

CABINET

6 JULY 2010

REPORT OF THE CORPORATE DIRECTOR OF RESOURCES

Title: Construction of New Council Housing within Housing Revenue Account – Phase 3 Council Housing and Thames View Sites and Prudential Borrowing Requirements	For Decision
Summary: <p>This Report sets out progress of delivery and the funding implications for delivering the Council's new build housing programme.</p> <p>The Council has been successful in bidding for additional NAHP grant from the Homes and Communities Agency. This allows a larger new build programme to be delivered than that previously reported to Executive which helps deliver the Council's estate regeneration strategy. There will be a commensurate need for additional capital resources which is set out in this report.</p> <p>Specifically the report sets out the delivery and funding arrangements for the programme as a whole and seeks specific approval for the procurement of construction services for the new housing at Maplestead Road, Alfred Gardens, Thornhill Gardens, Goresbrook Compound, Roycraft Avenue and Alderman Avenue, being Phase 3 Council Housing sites.</p> <p>Wards Affected: Eastbury; Gascoigne; Longbridge; Thames.</p>	
Recommendation(s) <p>The Cabinet is recommended to agree:</p> <ul style="list-style-type: none">(i) The procurement of construction services, in accordance with national and EU procurement legislation and the Council's Contract Rules, for the construction of the Phase 3 Council Housing allocated grant at Roycraft and Alderman Avenues, Thames View, Barking, Thornhill and Alfred Gardens, Barking, Goresbrook Compound and Maplestead Road, Dagenham, in manner described in this report.(ii) To delegate to the Corporate Director of Resources authority to appoint the successful contractor for the construction phase of these sites.(iii) That £26.623m of capital resources are allocated to the HRA to fund the construction costs of the new build programme, following receipt of £14.886m NAHP grant; with the expectation that these resources will be funded through prudential borrowing with the costs of the borrowing met from the rental income from the new properties constructed and that £12.439m of the capital resources is allocated to fund the remaining new build programme (phase 3).(iv) That the previously reallocated capital resources of £7.073m are reallocated to support the estate regeneration strategy set out in the accompanying report	

Reason(s)

To assist the Council in achieving the Community Priority “Prosperous” through increasing the supply and range of family sized social rented housing in Barking and Dagenham by utilising existing Housing Revenue Account (HRA) land and development sites.

Implications**Financial**

New build funding requirements

The table below provides a summary of the council’s new build programme

Phase	Units	Total construction costs	NAHP grant	HRA prudential borrowing requirement
King William Street Quarter	31	£6,419,936	£4,044,043	£ 2,345,343
Council Housing Phase 1	18	£3,138,186	£1,806,057	£1,332,129
Council Housing Phase 2	22	£4,351,341	£2,179,593	£2,171,748
Council Housing Phase 3	71	£12,713,379	£6,856,708	£5,856,671
Total	142	£26,622,842	£14,886,401	£11,736,441

The prudential borrowing shown above needs to be profiled and made available to help fund the construction costs over the construction period which runs until March 2013.

Financial Appraisal summary

A HRA new build appraisal tool has been developed to assess the financial viability of new build schemes. All the schemes in the current programme have been appraised and the project is viable and able to repay the capital funding required from the Council over the appraisal period. The programme has been appraised over a period of 50 years which is considered to represent the economic life of the asset. Appendix 1 sets out a summary of the appraisal, assumptions and key sensitivities.

The allocation of capital resources to the new build programme will lead to an increase in the HRA Capital Financing Requirement (CFR). There is currently no statutory need to make any Minimum Revenue Provision (MRP) against the HRA CFR. On this basis the programme returns positive net cash flows (after meeting all construction related costs and management and maintenance expenditure over the life of the project) and will not have an adverse impact on the requirement of the Council to set a balanced HRA budget; but the Council is not making any provision for the repayment of any borrowing taken out to fund the capital resources used.

The Council will still have to consider the overall affordability of the borrowing in the long term and should consider how the borrowing is linked to the new build assets in the future, including whether surpluses generated should be set aside to repay borrowing. This will be considered in the context of the Council’s overall capital investment, borrowing and Treasury Management approach for the HRA, in the light of the outcomes of the current Housing Finance consultation. There is a risk that the new HRA regime will require the council to make

MRP and this could increase the cost of borrowing for the new build programme; if this were the case then the HRA would need to cover c£213k for the first 30 years of the project after which time there would be positive cash flows. However, this risk is considered low because the HRA subsidy consultation indicates that the HRA would still have the ability to use interest only prudential borrowing for housing investment.

The funding position set out in this report represents the base position for funding the construction costs of the new units under the current HRA Subsidy system without adversely affecting the requirement to set a balanced HRA budget. The Government is consulting local authorities about dismantling the subsidy system and, depending on the terms of the settlement, the Council may be able to adopt a treasury management policy for HRA debt that more closely matches resources to the investment needs of the stock; this would allow greater flexibility in making investment decisions, involving deficit budgets for certain projects in early years balanced with repaying debt principal where this is deemed prudent to create borrowing headroom in future years.

Prudential Borrowing implications

To support the new build programme Executive previously agreed to reallocate resources from the council's capital programme. This amounted to £7.073m of general fund prudential borrowing granted to the HRA. However, if the new build programme is financed through HRA borrowing for which there is currently no statutory need to charge MRP then the programme does not need this support and it could be reallocated to support the estate renewal programme. The accompanying report sets this out in detail.

Legal

This report is seeking the Cabinet's approval of the procurement of the construction services required to implement the Council's plans to construct new housing at Maplestead Road, Alfred Gardens, Thornhill Gardens, Goresbrook compound, Roycraft Avenue and Alderman Avenue (Phase 3 Council Housing sites).

Section 80B of the Local Government and Housing Act 1989 enables local authorities to exclude specified properties from the HRA Subsidy System by agreement with the Secretary of State. This includes new build properties developed by the Council. Such properties remain within the HRA, with the Council being able to retain the full rental income from such properties.

The Council has power to enter into contractual agreements for the construction of new homes under section 1 of the Local Government (Contracts) Act 1997 on the basis that such services are properly required for the discharge of the Council's duties.

The estimated value of the proposed contract is £10.5m which exceeds the EU threshold for Works contracts (currently £3,927,260) in respect of which compliance with the Public Contracts Regulations 2006 ("the EU Regulations") is required.

The report recommends procurement of the required construction services via the Council's Housing Contractor Framework Agreement.

The EU Regulations empower local authorities to select contractors to undertake specific projects from amongst those contractors with which it has concluded a framework agreement, provided the framework agreement itself was established in compliance with the provisions of the EU Regulations.

The report confirms that the Council's Housing Contractor Framework Agreement was established in accordance with the Council's Constitution and the EU Public Contracts Regulations. Under the EU Regulations, selection of a contractor from a framework agreement may be undertaken either by way of "call off" or by mini-competition. In this case, a mini-competition involving the invitation of tenders from contractors on the Council's Housing Contractor Framework Agreement is being undertaken.

The report is furthermore requesting that the Cabinet delegate its authority to award the proposed construction contract to the contractor that achieves the highest scores in the mini-competition to the Corporate Director of Resources, upon conclusion of the competition.

The Cabinet has the power under Section 15 (6) of the Local Government Act 2000, and under Part C of the Council's Constitution, to delegate its powers to officers.

If the request for delegated authority to the Corporate Director of Resources is granted, the Corporate Director in deciding whether to award or not to award the framework agreement, to the recommended contractor must be satisfied that the provisions of the EU Regulations, including EU Treaty principles of equal treatment of tenderers, non-discrimination and transparency have been complied with in the selection of the contractor.

The Legal Partner (Procurement, Property & Planning) confirms that there are no legal reasons preventing the Cabinet from approving the recommendations of this report. The Legal Partner (Procurement, Property & Planning) should however be consulted in relation to the contractual aspects of the proposed construction services contract.

Contractual

For Phase 3 Council Housing sites identified, it is anticipated that the estimated total value of the works contracts will be up to £10.5m. The contract is being procured through the Council's existing Housing Contractor Framework, which has been procured in accordance with the Council's Constitution, the Public Contracts Regulations 2006 and European Procurement Directives. The Council (as a contracting authority) will also procure in line with the general EC Treaty principles of i.e. non-discrimination, equal treatment, transparency, proportionality and mutual recognition.

The report confirms that the procuring department will seek tenders from the council's contracting framework, and that tenders will be sought using the JCT Design and Build 2005 standard contract terms and Construction Design and Management (CDM) Regulations 2007 will apply for this project.

It is also noted that tenders will be evaluated by internal officers and external cost consultants using the evaluation criteria and associated weightings as set out in the invitation to tender documentation and detailed below in paragraph 2.3 to ensure compliance with legislation and Council's Constitution.

Risk Management

Each of the new build projects is subject to the Council's Capital Programme Management Office (CPMO) process which includes a full risk management process from inception through to design, construction and completion.

The new build programme will be managed by a dedicated project manager within the Strategic Asset Management and Capital Delivery Division.

The programme will be monitored by the Housing Strategy Board whose membership includes Acting Corporate Director of Customer Services, Divisional Directors of Strategic Asset Management and Capital Delivery, Regeneration and Economic Development and Housing, Legal Partner, Procurement, Property and Planning, Finance and Land Services.

<p>Staffing No specific implications</p>		
<p>Customer Impact The number of larger homes available for Social Rent will increase because of this programme. The Borough currently has over 140 families awaiting homes with four bedroom and 2,446 families awaiting homes with three bedrooms. Increasing the supply of larger family sized socially rented accommodation will improve the housing overcrowding problem in the Borough; this phase of the programme aims to provide 11 four (4) bedroom and 58 three (3) bedroom homes for local families on the register. All of the new homes built under this programme will be built to Lifetime Homes and generous space standards.</p>		
<p>Safeguarding Children The provision of more, larger family sized accommodation will alleviate the pressures placed on families who are forced to live in overcrowded accommodation.</p>		
<p>Crime and Disorder Section 17 of the Crime and Disorder Act 1998 places a responsibility on local authorities to consider the crime and disorder implications of any proposals. In any development the Council will seek to achieve 'secured by design' status to ensure that the opportunities for crime are minimised at the design stage of development. During construction the security arrangements for each site will be the responsibility of the appointed Contractor, for each site adjacent neighbours will be given contact details for the site management in case of any problems and out of hours' emergencies.</p>		
<p>Property / Assets Sites identified for redevelopment in the HRA new build programme will not be available for disposal as part of the borough's Disposal Programme. Retention will create a long-term capital asset within the HRA for households requiring social rented housing.</p>		
<p>Options appraisal Each HRA new build site has been subject to a full option appraisal process to ensure that the development optimises its contribution to meeting housing supply and impact on the local environment and that the proposed development is in line with Planning Policy. In addition each site will be required to meet minimum sustainability thresholds to minimise impact on the environment in both construction and occupation.</p>		
<p>Head of Service: Sue Lees</p>	<p>Title: Divisional Director of Asset Management and Capital Delivery</p>	<p>Contact Details: Tel: 020 8227 3300 E-mail: sue.lees@lbbd.gov.uk</p>
<p>Head of Service: Stephen Clarke</p>	<p>Title: Divisional Director of Housing Services</p>	<p>Contact Details: Tel: 020 8227 3738 E-mail: stephen.clarke@lbbd.gov.uk</p>

1. Background

- 1.1 The HCA confirmed in March 2010 that the Council was successful with its grant application for National Affordable Housing Programme (NAHP). A total sum of £7.234m was allocated to the sites at Maplestead Road, Goresbrook Compound, Alfred Gardens, Thornhill Gardens, Alderman Avenue and Roycraft Avenue.
- 1.2 The sites at Maplestead Road, Goresbrook Compound, Alfred Gardens and Thornhill Gardens are being progressed, with planning application being sought for the development of new houses on the sites. The sites at Roycraft Avenue and Alderman Avenue have planning consent for the development of new houses.
- 1.3 The sites identified for HRA new build together with the allocated grant are shown below:

New Build Phases	Sites	Total Cost (Construction, fees, & on - costs)	Funding from NAHP Grant	New Build Houses
King William Street Quarter (Phase 1)	King William Street Quarter	£6,419,935	£4,044,043	17x 3bed 5person house 14 x 4bed 6person house
Council Housing Phase 1	Essex Road, Rogers Road, Bromhall Road & Highland Avenue	£3,138,186	£1,806,057	9x 3bed 5person house 9x 4bed 6person house
Council Housing Phase 2	Charlton Crescent 1	£814,320	£419,794	4x 4bed 6person house
	Charlton Crescent 2	£814,380	£488,736	2x 2bed 4person house 4x 4bed 6person house
	Curzon Crescent	£1,189,944	£820,995	7x 4bed 6person house
	Beamway	£625,100	£466,521	5x 3bed 5person house
Council Housing Phase 3	Alfred Gardens	£375,060	£279,912	3 x 3bed 5person house
	Thornhill Gardens	£542,640	£383,332	2 x 3bed 5person house 2 x 4bed 6person house
	Maplestead Road	£1,545,734	£914,950	8 x 3bed 6person house 2 x 4bed 7person house
	Alderman Avenue	£994,316	£802,000	2 x 2bed 4person house 3 x 3bed 5person house 3 x 4bed 6person house
	Roycraft Avenue	£1,409,201	£596,515	2 x 3bed 5person house 4 x 4bed 6person house
	Goresbrook Compound	£6,768,000	£3,880,000	40 x 3bed 5person house

2. Appointment of Contractors

- 2.1 Following the confirmation of the NAHP funding and in order to meet prescribed funding timescales for delivery, a list of contractors was drawn up from the Council's Housing Contracting Framework and tenders were issued to the contractors in June 2010.
- 2.2 The form of Contract to be used for the project is the JCT Design and Build 2005 (revision 2) with Contractors design post stage D+.

- 2.3 Although all the sites listed above have secured grant, the sites at Thornhill Gardens, Alfred Gardens and Maplestead Road are currently under consultation with residents and members. If the results of the consultation process impact upon the schemes to be taken forward in any material way, members will be advised accordingly.
- 2.4 Two of the sites Alderman and Roycraft Avenue, have planning consent for the new build; planning applications are being submitted for the other four sites.
- 2.5 Following a tender exercise, Tweeds (operating as White Young Green Management Ltd) have been appointed to support the internal project management team in the delivery of this project.
- 26 The weighting for the evaluation of the tender will be on the basis of 60:40 ratio quality / price. The assessment of the quality criteria will be based on the answers provided to questions as outlined below:
- Contractors Proposals, compliance with Employer's Requirements.
 - What recent examples (in the last 3yrs) does the Contractor have of successfully, delivering similar schemes including new build project experience to sustainable code level 4?
 - In the process of delivering new homes, what risks does the contractor foresee and how would these be dealt with?
 - How will the contractor work with the council to successfully deal with challenges faced in building the first new Council homes in over 25yrs?
 - The Client and its funders expect delivery by July 2011; the contractor is expected to demonstrate with an indicative programme how the deadline can be achieved
 - Contractor's proposals for community liaison during the construction period, giving examples of how this has been done on previous new build projects.
- 2.7 It is intended that successful contractors will be appointed (all sites except Goresbrook Compound site) in August, with an anticipated start on site during September 2010 and be completed on site by July 2011; the project for Goresbrook compound is expected to start in November 2010 and complete on site in November 2011. This is a specific requirement of the grant funding.
- 2.8 The successful contractor's performance will be monitored and managed by the use of Key Performance Indicators, which will be reported to the client on a monthly basis. This will include indicators on the use of local labour, apprentices and local supply.

3. Links to Corporate and other Plans and Strategies

- 3.1 The supply of New Build Council Housing will increase the supply of family sized socially rented accommodation and contribute to reducing the level of overcrowding and housing shortage within the borough.
- 3.2 Through this project, we are looking to push apprenticeships and local labour initiatives, as well as school visits through the National Skills Academy for Construction (NSAfc) programme. The successful contractor will be expected to provide an agreed number of apprentices through the delivery of the project and engage positively with local labour and Small and Medium Enterprise (SMEs).

4. Consultees

4.1 The following were consulted in the preparation of this report:

Councillor P Waker - Cabinet Member for Housing
Councillor M McCarthy - Cabinet Member for Regeneration
Lee Russell - Group Manager, Corporate Finance
Yinka Owa - Legal Partner (Procurement, Property & Planning)
Eldred Taylor-Camara - Deputy Head of Law (Procurement, Property and Planning)
Stephen Clarke - Divisional Director for Housing Services
Sue Lees - Divisional Director of Strategic Asset Management and Capital Delivery
Jeremy Grint - Divisional Director of Regeneration & Economic Development
Glynis Rogers – Divisional Director, Community Safety & Neighbourhood Services
Heather Wills - Head of Community Cohesion & Equalities
Paul Ansell – Strategic Procurement Manager

5. Background Papers Used in the Preparation of the Report:

Executive Report and Minute 89 - Construction of New Council Housing within the Housing Revenue Account 17 November 2009.

6. Appendices

Appendix 1