-£13,028,818	-£12,747,578	-£12,560,449
31	£2,412,506	£2,639,663	£2,844,642	£3,023,685	£3,304,925	£3,492,054
32	£2,667,773	£2,894,930	£3,104,009	£3,288,053	£3,569,293	£3,756,422
33	£2,930,577	£3,157,734	£3,370,994	£3,560,169	£3,841,408	£4,028,538
34	£3,201,124	£3,428,281	£3,645,806	£3,840,275	£4,121,514	£4,308,644
35	£3,479,657	£3,706,814	£3,928,690	£4,128,596	£4,409,836	£4,596,965
36	£3,452,554	£3,679,711	£3,906,025	£4,111,518	£4,392,758	£4,579,887
37	£4,061,639	£4,288,796	£4,519,636	£4,730,875	£5,012,115	£5,199,244
38	£4,365,580	£4,592,737	£4,828,193	£5,045,339	£5,326,579	£5,513,708
39	£4,678,476	£4,905,633	£5,145,799	£5,369,042	£5,650,282	£5,837,411
40	-£6,848,094	-£6,620,937	-£6,375,968	-£6,146,474	-£5,865,234	-£5,678,104

Year	BASE	A	B	C	D	E
41	£5,332,282	£5,559,439	£5,809,307	£6,045,234	£6,326,474	£6,513,603
42	£5,673,745	£5,900,903	£6,155,768	£6,398,309	£6,679,549	£6,866,679
43	£6,025,283	£6,252,440	£6,512,403	£6,761,755	£7,042,994	£7,230,124
44	£6,387,211	£6,614,369	£6,879,531	£7,135,888	£7,417,128	£7,604,257
45	-£850,562	-£623,404	-£352,939	-£89,373	£191,867	£378,997
46	£7,143,467	£7,370,624	£7,646,499	£7,917,478	£8,198,718	£8,385,847
47	£7,538,431	£7,765,588	£8,046,980	£8,325,582	£8,606,821	£8,793,951
48	£7,547,030	£7,774,187	£8,061,207	£8,347,647	£8,628,887	£8,816,016
49	£8,363,755	£8,590,912	£8,883,672	£9,178,186	£9,459,426	£9,646,555
50	£2,127,369	£2,354,526	£2,653,142	£2,955,948	£3,367,489	£3,554,605

6.12 Summary

6.12.1 Overall the key financial implication is that this scheme is unviable on all metrics set for the IAS. If agreed the scheme will lose the Council money based on current assumptions and these losses will need to be absorbed by surpluses from the rest of the IAS but also potentially from reserves and then potentially from a reduction in funding for services.

6.12.2 The impact of these losses will begin in 2025/26 or possibly even further into the future and it is nearly impossible to predict the state of the Council's finances, the returns being generated by the IAS as well as reserves and the macro-economic conditions and regulatory environment in the medium to long term. Given the market conditions have generally deteriorated over the past few years and the real pressure being experienced from both inflation and the increase in borrowing costs, it would be prudent for the Council to only agree schemes that are viable and also have an excess return buffer or alternatively are viable based on worst case rather than best case scenarios.

6.12.3 The Council has recently agreed Trocoll, a scheme that had a number of negative cashflows, which increased the pressure on the IAS. Agreeing another scheme, with much bigger deficits and over a much longer period of time, will again increase the pressure on the IAS.

6.12.4 The Council has had some successes from its commercial and treasury strategy and these have put it into a strong position to be able to absorb some losses, but, if 3B is agreed, it will be important to ring fence that funding to provide protection to the strategy should market conditions worsen.

6.12.5 The reasons behind why it may be necessary to agree this scheme need to be reviewed to ensure that similar schemes, with similar drivers are not in the pipeline. It is also important for Members to be aware that the current market pressures are likely to slow down regeneration within the borough but also likely mean that some regeneration strategies will need to be amended to focus on more viable alternatives.

6.12.6 A big driver behind the IAS remaining viable has been treasury management and the borrowing strategy will continue to seek to lock in low long-term rates. However currently the market conditions have meant that this is difficult to do and is reflected in the increased funding rate used for 3B of 4%.

7. Legal Implications

Implications completed by: Dr Paul Feild, Principal Standards & Governance Lawyer

7.1 This development has been considered by the Cabinet in April 2021 and was agreed. Since that time much work has been carried out including the substantial decanting of the occupiers at the time. This is an important milestone and achievement. Since the report even though the UK as indeed the world as a whole had experienced a catastrophic upheaval both socially and economically, matters have been further compounded by war in eastern Europe that could not be predicted at the time of the Cabinet report. Furthermore, the effect of the upheaval and Brexit has inevitably created uncertainty about cost of logistics, labour, tradespeople, materials and professional support. For these principle reasons this report rightly updates the Cabinet of the changes which will impact on the cost of delivery of the development.

7.2 Furthermore as explained a revised regulatory framework for building and environment is imminent. Delay in proceeding with the development will mean that these changes will impact significantly on the project with substantial extra costs due to changes in methods and construction and need to get compliance with the planning regime. The contract to the contractor was awarded off one of the Be First Frameworks.

7.3 Advice has been given that it is possible to change the contract terms and conditions from JCT to a Constructing Excellence form of contract. Once a contract has been awarded it cannot be varied unless it complies with the provisions of the Public Contract Regulations 2015 (PCR) Regulation 72 (1) (c) permits such variations where, the modification could not have been foreseen, it does not alter the overall nature of the contract and the price has not increased by more than 50%. It is considered that the recent events such as war in Europe are not those which could reasonably be contemplated and would be the kind of circumstances that Regulation 72 apply.

7.4 Option E is the preferred recommendation, with the Council's legal advisors Gowlings advising on the terms which can be utilised to enable the Council to terminate prior to the commencement of the main works. In terms of viability and costs the picture is that it is unlikely that the cost is likely to come down in any way, to the contrary the imminent changes to the statutory regulatory framework and compliance will raise costs significantly due to redesign and fresh specification. These costs may reach a point when the project ceases over its lifespan to be viable and if that is the case it needs to be highlighted and whatever necessary action taken. In the current economic climate and price inflation such an eventuality is a reasonable possibility and such a contingency should have ready prepared a viable action response plan which would need to be considered by the Investment Panel as part of the delegation before any irreversible commitment be made.

8. Procurement Implications

Implications completed by: Euan Beales, Head of Procurement

8.1 The report outlines that a procurement to appoint Wates has already been conducted, with the recommendation to change the terms and conditions that will be used from JCT to Constructing Excellence. The scope that the original framework was let on allows for a change away from the original call off terms (JCT with amends) if agreed by both parties (clause 18.3 and 18.4).

8.2 From a purely procurement process focus, the processes detailed in the Be First Development Framework Lot 2 appear to have been complied with and, as stated above, the decision to amend the terms used is permissible within the structure of the core framework.

8.3 The main considerations are more from a risk mitigation point. In using the Gross Maximum Price model, the Council will only be able to withdraw at the point the costs exceed the cap, so consideration needs to be made to enable the Council to withdraw if not financially viable but under the agreed cap. In addition, it should be noted that any final value that is achieved under the cap will be split between the two parties, but ideally would like to see how probable that scenario would be.

9. Risk Management

Cost increases

9.1 There is a risk that the final contract price exceeds the Gross Maximum Price. Under the CE contract the contractor will carry out the tender pricing on an open book basis, which will be monitored as tender package prices are submitted by the sub-contractors. As the first package prices are returned, this will provide an early indication on the level of risk of not achieving the GMP and provide time to identify measures to mitigate this risk. In the event that the final contract price is higher than the GMP, the Council has the ability to terminate the contract.

9.2 In addition 5% contingency on the works costs has been allowed for in the project budgets to accommodate residual cost risks.

Programme delays

9.3 There are still 22 properties to be decanted There are a number of 4 and 5 bed needs and cases. The priority will be to decant Anderson House as it has only 5 tenants remaining is part of a group of LPS blocks the Council need to relocate tenants from quickly. Bi- weekly status reports will be provided to the contractor so that the phasing and programme of the demolition works can be managed accordingly to minimise delays.

Design Risk

9.4 There is a risk of coordination and compliance issues arising during detailed design development, which may require changes to the design, that could have planning, cost and programme implications. A technical audit has been undertaken by the architects, confirming that the design is compliant with current regulations. The detailed design development will be regularly monitored with the contractor. Changes will only be made subject to Be First approval to ensure control over the design is retained.

Security

9.5 There is a risk of squatters occupying the vacant buildings. Anderson House, Coverdales and Dovehouse Mead are all within the Council's management. To mitigate the risk of squatters, the Council has instructed its term security contractor to carry out regular patrols.

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

List of appendices:

Appendix 1: GEP3B Site Plan, Gascoigne East Phases Plan and Delivery Programme
Appendix 2: GEP3B Massing and Layout Plans
Appendix 3: Viability Improvement Steps Cashflow
Appendix 4: Gowling WLG Legal Advice on the Constructing Excellence Contract (exempt document)