

Report subject	Housing scheme at Herbert Avenue, POOLE.
Meeting date	15 December 2021
Status	Public Report
Executive summary	<p>The Herbert Ave scheme is also known as site 10 (of 24) that is in the Council New build Housing and Acquisition Strategy (CNHAS) Programme approved by Cabinet on the 29th September 2021.</p> <p>At that time officers were undertaking a new construction tender process for Herbert Ave and therefore it could not be incorporated within the CNHAS paper.</p> <p>The decision by the preferred bidder from the original 2019 procurement process, not to execute the agreement offered to them by withdrawing in January 2021 - has determined the need to engage the marketplace again.</p> <p>The results from this new 2021 procurement activity generates the necessity for a revised Cabinet approval in respect of an increase in said construction costs - from that which was approved previously.</p> <p>This paper therefore brings forward the recommendation for the award of a contract to the new preferred bidder for the delivery of critical works at Herbert Ave.</p> <p>These works will deliver the construction of 24 new temporary accommodation units for families, relieving to a significant degree, the existing Bed and Breakfast reliance.</p> <p>They will be built using Passive House design principles which the planning approval requires, to ensure they provide high levels of thermal efficiency and minimise the need for expensive space heating systems.</p> <p>The report also provides the background to the market procurement constraints that have previously impacted on the delivery of this development project and presents the evaluation outcome of the recent competitive market procurement exercise for the selection of preferred bidder and award of contract for the construction of the temporary accommodation buildings.</p>

<p>Recommendations</p>	<p>It is RECOMMENDED that:</p> <ol style="list-style-type: none"> 1. Cabinet support the proposed £3.486m temporary accommodation scheme budget required to deliver the development for progression to Council for subsequent approval request: <ol style="list-style-type: none"> a. Cabinet supports the increase in previously approved budget of £ 2.508m (Cabinet Oct 2018) plus sum of £0.28m (ODR approval June 2020) By a further £0.698m. (As detailed under paragraph 54 of the report) b. Approve the financial strategy for the scheme as set out in paragraphs 33 to 47 with specific approval for: <ol style="list-style-type: none"> i) £2.440m of prudential borrowing to be repaid over 50 years used to finance the Housing Revenue Account (HRA). ii) The capping of rental income to Affordable Rent levels and Local Housing Allowance. c. To award the contract for the construction of the new temporary accommodation development to the preferred bidder.
<p>Reason for recommendations</p>	<p>To enable the proposed temporary accommodation scheme to progress with the agreed funding arrangements through to construction and subsequent completion to deliver the wide range of benefits to the Council and local communities.</p>
<p>Portfolio Holder(s):</p>	<p>Cllr Karen Rampton, Portfolio Holder for People and Homes</p>
<p>Corporate Director</p>	<p>Kate Ryan, Chief Operating Officer</p>
<p>Contributors</p>	<p>Su Spence, Chief Executive (PHP) Trevor Roffe, Head of Asset Development (PHP) David Hood, Asset Development Manager (PHP)</p>
<p>Wards</p>	<p>Alderney & Borne Valley:</p>
<p>Classification</p>	<p>For Recommendation</p>

Background

Housing Market Context

1. The council has a statutory duty to support households that are at threat of homelessness. These requirements are enshrined in the Housing (Homeless Persons) Act 1977, Housing Act 1996, and the Homelessness Act 2002, with enhanced duties placed on local councils by the Homelessness Reduction Act 2017. In the main the council will seek to support households to access alternative forms of accommodation when threatened with homelessness and this is supported through various methods. If a household cannot find alternative means of housing and becomes homeless then the council has a statutory duty to provide interim accommodation if they meet certain criteria.
2. The Council currently manages circa 270 units of temporary accommodation within its portfolio, some of which is costly and not suitable for future use. The council continues to rely on B&B & hotels to provide interim accommodation which is also costly and inappropriate. The Council is currently accommodating 135 households in B&B, although this is reducing, we require more good quality temporary accommodation where people can be supported away from homelessness and receive the help they need to move to a settled home.
3. The delivery of these new temporary accommodation units at Herbert Ave will play a significant role in reducing the council reliance on expensive B&B accommodation in-line with its approach to providing more housing led-solutions.

The site and previous procurement history

4. An 'Open market' procurement exercise was carried out in the summer of 2019 to seek fixed price tender bids from contractors using various Modern Methods of Construction (MMC, sometimes known as modular). Four compliant tender bids were received from contractors using either timber panelised systems or full modular systems manufactured off-site in a factory.
5. Following the procurement evaluation exercise a provisional contract award was made to the preferred bidder, a Finnish based company. This reflected that the innovation in modular build was occurring across Europe and to be able to access and secure this cost effective and design preferred approach payments for off-site manufacturing via an Escrow were required. Due diligence to establish this approach was required and soon ran into concerns and delays relating to the impact of Brexit and then the Covid pandemic. The impact of both meant that the contractor confirmed that they were not able to deliver against the bid submitted in 2019 and withdrew in January 2021.

Recent procurement exercise and evaluation Outcome

6. As the temporary accommodation development remains a priority and a new procurement approach has been completed considering current market conditions. This includes recognition that the construction market has become much more volatile around labour capacity constraints, and particularly material supply delays and cost increases. To manage this volatility the tender scope was widened out to encourage competitive contractor bids for all forms of construction methodology – not just MMC.

7. The procurement exercise took place over the summer and 4 tenders were submitted.
8. Following a compliance review of the quality evaluation scores and tender process report, the quality / price outcomes were combined into the evaluation matrix. The combined matrix scores show:
 - a. Contractor A in first place as the preferred bidder
 - b. Contractor D in second place
 - c. Contractor C in third place
 - d. Contractor B in fourth place

Council's direct delivery of new homes

9. BCP Council and Poole Housing Partnership have well established Housing Development Teams who are well placed to help deliver the future pipeline of in-house residential new-build developments. Both teams work closely together to meet council priorities and have been involved in the approach to this project.
10. This proposed scheme will follow many others which have been successfully delivered over previous years and there is a pipeline of many additional sites going forwards to help address our housing needs locally.

Site background information

11. The site is owned by BCP within the Housing Revenue Account (HRA) and is a brownfield site and comprises of an area to the front of the site currently laid to tarmac with an area to green space to the rear.
12. The site was last used as a community centre which closed some years ago. The building which stood on the site has since been demolished.

Proposed scheme

13. The proposed development is to provide a total of 24 apartments over two floors. This development would be capable of housing 24 households, circa 94 persons. Subject to consents, the proposed commencement date is January 2022 with the scheme ideally due to be completed in March 2023.
14. It is recommended that the site is developed by the preferred bidder to provide a residential scheme comprising the following: -
 - Affordable Rent (24 homes)
15. This tenure mix has been developed after consideration of numerous factors including the need for financial viability and return, housing demands, site specifics and the need to ensure a sustainable community. The Council's Neighbourhood Management team and the Housing Options and Partnerships team have been closely involved in the development of this scheme to help ensure that it adequately meets housing needs and is designed in such a way to be sustainable and to enable good quality housing management.

16. As noted earlier, the need for Council housing, including affordable rented housing, is high across BCP.
17. The scheme will provide self-contained temporary homes comprising of 1 x one, two and three bed accessible apartments, 1 x one bed apartment and 20 x two bed apartments. Tenancies will be non-secure homeless tenancies.
18. The proposed layout is determined by the shape of the site, location of trees, access, and the existing character of the surrounding area. The proposed building is in line with the building line of the existing building. All parking is proposed to be along the side of the building, thus enabling some landscaped amenity space to the rear of the site.
19. The scheme will provide 12 car parking spaces and 3 disabled car parking spaces, which is considered appropriate given the nature of the housing units to be provided, the unallocated provision, the proximity to the town centre and excellent transport links. External cycle parking is to be provided
20. The scheme was granted planning permission in May 2020.

Environmental build standards- formal DIA assessment from para 62

21. The development will provide a highly energy efficient scheme. It will help address the 2019 BCP Council declared Climate and Ecological Emergency and future proof the new homes against the 2025 Future Homes Standard for housing. The development will contribute to the Council's commitment to achieving a net zero carbon emission target.
22. The tendered approach will build to the principles of the Passivhaus standards. This standard offers the benefit of very low carbon heating requirements and world leading levels of energy efficiency by not relying on fossil fuel heating systems. Passivhaus Principles will be followed rather than full accreditation, which will help generate carbon savings.
23. The fabric first approach which the Passivhaus standard follows for construction, minimises the need for expensive space heating systems. This will help to support those residents that have become homeless not having to budget for expensive heating bills. A saving of up to 75% on energy bills is possible, (From the Passivhaus Trust).
24. The minimal heating requirements and use of electric heat pumps for hot water generation means that expensive retrofitting, or replacement of fossil fuel heating systems will be avoided in the future. Plus the reduced energy demand from the electric hot water heat pump system will meet the Councils planning policy (PP37) requirement.
25. The scheme will be measured in terms of sustainability through carbon savings – key measures have been included in the report under paragraphs 31 and 51. Full details of the carbon reduction figures are available from the Carbon Reduction Statement produced by Energycount (Sustainability and energy Consultants).
26. The lifetime cost of the proposed development is £175 per tCO₂. This fits well below the BEIS guidance of under £500/tCO₂

Summary of key benefits

27. The following summarises the key benefits of the proposed scheme: -

- Relieving to a significant degree, the existing Bed and Breakfast reliance.
- Maximise the Council's land assets to bring about financial gains, as well as delivering the Council's housing aspirations.
- Provide much needed additional homes to meet unmet housing demands and housing needs within the BCP Poole Neighbourhood area.
- Provision of 24 self-contained homes to help address the challenging Local Plan housing targets and help meet local housing demands.
- Utilisation of £1.046m Right to Buy receipts to help fund the scheme. If these are not spent within 3 years of receipt, they cannot be used locally and need to be returned to central government.
- The scheme will bring improvements to the area with the provision of good quality and well managed temporary housing and wider environmental improvements.
- It will deliver high levels of sustainability in terms of design.
- It will generate employment during the construction phase to help grow the local economy.

Development Feasibility Work already undertaken

28. During the design and pre-construction phase, various consultants have been appointed and several surveys completed to help develop the scheme through the planning approval stage and out to competitive market procurement. This has also included some early ecology enabling work on the site.

29. The financial commitment to date (including design, surveys, planning and procurement exercises) is £91k. This is included within total project outlay of £3.486m below.

Financial overview

30. Appendix one, sets out the proposed financial profile of the scheme for the Housing Revenue Account (HRA).

**Appendix 1 – Herbert Ave Temporary Housing Development:
HRA Income and Expenditure**

		Housing Revenue Account
		24
		50
		Affordable Rented £000s
Scheme Costs		
Works budget tender cost		2,923
Build & oncost contingency	5%	146
Fees & Other Costs		195
Interest (during Build Phase)		72
Land Acquisition costs		150
Total Scheme Cost		3,486
Scheme Funding		
Homes England Grant - TBC Affordable Housing Grant		
Homes England Grant - Accelerated Construction		
Affordable Housing s106 Contributions		
Sales - Shared Ownership		
Housing Revenue Account		
- Capital Funding - 1 for 1 Right to Buy Receipts		1,046
- S106 Contributions		
Prudential Borrowing - additional borrowing		2,440
Total Scheme Funding		3,486
Net Cost		0

31. **Build cost** of £2.923 million is based on the preferred bidder's tender price submission. There is also an additional build contingency of 5%, circa £146k. These total costs equate to £2221 per sqm.
32. **Fees and other costs** of £195k allow for all the site investigation surveys, reports, pre-construction design/planning, and procurement work. The actual cost incurred to-date is £91k.
33. The total scheme costs are estimated to be £3.486m profiled over the planned 14 month period as the construction moves ahead. £1.046m of the capital outlay will be funded from Right to Buy (RTB) receipts, representing 30% of the total capital outlay. The

remaining £2.440m of capital outlay is proposed to be funded from Prudential borrowing through the HRA. The interest charge expected to be levied against this prudential borrowing during this phase is £72k. The financial appraisal model used to risk assess the project has demonstrated that the scheme can afford repayment of the borrowing costs incurred from this Loan.

34. Estimated long term cash flows presented in Appendix one forecast net annual cash surplus from first year of completion. This is after provision has been made for both capital and interest repayments as well as management, maintenance and major repair costs, and an adjustment to the rental income to cover void costs. Any potential capital growth has been ignored for the purposes of this modelling. Over the 50-year scheme life, cumulative cash surpluses of £9.772m are forecast.
35. Appendix one also sets out the financial appraisal assumptions supporting the capital outlay and 50-year cashflow forecast. The Council is also in the process of completing a wider benchmarking exercise, with the assistance of comparable local authorities, to ensure ongoing relevance and appropriateness of core assumptions applied.

Financial Strategy

36. The 24 new housing units will be designated as affordable housing. As there is ongoing demand for affordable housing, the Council has reasonable assurance over rental income streams for the next 50 years. Forecast cashflows assume modest annual increases in rental income of 2.5% (in line with Government guidance of CPI +1%). Additional provision is made for voids loss and bad debts at 2% of gross residential rent per annum.
37. Ongoing operational spend (property listing and management, service costs and general repairs and maintenance spend) are allowed for within the model on a standard £1000/unit basis. The £/unit values used are based on historic financial data and are therefore considered to be accurate. Annual inflation at 2.5% is applied to reflect increases in these costs over the 50-year period. In addition, allowance is made for major repairs across the housing development. This is an annual cost, calculated using componentised depreciation based on the composition of the properties from year 1, and represents 0.7% of housing development value, based on original capital outlay with annual inflationary increases.
44. Under s11(6) of the Local Government Act 2003, local authorities are required to spend retained Right to Buy (RTB) receipts within five years. This is limited, however, to no more than 40% of the cost of a replacement home (whether through acquisition or new build). Where a local authority is unable to spend receipts within five years they are to be returned to the Ministry of Housing, Communities and Local Government (MHCLG), together with interest of 4% above base rate. Whilst the proportion of new-build projects that can be funded from RTB receipts has recently been increased from 30% to 40% of the total capital outlay, RTB funding will be capped at 30% for this project to ensure that sufficient RTB funding remains available for other BCP new-build projects. The financial risk to the Council of having to return unspent RTB receipts is reduced by applying £1.046m (30% of £3.486m capital outlay) of RTB receipts received as funding for this scheme.
38. The tenure mix of the properties (and associated rental stream) provides a balance in terms of financial returns required by the Council and ensuring low rents. This has been considered in the context of the whole HRA development pipeline identified to date.

Prudential Borrowing

39. The Council can borrow under the Prudential Code as long as it is affordable and can be repaid over the life of the asset. The proposed scheme is predicated on £2.440m of prudential borrowing repaid over 50 years at an annual cost (including interest) of £72k. The use of 50 years reflects the estimated useful economic life of the asset.

The financial modelling assumes the use of flexible short-term funding (at an interest rate of 3.0%) during the construction period before entering a long-term arrangement (at an interest rate of 3.0%). The 3.0% interest rate has been used as a matter of prudence for the financial modelling. It has the benefit of creating additional risk premium to mitigate the risk of potential fluctuations in long term cashflow projections.

40. Furthermore, any borrowing will only be drawn down when required and not in advance of need.

Taxation

41. Any VAT incurred on construction cost will be fully reclaimable as the spend will relate to the statutory function of the Council. Generally, construction of residential accommodation that meets the required conditions to qualify as dwellings is zero rated for VAT purposes. This, however, excludes certain types of services such as architects, surveyors, consultants etc, (unless they are provided under a Design and Build Contract). Provision of residential accommodation within the Housing Revenue Account is considered as a non-business activity and therefore any VAT incurred on construction cost is fully reclaimable under Section 33 of the value Added tax Act 1994.

42. Stamp Duty Land Tax (SDLT) will not apply.

Public Sector Subsidy (State Aid)

43. State Aid has been considered and assessed as low risk, as we are not passing on funding to a third party.

Value for Money

44. The financial appraisals set out in appendices one show that the scheme is viable in the short, medium, and long term for the Council.
45. The scheme provides a surplus in the long term cumulative cashflow from year 1 to Year 50 when the loan is repaid. Beyond year 50 the surplus will be in excess of £400k per annum to the HRA.
46. The development at Herbert Ave will produce around 46.5 % less CO₂ emissions than the same building if it were built to basic housing standards (Basic Spec). Findings show that using the Fabric-First Passivhaus approach would achieve savings of 21 Tonnes of CO₂ per year over the Base Spec adopting Passivhaus design principles, and a saving of 1,571 Tonnes of CO₂ when assessed over the buildings full life compared to a building built to the basic housing standards.

47. The construction costs are based on a fixed tender price submission from the preferred bidder, the build cost tender submissions were assessed by cost consultants RLB (Rider Levett Bucknall) as part of the tender price evaluation exercise. They have confirmed that given the scope of works, the total construction costs to meet the low-energy Passivhaus Standard development represent value for money in the current construction market. This statement is supported in their vfm construction benchmarking report that compares the Herbert Ave tender price with other RLB residential tender projects as well as schemes on the Building Cost Information Service (BCIS) cost database. The vfm benchmarking report is included within appendix two.
48. The use of Passivhaus principles for design and construction allows for high reductions in energy costs for our residents. It also negates the need for expensive fossil fuel heating systems and their subsequent replacement in the future, thus helping the Council to meet the 2025 Future Homes Standard. This highly energy efficient and environmentally sympathetic fabric first construction method represents good value for money for the Council by helping to reduce its future maintenance liability.
49. The original project budget estimate of £2.508m required approval of an additional £280k funding for the appointment of the preferred bidder following a market procurement exercise in 2019. The additional funding requirement was due to small design changes in the accommodation sizes and inclusion of a building water sprinkler system. Following the tender evaluation outcome of the recent market procurement exercise, covered earlier in this report under paragraphs 9 to 13. Approval of a further £0.698M is required to support the full £3.486M budget requirement to deliver the Herbert Ave, new build project. See table of funding approval.

Initial project and Budget approval	£2.508m	Cabinet Oct 2018 and full Council Nov 2018
Additional funding approval	£0.280m	ODR June 2020
Additional funding requirement following new procurement in Aug 2021	£0.698m	Approval requested

Consultation

50. During the formal planning application process several public consultation comments were received by the Council. These were responded to and given consideration as part to the Council's Planning Committee review process.

Approval Conditions

51. The contract is based on a fixed construction tender price therefore any supply chain price increases technically remain the responsibility of the appointed contractor, although unprecedented material price increases are currently being experienced across the construction industry. The contractors tender price includes an inflationary allowance and the client 5% build & oncost sum within the budget will be used to mitigate any further material risk.

Summary of financial implications

52. Provided within the body of the report.

Summary of legal implications

53. The Housing Act 1985, section 9, empowers the Council to build and provide housing accommodation (including houses, flats, and ancillary facilities such as open space). Credits and debits in respect of such accommodation must be accounted for within the Housing Revenue Account (HRA) – section 74(1) of the Local Government and Housing Act 1989.

54. The Council also has the General Power of Competence pursuant to the Localism Act 2011, and therefore the power to borrow for the purposes set out within this Report.

55. The Council has complied with all relevant procurement requirements in undertaking the proposals contained within this Report and the Council will undertake the work in accordance with ongoing legal advice.

Summary of human resources implications

56. The existing Housing Development Team will oversee the construction phase delivery of this scheme alongside the other new build schemes in the pipeline. Other professional consultants to assist in the project management of the scheme

Summary of the decision (sustainability) impact assessment (DIA)

57. The site is within a sustainable location and the high-quality building on this site could make a positive contribution to the quality of the environment. Some ecology measures have already been taken to protect the local wildlife in preparation for the construction works.

58. Whilst the estate is increased in housing density, it is providing much more energy efficient dwellings, with greater thermal insulation and more efficient heating systems. The scheme will be built using a fabric first approach following Passivhaus design principles.

59. A copy of the Decision (sustainability) Impact Assessment is included within appendix two.

Summary of equality implications

60. The housing scheme will provide accommodation for those who are on the Housing Register and in housing need, being designed for families, couples, and single people of all ages. As such, many households will have protected characteristics and have vulnerabilities. Admission for new residents to the scheme will be by objective eligibility criteria, which will be operated by the Housing Solutions team who, undertake property allocations for the Council. The existing Allocation Policy for the BCP area will help manage allocations to the scheme for those most in need, although a new BCP Allocations Policy is being developed which may be live at the point this scheme is completed.

61. Properties will be available for all eligible applicants on the housing register. No issues regarding Sex/ Gender Reassignment/ Pregnancy and Maternity/ Marriage and Civil/ Race/ Religion or Belief/ Sexual Orientation/ Armed Forces Community and any other factors/ groups characteristics have been identified but these factors will be considered along with any service user identified needs.
62. Three of the accommodation units will be constructed to Building Control Approved Document Part M category 2 (Access and design to meet wheelchair accessible or adaptable standard)
63. The architect's design has implemented the requirements of Lifetime Homes where it is practical to do so.
64. The constrained nature of the site and accommodation use prohibits achieving Lifetime Homes or all units to achieve Part M category. However, the Council actively considers the provision of Category 2 & 3 dwellings on other schemes in the conurbation.
65. A copy of the EIA is included within appendix two.

Summary of risk assessment

66. The following key risks have been identified alongside mitigating actions:

Overall Project Risk Rating		
Key Project Risks	Gross Risk Rating	Mitigating Actions
Construction material costs render the project unaffordable	Low	Good project management will enable the close monitoring of progress and any issues that may arise to be dealt with promptly. The Build cost tender sum is an inclusive Design & Build price provided by the Preferred Bidder which includes a 3% material inflation allowance. The budget also includes a 5% build contingency.
Scheme not gaining a satisfactory planning consent	Low	The project has already achieved full planning approval and the Design & Build construction tender includes for the contractor to satisfy all planning condition requirements.
Fall in demand for temporary accommodation units during construction phase.	Low	Ongoing monitoring with the Strategic Housing Options team clearly demonstrates a demand for purpose built temporary accommodation. The New build will help reduce the use of other expensive B&B accommodation currently having to be used and move towards more sustainable housing-led solutions.
Increased fire risk during construction phase	Low	Design and construction will be closely monitored by Housing Development Team, Employers Agent and Preferred Bidder.
Independent living building delivered in compliance with Building Safety Regulator.	Low	The initial planning design has been assessed by independent fire consultants Ashton Fire and a Fire strategy document produced. The strategy includes all 'Active & Passive' fire system requirements for fire safety legislation compliance.

Overall Project Risk Rating		
Key Project Risks	Gross Risk Rating	Mitigating Actions
		The strategy forms part of the planning submission and contract design specification for the D&B contract. The contract stipulates compliance with the Building Safety Bill.
Contractor insolvency during construction.	Low/med	The contract requires the contractor to provide a Performance Bond and NHBC warranty & insolvency cover.

67. Property development activity involves inherent risks, but a cautious approach has been adopted here to minimise these risks as much as possible. Financial contingencies have been included and significant consultation has been undertaken to date to help ensure a sustainable scheme.

Background papers

- a) Refreshed Bournemouth Housing Strategy 2017 - 2020 - <https://www.bournemouth.gov.uk/Housing/help-with-housing/Documents/bournemouth-refreshed-housing-strategy-2017-2020.pdf>
- b) Housing Strategy Refresh 2018-2020 Borough of Poole <https://www.poole.gov.uk/council-and-democracy/strategies-plans-and-policies/housing-strategy-refresh-2018-2020/>

Appendices

Appendix one includes.

- **Income and Expenditure Summary General Fund and HRA**
- **Financial Appraisal Long-term Cash flow**
- **Summary of Funding Assumptions**

Appendix two includes:

- **Equality Impact Needs Assessment (EIA)**
- **Decision (sustainability) Impact Assessment (DIA)**
- **VFM – Construction cost benchmark report**