

To: City Executive Board
Council

Date: 13th January 2010
25th January 2010

Item No: 10

Joint Report of: Head of Oxford City Homes and Head of Corporate Assets

Title of Report: Cardinal House and Lambourn Road Redevelopment
Project Update and Tender Approvals

Summary and Recommendations

Purpose of report: To update the Board on project progress and recommend acceptance of tenders received for construction work on the redevelopment and new build council housing at Lambourn Road and Cardinal House.
To approve a change in the Capital Programme to incorporate the National Affordable Housing Programme Grant funding and the Prudential Borrowing.

Key decision? Yes

Executive lead member: Councillor Joe McManners

Report approved by: Mel Barrett

Finance: Sarah Fogden
Legal: Lindsay Cane

Policy Framework: More housing, better housing for all.

Recommendation(s): That the City Executive Board:-

1. Authorises the Council's entry into the standard Grant Agreement with the Homes and Communities Agency that will allow the Council to receive the allocated National Affordable Housing Programme Grant (NAHPG), required to deliver these schemes.
2. Notes that the purchase of 6 Lambourn Road (undertaken under officer delegation) is due to take place on the basis indicated in this report in order to achieve vacant possession of the Lambourn Road site.
3. Endorses the enhanced project management arrangements that have been put in place to support delivery of the projects.
4. Agrees to exercise its right (as set out in section 20.1 of the Constitution) to waive the contract rules for the reasons set out in this report in regard to the procurement of the architectural design work and the subsequent site design services for both Cardinal House and Lambourn Road projects.

5. Authorises the acceptance of the tender for the construction work at Lambourn Road submitted by Lovell Partnerships.
6. Authorises the acceptance of the tender for the construction work at Cardinal House submitted by Leadbitter and Co.
7. Recommends to Council that the Councils approved capital programme budget be amended to include the full scheme total of £12.2m.
8. To approve early work on the construction contract ahead of Full Council approval at a maximum risk to the Council of £95,000.00.

Background

1. The delivery of additional affordable housing is a key council priority. The Homes and Communities Agency (HCA) launched a challenge fund, "Council House New Build" in (date) which invited applications from local authorities that wished to apply for grant to allow them to build new stock outside of the existing Housing Revenue Account (HRA) system.
2. The Challenge Fund presented the Council with significant deadline demands, including;
 - i. Delivery of new units had to be achievable within 18 months (by 31st March 2011),
 - ii. Schemes had to have planning permission,
 - iii. Schemes must offer value for money,
 - iv. Prequalification questionnaire and bid must be submitted to the HCA by 31st July 2009 or 30th October 2009.
3. Feasibility studies were already underway on three Sheltered Housing Sites (Windale House, Bradlands and Cardinal House) that had been previously identified as having potential for redevelopment through a review of sheltered housing provision and a fourth site as a result of demolition of structurally unsound properties at Lambourn Road. These schemes had been brought up to design stage and had been subject to review by planning officers. Issues around density and sustainability standards had been agreed. The Challenge Fund programme needs to deliver quickly and these three schemes offered the best chance of a successful bid in the first round.
4. A meeting was held with the HCA on May 21st 2009, at which it was agreed to proceed to make bids for two projects located at Lambourn Road and Cardinal House. The Lambourn Road project will provide 38 new council homes, which comprises 10 chalet style bungalows, 4 one bedroom and 6 two bedroom flats, 16 three, and 2 five bedroom houses. The redevelopment of Cardinal House will provide an additional 20 sheltered housing flats and refurbishment of the existing flats and communal facilities.

5. On 1st July the City Executive Board endorsed a bid to HCA in respect of the two schemes.
6. The council's lack of experience in undertaking residential new build projects was recognised in the appointment of a Housing Association (RSL) expert mentor with recent and ongoing experience of new build social housing development.
7. The bid submission was worked up in collaboration with HCA and the RSL mentor and submitted on July 30th 2009. Approval was received from the HCA on 8th September 2009.
8. The budget allocated to this particular project is £12.2 million. This is made up of £4.1 million in grant, £4.6 million in prudential borrowing and £3.5 million from within the Councils budgeted funds. A financial appraisal for each of the schemes is attached (Appendix 1) and further details are defined in the financial implications section of this report.
9. The Council issued invitations to tender for the construction work for the two sites under European Union regulations. Tenders have been received for this work under the EU procurement process, the results of the appraisal process are shown in the Financial Implications section below.
10. The Challenge Fund imposes an absolute completion date of 31st March 2011. Failure to deliver by this date would impact on the payment of NAHPG.
11. It is proposed that the contract will start on 25th January 2010, subject to all other conditions being satisfied.
12. A condition for the payment of NAHPG is that the Council must sign a standard Grant Agreement with the Homes and Communities Agency before any funds can be released. Details of the agreement are discussed in the legal implications below.

Legal implications

Construction Contract;

13. A significant amount of work in terms of design and planning had already been carried out by Consultants engaged by the Council after a procurement exercise to undertake feasibility studies on the two sites. Officers therefore considered it appropriate to seek to have detailed designs worked up based on a traditional method of procurement to obtain a greater degree of certainty at the commencement of the construction process, rather than to use a design and build approach which would have resulted in detailed design being undertaken later on in the development process. It should be noted that this approach resulted in the council retaining a greater exposure to financial risk, however this was balanced by greater control over the design, enhanced project management arrangements and a significant contingency.

14. For reasons of speed and efficiency, given the very limited time available in which an application could be made to the HCA for NAHPG, contracts for the architectural design work for both the Cardinal House and Lambourn Road projects and subsequently contracts for the required site design services for both projects were let by officers to the consultants already procured to undertake the respective feasibility studies for both sites.
15. The chosen contract form for the construction contract is NEC3, Option A (priced contract with activity schedule), which is also known as a 'lump sum contract'. The NEC3 offers benefits over the older JCT form of contract in terms of risk, which is managed early and collaboratively between the client and contractor. In addition the management practices ensure everyday interactions that are central to project delivery and also clear division of function and responsibilities. The management processes within the contract follow closely those found in the Prince 2 methodology - the Councils preferred project management system.
16. The NEC3 form of contract was promoted through a number of high profile Government reports, including Sir John Egan's 'Rethinking Construction' in 1998 and has been endorsed since July 2005 by the Office of Government Commerce (OGC) for achieving excellence in construction. In 2008 a House of Commons select committee report stated that the NEC3 sets the benchmark for good contract procedures. This form of contract also forms the basis for much of the County Councils framework contracts with development partners.

Grant Agreement;

17. The Grant Agreement has been reviewed by the Council's Legal services and a number of points have been raised in terms of the Councils liabilities.
18. The main implications are;
 - i. Under the terms of the grant agreement, the HCA reserves the right to recover some or all of its grant in the event that the projects are not completed by a deadline of the end of March 2011, or in the event that the Council fails to meet any of its key milestones.
 - ii. The Council is required to keep the HCA updated of the progress of the project and keep to key milestones. This process begins when the Social Housing Grant bid is first made through the HCA's Information Management System (IMS). Oxford City Homes staff has received training from the HCA to access and update the system with information that is used to track progress electronically. Guidance manuals have been produced for the different stages and support is being provided through the RSL mentor A2 Dominion that has extensive experience in these processes.
 - iii. The conditions precedent to receiving the first tranche of grant includes a statement that the Council owns the freehold of the entire site. The owner of the property at 6 Lambourn Road is currently negotiating that interest with the Council. The HCA has been kept informed of the

position from the start of the project and has advised that the Council should include details in the certificate of title.

- iv. The Council will be required to seek the HCA's permission to dispose of any of the properties, which is likely to result in a proportionate amount of grant being repaid. This does not affect the tenants Right to Buy but will affect the level of receipt retained by the Council if a proportion is paid back to the HCA. The HCA will claim a proportion of the property value and benefit from any uplift.
 - v. The HCA requires the Council to appoint an employers agent although has stated that it is acceptable for a council to use its in-house department to meet this obligation subject to agreeing a collateral warranty if needed.
 - vi. The HCA will recover any funding on the basis that is categorised as unlawful state aid. The Council would have to be considered as undertaking economic activity within the meaning of the rules on state aid and it is unlikely that as a local authority that this would occur.
19. The site at Lambourn Road has one owner occupier at no.6. The Council has entered into negotiations with the owner. A draft contract has been agreed whereby the occupier will be granted a secure tenancy of a unit in the new development and the freehold interest of No. 6 will transfer to the Council. The occupier will be eligible for compensation under the Home Loss Scheme.

Financial Appraisal;

20. CEB in July 2009 agreed a bid to the HCA for grant funding. The submission of the bid lead to subsequent negotiations over the funding mix. This report therefore details the revised financial appraisal in appendix 1, this is summarised in the tables below.
21. The majority of the modelling assumptions used in the July financial appraisal are unchanged. The key changes to the appraisal areas follows;
22. **Lambourn Road**
- i. Additional costs of £350,000 in respect of architectural fees and Section 106 contributions
 - ii. The bid to the HCA for NAHPG was above the thresholds set by the HCA. The HCA advised the Council to resubmit a bid based on lower subsidy per property. Therefore the NAHPG was reduces by £372,500. This is offset in part by switching £250,000 of Oxford City Council capital funding from the Cardinal House scheme. The impact of this funding switch is to keep the payback period of the scheme within 30 years.
 - iii. The balance of funding is an increase in the Council's prudential borrowing of £507,226.

23. Lambourn Road – Total Scheme Costs as at 23rd December 2009.

	CEB Report	Total IMS	Total following Tender
Build Costs	£'000	£'000	£'000
Construction Costs	4,594	4,594	3,903
Fees	467	852	799
Contingency	345	345	1,090
Total	5,407	5,791	5,791
Funded By -	£'000	£'000	£'000
Oxford City Council - HRA		250	250
Oxford City Council - GF	500	500	500
Grant	3,256	2,884	2,884
Prudential Borrowing	1,651	2,158	2,158
Total	5,407	5,791	5,791

Description	No Units
1 Bed Flats	6
2 Bed Flats	4
2 Bed Bungalows	10
3 Bed Houses	16
5 Bed Houses	2
	38

24. The net impact of these project changes is to push out the payback period of the project at Lambourn Road to 30 years from 22 years. As the tender sums were below the figures modelled and the overall project costs remain the same, there are now contingency allowances of £1,090,487.00. If the contingency is not required, less borrowing will be entered into.

25. **Cardinal House**

- i. Minor changes in respect of development period interest and slightly higher HCA grant
- ii. Section 106 contributions of £58,543
- iii. A reduction in the City council capital programme funding (see above) and a corresponding increase in prudential borrowing of £279,310.

26. Cardinal House – Total Scheme Costs as at 22nd December 2009.

	CEB Report	Total IMS	Total following Tender
Build Costs	£'000	£'000	£'000
Construction costs	5,451	5,451	3,888
Fees	535	575	619
Contingency	363	361	1,880
Total	6,349	6,387	6,387
Funded By -	£'000	£'000	£'000
Oxford City Council - HRA	2,950	2,700	2,700
Oxford City Council - GF			
Grant	1,232	1,240	1,240
Prudential Borrowing	2,167	2,447	2,447
Total	6,349	6,387	6,387

Description	No Units
1 Bed Flats	49
2 Bed Flats	4
	53
Additional Units	20

27. The net impact of these project changes is to increase the payback period for Cardinal House by 2 years only to 30 years. As the tender sums were below the figures modelled and the overall project costs remain the same, there are now contingency allowances of £1,879,943.00. If the contingency is not required, less borrowing will be entered into.
28. The value of funding direct from the council is from amounts currently budgeted. For Lambourn Road £500 k is from the General Fund and is included within the capital programme. Cardinal House funding is through the HRA Sheltered Housing remodelling budget using Cardinals own budget and that for Eastern House. The remodelling budget is dependent on the sale of other sheltered sites, the first of which, Rowlands House was sold earlier this year.
29. As the Grant is payable in two tranches, start on site at 75% and balance on completion, prudential borrowing and own funds are required in 2010/2011. Prudential borrowing at this level can be accommodated within the existing borrowing limits within the Council's Treasury Management Strategy.
30. Since the July report, the Council has received confirmation that all Lambourn Road properties and all Cardinal House properties (including the redeveloped properties) will be held outside of the HRA subsidy system. This effectively means that income will go towards servicing the prudential borrowing. It also means that the Council will retain the receipt from any Right to Buy sales, less a proportion of the Grant paid.

31. In summary, the financial changes to the scheme increase the prudential borrowing requirement by approximately £784,000. In addition the schemes now have contingencies of 19% for Lambourn and 24% for Cardinal House. This is considerably above the broad 5% contingency used in the July report.
32. The total scheme costs are not currently in the Council's budget. Only the Council's own financial contributions from the Capital Programme are within budgets. Under the Council's Constitution, CEB are asked to recommend Council to amend the approved Capital Programme to include the full scheme total of £12.2 million.
33. The need to refer this report to Full Council for approval brings a delay of 10 days and is critical in terms of project delivery. CEB is asked to approve that officers negotiate with the contractors to allow contracts to begin preparation work. This will be at risk to the Council should the scheme not receive endorsement from Council but costs will be managed within £95,000.00 (£50,000 for Lambourn Road and £45,000 for Cardinal House). Should the scheme not go ahead, these costs will be paid from within the HRA revenue budget.
34. The financial risk register is attached (appendix 4b). The key financial risks are of cost overrun and the potential loss of all or part of the HCA grant. These are mitigated in part by holding contingency sums but the key mitigating control is the enhanced project management highlighted elsewhere in this report. The holding of contingency sums at this level brings its own risk. The Council must be mindful of progress with project spend before committing the Council to borrow the full £4.6m as it may not all be required if the contingency is not used.

Contract Tender;

35. Tender documents were sent to eight companies that had submitted pre-qualifying questionnaires. Eight tenders for the work at Lambourn Road and six for the work at Cardinal House were received by the due time/date.

36. The 8 tender submissions were subject to a preliminary short-listing process carried out by a panel of officers and Frankham Consultancy.

The assessment was based on the following criteria;

Management of the contract	This section considered how the contract would be organised to achieve end goal in cost, time and quality.
Use of local resources	The commitment to the employment of local contractors, labour, SME's and the supply chain.
Training	The consideration given to training opportunities for local people, including apprenticeships and staff at Oxford City Homes.
Added value	The consideration given to how these contracts could provide opportunities relating to specific needs within those communities that would have a lasting effect once the work was complete.
Finance (price)	Viability of price, how the final price was worked up and the cost to quality ratio (40:60).

37. Appendix 2 shows a summary of the scores, with points listed for each criteria and the grand total.
38. The short listing process resulted in the rejection of 4 tenders that did not contain sufficient detail for effective evaluation in a number of the criteria.
39. The 4 short listed tenders were invited to make a presentation of their bids in more detail following the same criteria. This was followed by a question and answer session with the original assessment panel, the Director of City Services and a representative of A2 Dominion in their role as RSL mentor. The responses were used to review the scoring under the criteria, the results of which has formed the recommendations for this report.
40. Leadbitter and Co. were chosen for the Cardinal House site because they not only submitted a competitive price and have the technical ability, but also demonstrated a commitment to involving local people and use of local resources and local supply chain.
41. Lovell Partnership was chosen for Lambourn Road because their price was competitive and they showed a good understanding of the scheme in its locality. They also demonstrated a strong commitment to involving local people, training opportunities, use of local resources and local supply chain.
42. There are no significant anomalies within the submissions, with the exception of the lowest tender, which was considerably lower than the other submissions.

Environmental implications

43. Contract Management – the contract(s) will include detailed waste and traffic management plans to reduce the impact of construction traffic through the estates and ensure minimum waste from materials.
44. Design – the new properties have been designed to meet the Code 4 standard for sustainability. The Code uses a rating system and introduces minimum standards for energy and water efficiency at each level. A simple points system means the more points achieved the higher the Code level reached. The Code 4 standard will also be applied to the refurbishment work at Cardinal House, although NAHPG is not applicable for this part of the project.
45. This standard ensures reduced energy consumption of 44% through the use of renewable energy sources, quality insulation and construction materials. The design categories for the code are;

‘Energy/CO2, pollution, water, health and well being, materials, management, surface water run off, ecology and waste’
46. Density – the feasibility studies concluded that to meet planning requirements for the site at Lambourn Road and include the bungalows and recommended mix of unit size the density achieved would be 47 dwellings/hectare. Although this falls below the amber density designation (considerable pressure on housing within the neighbourhood), and density previously advised by the Housing Corporation it allows the units to benefit from the English Partnerships design code and Building for Life standard. In terms of sustainability in communities this will allow households to remain in their homes and live independently for as long as possible as the properties will be adaptable to meet changing needs.
47. Meeting the Building for Life standard adds build costs through the larger floor areas required. However as the rent charged is target rent, the larger unit sizes attract a higher rental value. This will therefore offset the Capital expenditure and will be sufficient to meet the annual management and maintenance costs of the homes.
48. The estimated additional build costs of circa £11k per unit, generates an additional rental of approximately £12.00 per week. The payback period is 25 years and therefore the detail design was progressed on this basis. After this period the additional surplus rent can contribute to the repayment of any outstanding prudential borrowing.

Equalities impact -

49. The new properties are all designed to meet the lifetime homes standard. Wheelchair accessibility is the chosen benchmark for good space requirement throughout the home. This ensures that homes can be adapted to meet the changing needs of people throughout their lifetime.

50. The pre qualification questionnaires were formulated to draw out the companies commitment to training and development opportunities for local people, use of local labour, apprenticeships and up-skilling for Oxford City Homes' staff. The contractor was also required to show they would work within the community and all those invited to tender have shown a history of involvement with local groups.
51. The pre-qualification questionnaire included criteria for equality of opportunity in terms of employment, training and commitment to using a local supply chain.

Project Management -

52. The project Board structure together with an outline of the overall project delivery structure and roles and responsibilities are shown in appendix 3a.
53. A mentor has been appointed from A2 Dominion, a social housing provider with development experience, to "watch over" and advise on various processes for the duration of the project. This includes administering bid information through the HCA's Information Management System, contract procurement and monitoring. The mentor has been attending the monthly board meetings and will take part in contract review meetings, including some site visits.

Level of risk -

54. The risk register for project delivery is attached (Appendix 4a). The main issues are detailed below.
55. The allocation of grant funding and borrowing cannot be drawn down from the HCA if the grant agreement is not signed.
56. Failure to deliver the new build units by the deadline of 31st March 2011 will result in a reduction in the grant payable.
57. The primary risk mitigation measures are the appointment of a project manager experienced in the delivery of social housing, within the context of a sound project management governance structure which includes the RSL mentor. The risks are being mitigated through the NEC3 style of contract, which allows for collaborative and close monitoring of the contract and includes an early warning system for events that may impact on delivery of the contract.
58. The Council is seeking to include a clause in the contract with the contractors under which the Council will be compensated for loss of NAHPG if it is due to a default by the contractors.
59. There is flexibility within the contract to allow for an overrun of up to 8 weeks to the completion date of 31st March 2011.

