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| Individual Mayoral Decision 5th March 2014 |  TOWER HAMLETS |
| Report of: Aman Dalvi, Corporate Director Development & Renewal | Classification: Part Exempt |
| New Homes: Bradwell – Works Contract | |

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|-------------------------------|------------------------------|
| Lead Member | Cllr Rabina Khan |
| Originating Officer(s) | Jackie Odunoye |
| Wards affected | Mile End and Globe Town |
| Community Plan Theme | A Great Place To Live |
| Key Decision? | No |

Executive Summary

In November 2013, Cabinet approved the capital estimate of £2,451,000 for the Bradwell Street development based on a cost plan which was developed for the funding bid of May 2013. Cabinet also delegated to the Corporate Director the authority to enter into negotiations, and undertake procurement activities including the letting of contracts in respect of the development of twelve new homes at the Bradwell Street site.

Following the appointment of the Employer's Agent who provides technical advice and acts as cost consultant to Tower Hamlets Homes, the project costs have been revised. In addition to increased technical costs, the construction market has seen considerable activity over the last year with London seeing an unprecedented property boom. This has resulted in a review of the project costs, which shows a build cost increase exceeding £600,000. The report seeks authorisation for a revised contract value of £2,755,000.

Recommendations:

The Mayor is recommended to:

1. Adopt a revised capital estimate of £3,058,000, to supersede the previous capital estimate of £2,451,000 that was approved in November 2013. This is an increase of £607,000 from the original capital estimate adopted.
2. Approve the transfer of £190,000 from the already adopted capital estimate for the funding of Overcrowding Reduction Initiatives (Cabinet – 8 May 2013). This will be a contribution towards the increased scheme costs arising from the proposed works to make three properties suitable for use by households that include a disabled member with high medical need.

3. Approve the letting of the building works contract, not to exceed the value of £2,755,000.
4. Authorise the Corporate Director - Development & Renewal in consultation with the Mayor to award the building works contract/s
5. Authorise the Corporate Director - Development & Renewal in consultation with the Service Head - Legal Services to agree terms for the contract/s at 4 above
6. Authorise the Service Head Legal Services to execute all necessary documents to implement the decision at 4 above.

1. REASONS FOR THE DECISIONS

- 1.1 The increase of the capital estimate is required to enable the letting of the works contract, the most resource hungry item of expenditure on the scheme. The previous estimates of the cost of construction were based on January 2013 market rates and these have now been updated taking into account current market prices on similar developments.
- 1.2 The appointment of the works contractor is dependent on the budget increase as the contract will bear the price agreed between the contractor and Tower Hamlets Homes. The price will be set within the parameters of the revised budget. The selected contractor, yet to be appointed, has put forward a price which the Technical Adviser / Employer's Agent considers to be appropriate given the size of the development and the development constraints. (See Appendix 1.)
- 1.3 The community centre was requested by residents and had not formed part of the original plans. Its inclusion in the scheme has an impact on project scope as well as project costs.
- 1.4 The costs of additional adaptations for the disabled units are not included in financial models used to assess building costs generally. The actual costs of funding the adaptations for the units such as through floor lifts need to be factored in the delivery.
- 1.5 Cabinet had approved the procurement of contracts within the overall capital estimate of £2,451,000. Due to the reasons outlined above, the price for the works contract element is now in the order of £2,755,000. Authorisation is needed for the works contract to be let to the new threshold.

2. ALTERNATIVE OPTIONS

- 2.1 The option of keeping to the original capital estimate of £2,451,000 would result in a reduction in the number of homes built or in fewer large family homes. This would mean that a report of under-performance would need to be made to the GLA and this would be published in the numbers of new homes coming forward from the London Borough of Tower Hamlets in the Building the Pipeline Supply Scheme. It is likely that such a move would have an adverse impact on the chances of the authority in future funding bids with both the GLA and the government.
- 2.2 Not providing the three wheelchair units would save £190,000. The provision of suitable accommodation for Project 120 applicants was a key consideration in the development of the New Homes project. Not providing the units would result in the removal of a key benefit to LBTH.
- 2.3 Not providing the community centre would save £150,000. Consultation with Longnor Estate residents showed that local residents were minded not to

oppose the scheme when offered a Community Centre on the estate. The removal of the Community Centre from the scheme is likely to result in a lack of support from residents for the development and resident dissatisfaction beyond the construction phase.

- 2.4 Not delivering improvements to the land parcels being gifted to the Council by Network Rail areas would save £52,000. However, this cost is being met by Network Rail who is due to sign a legal agreement to that effect.

3. DETAILS OF REPORT

- 3.1 The estimated construction budget for the build cost of the twelve new Council homes at Bradwell Street has been increased to £2,755,000 to reflect the high specification required by the planners and increased abnormal costs identified. These include diversion of existing underground HV and LV electricity cables and work to an existing sub-station on the site (formal quotations awaited from UKPN). The project also now contains provision for three specialist units for Project 120 clients as required by LBTH. This provision is for the households with a disabled member. Substantial community benefits including the provision of a communal meeting space, allotments, which is outside the boundary of the site and improved play space as well as landscaping are also included.
- 3.2 Cables for the supply of mains electricity have been identified following the early site surveys. The cables are situated at the location where the Community Centre and three flats are due to be built. The energy company has estimated the cost of relocating the cables at £75,000, representing an additional cost to the scheme.
- 3.3 In addition to the relocation of high power cables, the energy company has quoted £40,000 for the connection of the new development to main electricity supply. This is a recent quote which shows the rising demand in the market and the difficulty energy companies are experiencing in meeting that demand.
- 3.4 Network Rail has offered the Council two parcels on land along Bradwell Street to enhance the amenity space of the new homes proposed. Network Rail has no use for the land parcels and is offering a lease of 150 years in exchange for rights being granted to Network Rail and its successors to Bradwell Street. They also require the Council to make improvements to Bradwell Street and they are offering to pay for these improvements.
- 3.4.1. This proposal is of great interest to the Council in developing the new homes. Unable to provide additional amenity space to meet planning policy for the new homes, the offer of the parcels of land offers some mitigation although the land parcels are not part of the planning application. The offer of paying for improvements to Bradwell Street is an additional source of funding that can be put towards improved street lighting, a concern expressed by the planning team.

- 3.4.2. Local residents have requested for some time now that land be made available for allotments on the estate. The offer of Network Rail makes this possible, especially as the land parcels cannot be built on due to their proximity to the rail tracks and the protecting wall. Landscaping the land for the allotments will also be paid for by the Network Rail funds. The creation of the allotments will be an added benefit to the local community.
- 3.5 As stated in the November 2013 Cabinet report, resident consultation has been and continues to be a key outcome of the development. An open day was organised with the architects at hand to answer queries and to take on board suggestions, in particular in connection with the plans for the amenity space, which have been included in the planning application. Renewed consultation will take place in advance of the construction period and regular updates will be provided afterwards. Tower Hamlets Homes staff have met with the Residents Association on several occasions as part of the regular programme of TRA meetings.
- 3.6 During pre-planning consultation with residents, it became clear that many people felt that the local community would have better facilities were they to have on site a Community Centre. The Centre will be run and managed by the local Tenants and Residents Association. Leisure provision is mainly provided by the park at Mile End, which is a long way for older residents. The Community Centre will be capable of hosting leisure activities as well as offer a meeting point for the TRA. The Community Centre had not been included in initial cost appraisals which had focused on the building of the new homes. The costs associated with the Community Centre are £150,000 and need to be added to the initial capital estimate.
- 3.7 The area will be considerably improved for local residents as the antisocial behaviour that prevails behind the garages will be dispersed by the start of the construction and then by the new development which has a frontage onto Bradwell Street, eradicating the hidden areas and improving the lighting. Additional lighting costs need to be added to the original project budget – these are expected to come out of the funding provided by Network Rail.
- 3.8 The development at Bradwell Street presented an opportunity of building homes with built-in facilities for our housing applicants at the top of the Project 120 list of households including a disabled member with high medical need. Working closely with Housing Options and the Occupational Therapists, the requirements of those households was established as being 4 bedroom homes for 7 people. Plans were amended to increase the surface area and the gross building area in order to include the new lay-outs for three of the homes. The benefit of these 3 homes can be assessed in terms of increase in quality of life for these households once they are moved. It can also be assessed in terms of the success of the Council policies being used to meet the most acute needs of our clients. The costs of providing additional wheelchair accessible homes are £190,000.
- 3.9 Following the successful bid to the GLA under the Building the Pipeline Supply Fund, the Bradwell Street infill site has been progressed to the

planning stage. The next stage is the appointment of the contractor in order to set in motion the delivery of the new homes for 2015. The grant awarded by the GLA includes a programme and milestones which need to be met in order to qualify for the grant payment.

- 3.10 In order to start the demolition of the existing garage units, the appointment of the main building contractor is required. Due to the small size of the development, it is recommended to have a single contractor operating on the site undertaking demolition and the construction phases.
- 3.11 An Options Appraisal was undertaken and a number of public sector procurement frameworks were considered including SCAPE and the GLA. Neither of the large frameworks delivered the time-frame needed for the Bradwell Street development. The size of the contract does not require the procurement to follow European procurement regulations. This added to the need to have an appointment made as soon as possible, has guided the procurement strategy of using ConstructionLine framework which includes medium and small building contractors and fits within the Council procurement policies.
- 3.12 The brief and employer requirements for the construction of 12 new homes is suited to a medium size contractor who has the skills, experience, resources and liquidity to sustain a fast pace contract while keeping to stringent conditions of quality, time and budget. The main contractor needs to bring within the team construction staff and equipment, roofing specialists, mechanical and electrical engineers, Sustainable Homes assessors and landscaping designers. A contractor was selected from ConstructionLine who possesses the above characteristics and has considerable experience of working on new affordable homes, carries a good reputation for performance and is reliable.
- 3.13 To ensure value for money, recent tenders for similar projects received by the Employer's Agent in connection with another client, have been used to benchmark the price quoted by the contractor and enable THH to establish that VFM is obtained. A pre-tender cost appraisal was also developed totally separately from the contractor's proposals to enable a comparison.
- 3.14 The pre-tender cost appraisal and the price quoted by the contractor are very close with a variance of £6,792.62. The tender documents included bespoke Employer's Requirements, Planning Application, package of drawings and surveys. The contractor has reviewed the costs and produced a Contract Sum Analysis. The Contractor's Proposals reflect the Employer's Requirement package except where changes have been specifically agreed with the client.
- 3.15 There has been discussion between THH and the BIS (Department – Business, Innovation and Skills) quarterly index of construction costs generally used as a Value for Money benchmark. These indices do not give a benchmark value for money but only shows the % movement of prices. Reference to these indices for a Tower Hamlets housing development base

date 1Q 2014 indicates a forecasted cost /m² of up to £2281/m² for construction costs and an upper quartile of £1,194/m². These figures exclude abnormal, high specification, external works and off site works. The comparable figure for Bradwell Street, when adjusted for the above, is £1,486. m² which falls close to the upper quartile and therefore considering the quality and complexity of the site is considered to be evidence of Value for Money.

- 3.16 The contract sum is £2,755,000 based on a JCT Design and Build Form of Contract 2011 version with contract amendments as provided by LBTH Legal Services. A 10% performance bond which finishes on practical completion will be required from the contractor.
- 3.17 New jobs created as a result of the works contract will be targeted to local people. The contract will deliver opportunities for work placements for job seekers and work experience for students. The guidelines set out in the Councils Procurement Policy Imperatives will apply, including the placing of obligations on contractors to contribute Economic and Community Benefits as part of any winning bid.
- 3.18 Time-table. It is expected that the contract will be signed in March 2014 following the granting of the planning application. The increase in the value of the contract will need to be approved prior to the contract being signed, including the call-in period. The contractor is aware of the challenging time-table the Council is working to and is ready to take possession of the site immediately the contract and legal procedures are in place. Once the contractor has taken possession and demolition has started, LBTH can claim a start on site under the Building the Pipeline Supply funding programme. The Council is set to meet the funding time-frame for the development.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 In November 2013, Cabinet considered the 'New Homes – Bradwell Street' report and adopted a capital estimate of £2,451,000 to deliver the new build scheme. This represented total scheme costs of £2,351,000 plus a contingency of £100,000. Following a combination of cost increases on the scheme and an increased specification of works, this report seeks an increase of £607,000 in the capital estimate adopted, and therefore the adoption of a revised capital estimate of £3,058,000 to supersede that already in place.
- 4.2 The initial funding that was earmarked to finance the original capital estimate of £2,451,000:

| | £ million |
|---|-----------|
| Affordable Housing Measures Capital Reserve | 1.091 |
| Recycled Affordable Housing Resources | 1.000 |
| GLA Pipeline Supply Grant | 0.360 |

The background to these resources is outlined below:

Affordable Housing Measures Funding

As part of the 2011-12 and 2012-13 budget processes, Council earmarked £5.675 million of resources towards the development and progression of various housing initiatives to provide affordable housing units within the borough and projects to alleviate overcrowding. In February 2013 Cabinet approved the allocation of £1.7 million of these resources to finance the refurbishment of eleven of the Authority's short life housing properties leaving an uncommitted balance of £3.975 million.

Recycled Affordable Housing Resources

The Authority historically earmarked funding for a Registered Provider to develop a scheme to provide affordable housing. None of the projects proposed were acceptable to the Council and these funds had been returned to the Authority and were available for reallocation to another project.

GLA Pipeline Supply Grant

This is the grant funding of £30,000 per property that was secured from the GLA in respect of this twelve dwelling scheme.

- 4.3 Capital resources available to finance the increased costs of the scheme are limited, and any proposals must be considered in the context of competing demands from other projects, together with the fact that available resources will be reduced for potential future schemes.
- 4.4 To supplement the resources of £2,451,000 that were previously approved, it is proposed to finance the additional funding requirement of £607,000 as follows:

| | £ million |
|--|-----------|
| Housing Overcrowding Reduction Initiatives | 0.190 |
| Section 106 Resources | 0.150 |
| Housing Revenue Account RCCO | 0.215 |
| Network Rail Contribution | 0.052 |

Further detail on these resources is outlined below:

Housing Overcrowding Reduction Initiatives budget

It is proposed that the additional costs to be incurred to develop the three houses to meet the needs of households including a disabled member with high medical need are met from unallocated resources within the approved budget of £500,000 set aside to finance various overcrowding initiatives that

are designed to release or create family sized dwellings. Utilising these funds will require a reduction of £190,000 in the capital estimate adopted by Cabinet in May 2013, and its inclusion within the revised capital estimate adopted for the Bradwell Street scheme.

Section 106 Resources

Following the resident consultation process for the scheme, it is proposed that a new Community Centre be provided at the site (Paragraph 3.6). Officers are currently investigating the possibility of applying appropriate Section 106 resources to finance the costs of building this facility, which must be approved in accordance with the relevant Planning Contributions Overview Panel processes. If funding is not available from Section 106 resources, this shortfall will become a first call on currently unallocated HRA capital resources, either through borrowing or a revenue contribution.

Housing Revenue Account Revenue Contribution

It is proposed that resources of £215,000 are set aside from within the Housing Revenue Account's 2013/14 Contribution to Capital (RCCO) budget. Due to the slippage of various projects, these funds are unlikely to be utilised during the current financial year, however future year's resources must be adjusted to take account of this element now being applied to the Bradwell Street scheme.

Network Rail Contribution

Network Rail is transferring two parcels of land to the Authority in order that the amenity space in Bradwell Street can be enhanced (see paragraph 3.4). As part of the arrangements the Council will be required to make various environmental improvements to the area for which Network Rail have agreed to contribute £52,000. The cost of these works is included within the capital estimate.

- 4.5 As outlined in the original report, the GLA bid initially proposed that, if necessary, funding would be met from prudential borrowing within the HRA. However, it is preferable for the Council to apply its own resources if possible as this will reduce on-going costs to the Housing Revenue Account and the impact on the Council's debt cap. The Council will therefore retain the scope for future borrowing within the debt limit which will be required to finance the capital requirements of the housing stock over the life of the 30 year business plan.
- 4.6 In order to receive the grant income it is essential that the GLA grant conditions are met, including the specific delivery deadlines. It should be noted that the GLA funding level is fixed, and therefore the Council will continue to be liable for any additional costs if the contract values returned through the proposed framework arrangements are higher than currently anticipated.

- 4.7 The GLA grant is payable on completion and delivery of the full projects. The Council will therefore need to forward fund the costs until the grant can be claimed at the end of the scheme.

5. LEGAL COMMENTS

- 5.1. Local Authorities have a strategic housing role by virtue of a variety of housing, planning and equalities legislation, primarily from the Housing Acts of 1985 and 2004 as amended. This role includes the planning and facilitation of new supply. In exercising that role care has to be taken to fulfil the duties under The Equality Act 2010 and the report details the provisions made for disabled units.
- 5.2. 5.2 The Report details the increase in costs since the estimates were prepared and seeks authority for the additional expenditure and the award of the contract/s.
- 5.3 Section 3 of the Local Government Act 1999 requires best value authorities, including the Council, to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness".
- 5.4 The proposals described above comply with the Council's procurement duties as the value of this contract is below the OJEU limit for works contracts and an approved method of procurement has been conducted namely using Constructionline in order to ensure the grant condition deadlines are achieved.
- 5.3. 5.5 There is urgency in this approval as the contribution to be made by the GLA was conditional on the Council signing a grant agreement which sets out the terms and conditions of the funding. These include payment on completion of the scheme as agreed, delivery in accordance with the agreed timetable and a final practical completion date of 31.3.2018. If the terms and conditions are not met then the grant is repayable.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The New Homes project targets housing applicants who are excluded by virtue of being unable to access the local housing market (either for rent or for sale).
- 6.2 The need to minimize the impact on local residents of the construction activities on the Network Rail student housing development has been raised with Network Rail as these are planned to be on site at the same time as the Bradwell Street development goes on site. Network Rail has agreed to co-operation from an early stage.

- 6.3 Applicants will be from the Council's housing list. The mix of housing is focused on providing large family units and will include a provision of 25% wheelchair units, considerably more than the 10% required by planning. Aids and adaptations will be provided prior to letting, thereby increasing the chances of these dwellings being suitable for the applicants. The Occupational Therapists will be involved in the final specification of the units in order to address the specific needs of the housing applicants.

7. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 7.1 The New Homes will be built to Sustainable Design Standards and will provide energy efficient homes keeping domestic bills low for families. The energy measures considered are expected to meet the *passivhaus* criteria. The scheme will also meet Level 4 of the Code for Sustainable Homes. It is proposed to deliver additional amenity space in the form of land for allotments for local residents.

8. RISK MANAGEMENT IMPLICATIONS

- 8.1. The main risk that exists for the project is project overrun in its programme with the consequence that it incurs higher costs and does not meet the completion timescale agreed with the funders. The key consideration for the funding is the expectation from the GLA that the programme will assist house building in London and that it will be delivered in time to help both the London economy and the acute housing need. This will be mitigated through robust project and contract management, focusing particular clienting attention on key stages in the delivery process and putting systems in place to track progress, identifying any issues as early as possible and remaining solution focused. LBTH - D&R Housing will hold regular project meetings to monitor the expenditure against milestone and assisting in resolving issues.

9. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 9.1 The project will have a focus on delivering Sustainable Communities and will work with resident groups to address safety and security issues through good design and adopting recognised standards such as Secure By Design. Views of neighbouring residents who may be affected by the new developments will be taken into account and design solutions found wherever possible to deal with their concerns.
- 9.2 The proposed Community space will play a key role in helping to create Sustainable Communities and help prevent crime and disorder through diversionary activities as well as natural surveillance. The new homes will add to the existing local homes and it is envisaged that the existing Tenants and Residents Associations will welcome the new residents in their fold.

10. EFFICIENCY STATEMENT

- 10.1 The homes will be built to sustainable design standards, thereby reducing the running costs such as energy bills for the residents.
- 10.2 The resources utilised for the delivery of the New Homes scheme at Bradwell Street include a grant from the GLA. The grant element to the scheme from the Mayor of London is £360,000.
- 10.3 It is expected that Network Rail will pay a sum of money for rights to Bradwell Street; the same transaction will include the transfer of assets to LBTH in the form of land parcels. The money will be used towards additional landscaping work, improved lighting to Bradwell Street, and road improvements to Bradwell Street. These improvements are being made at no cost to the Council.
- 10.4 The properties when built will be a source of rental income for the next 30 years or longer.

Linked Reports, Appendices and Background Documents

Linked Report

- November 2013 Cabinet Report **New Homes: Bradwell**

Appendices

- Appendix 1 – Bradwell Costs
- Appendix 2 - Appointment of the Works Contractor (exempt as per FP1)

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- NONE

Officer contact details for documents:

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Originating Officers and Contact Details

| Name | Title | Contact for information |
|------------------|----------------------------|---|
| Geeta Le Tissier | Strategic Projects Manager | Ext 6094 Geeta.LeTissier@towerhamlets.gov.uk |
| John Coker | Housing Strategy Manager | Ext 3782 John.Coker@towerhamlets.gov.uk |
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BRADWELL STREET**APPENDIX 1**

Feb-14

Build Cost for**12 New Build Houses and Flats**

| | sq m | £/sq m | £ |
|---|--------|--------|---------------------|
| May 2013 Estimated Construction Costs | 1409.4 | 1453 | 2,048,000.00 |
| Adjustment to basic costs to reflect current market conditions | | 5% | 103,000.00 |
| Planning submission drawings GIA increased to reflect clients brief | 77 | 1598 | 123,000.00 |
| Project specification increased to reflect planners requirements and THH design aspirations | 1486 | 70 | 104,000.00 |
| Revised Estimate | | | 2,378,000.00 |

Abnormal Costs to be added to cost estimate

| | £ |
|--|---------------------|
| Carefully demolish around the existing electrical chamber and reinst: | 25000.00 |
| Provisional allowance for contamination removal | 10000.00 |
| Tile hanging to areas of external walls | 16000.00 |
| Iroko hardwood doors, screens and pergolas etc. | 10000.00 |
| Staircase screen design | 5000.00 |
| Projecting windows etc | 2000.00 |
| Secondary Glazing to Rail elevations | 10000.00 |
| Additional work to Network Rail areas | 12000.00 |
| Surface Water attenuation | 5000.00 |
| Diversion of existing electricity mains | 75000.00 |
| Increased Allowance for new electricity connections (based on UKPN | 40000.00 |
| External Lighting to Bradwell Street | 10000.00 |
| Increased allowance for quality of materials used for garden enclosure | 20000.00 |
| Specialist kitchens, bathroom and extra fittings | 35000.00 |
| Provision of through floor lifts | 30000.00 |
| Increased off site external landscaping | 30000.00 |
| Total Abnormal Costs | 335,000.00 |
| Sub-Total | 2,713,000.00 |
| Contingency | 42,000.00 |
| Revised Build Cost | 2,755,000.00 |
| Fees | 303,000.00 |
| | 3,058,000.00 |

| | |
|---------------------------------------|---------------------|
| November 2013 Capital Estimate | 2,451,000.00 |
| Add Increase in Works Cost | 607,000.00 |
| February 2014 Capital Estimate | 3,058,000.00 |

