

Cabinet

7 March 2017



Report Title: Development of new homes at Alderman Moores, Ashton Vale

Ward: Bedminster

Strategic Director: Alison Comley, Strategic Director Neighbourhoods

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Purpose of the report:

To seek cabinet approval to the principle of a mixed tenure new housing development at the Alderman Moores site in Ashton Vale and the procurement of contractor to produce an updated feasibility study and undertake pre-construction work to achieve Planning Permission on the site. The decision to enter into a construction contract for development of the site will be the subject of a further Cabinet report when a definitive plan with clear, fixed costs will be available.

Recommendation for the Mayor's approval:

1. To approve the principle of a new housing development at Alderman Moores site in Ashton Vale for approximately 140 new mixed tenure homes.
2. To approve the procurement of a contractor to undertake initial work in preparation for the development of the Alderman Moores site
3. To delegate authority to the Strategic Director for Neighbourhoods, in consultation with the Service Director Finance, to appoint a contractor to undertake the work required to submit a Planning application
4. To bring back a further report for a key decision seeking approval to enter into a construction contract following the achievement of Planning consent for the site and agreement of the final financial commitments of the proposed scheme.



The proposal:

Background

1. Housing (Council housing/Housing Revenue Account) currently has Cabinet approval for Phases 1 and 2 of a council new build programme for the construction of new council homes. These phases will complete during the 2018/19 financial year. These new homes form part of the plans of the City Council to increase the supply of new homes in the city, and in particular to help address the need for additional affordable homes.
2. These new council homes are being built to help tackle some of the most acute housing needs, including larger homes to help alleviate overcrowding issues in central wards, to provide downsizing opportunities for those being affected by the changes to welfare benefits and also to assist with tackling homelessness in the City.
3. The current programme will see around 140 new council homes built by the end of the 2018/19 financial year, across 19 sites, all funded through the HRA. The next proposed phase of this new build council housing programme is the development of the Alderman Moores site in Ashton Vale. (See appendix 1 – site location plan).
4. The Cabinet Member for Homes has been briefed on the proposals for this next phase of HRA development at the Alderman Moores site and has given his support to the outline proposal which now requires the appointment of a contractor/ partner to progress delivery of this proposal.

Initial Feasibility Study

5. To provide confidence that the proposed development of Alderman Moores can be achieved and can be contained within the HRA resources available, an initial detailed and comprehensive feasibility study has been undertaken over the last 8 months.
6. In order to ensure that the feasibility was as accurate and comprehensive as possible The HRA Development Team employed a range of external specialist consultants. This included Architects, Quantity Surveyors, Property and Land Consultants, Landscape Architects, Civil and Structural Engineers, Ecologists, and Mechanical & Electrical Specialists. The team carried out a number of studies and surveys of the site, including all legal searches and ownership clarifications, ecological investigations and clearances, arboricultural and tree surveys, archaeology, ground investigations and topographical investigations, utility services and drainage surveys. This work then allowed the consultants to produce a series of options for the development including access requirements, which were informally discussed with Planning and Highways, and led to establishing the principles of the development, its massing and density along with the main Highway constraints to produce a scheme which is acceptable and appropriate for the site.
7. The proposed scheme have been rigorously costed by the Quantity Surveyors to produce an accurate indication of the costs of development for the new housing, all of the infrastructure including access and site abnormalities, an allowance for community infrastructure requirements, CIL, and a construction contingency sum. Additionally, the costs of sales and marketing, legal costs and other associated fees have been added bringing the forecast cost of the development to £23m. Given the scale of this development we have also included a further overall 10% contingency sum (in addition to a 5% construction contingency sum already included), bringing the total forecast cost of the development to £25m.

8. Market research was undertaken by the property and land consultants to ascertain the likely sales values and figures based on the proposed layouts and provide the costs required for the sales and marketing aspects to the project and has given the forecast sales revenue to be £21m.

9. Whilst these figures have given us the confidence that the scheme is viable to the Council, they are a feasibility based on our consultants' views. The next stage is to ask our proposed contractor to clarify the feasibility, from their own expertise and their own supply chain, and provide to us a free of charge updated feasibility (see Procurement section - Stage 1 below)

10. The site is actually land locked. It is bordered by the new MetroBus route to the North West. The Bristol to Portishead railway line runs along the North East of the site and an area of the development site has been set aside for the future provision of a possible new railway station. Statutory allotments border the South East of the site. The remaining South West side of the site is bordered by Silbury Road; access is being proposed through this area.

11. Access to the site currently remains a risk to the development and will require more detailed work. Currently there are three options being investigated and all require an element of negotiation and dialogue, with both internal and external stakeholders. Provisional costs for access have been included within the feasibility report but we will now carry out more detailed work on the options in parallel with the work required to obtain a satisfactory Planning consent as part of Stage 2 of the Scape process referred to in the Procurement section below.

The proposed development

12. The Alderman Moores site is owned by the council and held within the control of the HRA. The proposal for the development of the site is a mixed tenure development of around 140 new homes. The scheme will go beyond Planning compliant (30% affordable homes) to achieve a level of 40% affordable homes which will all be social rented council homes. The remainder of the new homes constructed will be sold, the proceeds being reinvested to support the funding of the construction of new council homes. Agreement of this approach is sought in Recommendation 1.

13. The likely total gross costs of this development based on the detailed feasibility study that has been completed will be in the region of £25m. The net cost to the HRA is estimated at £4m after receipt of proceeds from the sale of some of the homes. The costs of the project can be met from the HRA with the use of Additional Right to Buy receipts and HRA capital and revenue funding and has been accounted for in the HRA Business Plan, which was considered and approved by Cabinet on 30th January 2017 and considered by Full Council on 21st February 2017.

14. The next stage is to procure a contractor to work with the HRA's Development team to deliver the new homes. The procurement of the contractor will be a staged process, with decision gateways where the Council could decide not to proceed. Commencement of the procurement is sought in Recommendation 2.

The final decision to proceed to construction of homes at the site will be subject to a further report seeking a key decision for approval

Procurement Approach

15. The proposal for the procurement approach for this development is to use Scape procurement framework. The Scape framework is a national framework used by affiliated Local Authorities to carry our major construction projects, such as education and residential development. The process is OJEU compliant and is approved in accordance with the Councils Procurement Rules.

16. The Scape process includes three stages and two gateways. This approach helps to mitigate risk and give financial confidence to the Council by providing points at which the viability of the development can be reassessed with more accurate figures and the decision can be made as to whether to proceed.

17. Stage 1 of the Scape process is for the contractor to undertake an updated feasibility study– this is carried out at nil cost to the council. The work is carried out at risk to the contractor and results in a detailed proposal from them including the cost of build, and the cost of pre-construction works to obtain a satisfactory Planning consent. This leads to **Gateway 1** – and at this stage, if the outcome of the updated feasibility is not acceptable to the Council, we could proceed no further.

18. Stage 2 of the Scape process is to appoint the contractor and place a Project Order. If the feasibility proposal is accepted and agreed by both parties, a Project Order will be raised. The Project Order is in two parts, one is the fee paid to the contractor for their services and in reality pays for some of the work already undertaken during feasibility and also for the work required to take the scheme through the Planning submission process. The second part is the fees and costs associated with all surveys and works required as part of the Planning requirements (ecological, ground investigations, etc.). The fee for this Stage 2 work is around 2% of the total build cost, so likely to be in the region of £420K, of which only 90% is payable at this stage. The outcome of this expenditure is we will have full Planning consent.

19. The decision to move to Stage 2 will be made under delegated authority by the Strategic Director for Neighbourhoods in consultation with the Service Director Finance (see Recommendation 3).

20. Once satisfactory Planning consent has been obtained, the scheme is revaluated and accurate costs for the development will be provided by the contractor. If the accurately costed proposal meets the original requirements of the client, then the scheme passes **Gateway 2** and a Delivery Agreement is raised for the construction phase (Stage 3).

21. The decision as to whether to proceed to Stage 3 will be the subject of a further Cabinet report. The Cabinet report will contain definite plans for the site (with the benefit of greater certainty having achieved Planning consent) and fixed costs meaning a better informed decision can be as to whether to proceed to construction phase. This report is anticipated to be ready for the December 2017 Cabinet meeting (see Recommendation 4).

22. The Delivery Agreement costs include the final fee to the contractor for managing the works, the construction costs and the sales and marketing fees (plus the 10% balance of the Stage 2 fee, estimated at £42,000 as set out above). The cost figures provided are a fixed sum contract – giving the Council financial certainty - and will only change if we change our requirements. After the delivery agreement is signed any unforeseen works and costs incurred during the construction phase sit with the contractor.

23. We will encourage our chosen contractor to maximise the use of local and internal workforce and the opportunities for apprenticeships, including ring-fenced apprenticeships for Bristol Care Leavers as part of their Corporate Parenting responsibility as part of the construction phase

24. Throughout the pre planning process and from the appointment of the Contractor to delivery stage of the project, we will commence all necessary public and stakeholder consultation. This will be in excess of, and in addition to, the requirements of the Planning process, and will ensure that as many of the key stakeholders can work with us to shape the development of the new estate in their area.

25. The preferred approach for the procurement strategy is to secure a contractor through the use of the Scape Framework as set out above. However, if this approach at any stage is not continued (i.e. the Gateway identifies that the process should cease) then we could use another form of EU compliant procurement process and comply with the Council's Procurement Rules and Financial Regulations

Financial Issues

26. Based on the robust feasibility study already undertaken, it is estimated that the gross capital expenditure for this scheme would be £25m over the life of the project (2017- 2021), with the peak outlay estimated at £10m in any one financial year. The report sets out a set of financial estimates for the development based on 140 homes, 60% to be sold with the receipts from those sales subsidising the construction cost of the 40% to be retained as Council homes. The estimated £25m cost of developing the scheme can be funded by a combination of HRA investment and reserves along with the use of additional right to buy receipts. It is forecast to generate capital receipts from sale of homes of £21m. Therefore the net cost of the development would be £4m.

27. Pre-construction expenditure on the site will be incurred in 2017/18, this will cover the cost of the works required to achieve Planning permission (see paragraph 18) together with site enabling works (e.g. dealing with ecology issues or creating a temporary access to the site). A budget of up to £1m has been allowed within the HRA capital programme for 2017/18 for this purpose.

28. Based on the current feasibility study, the first major construction capital outlay for the scheme by the HRA will be in 2018/19 and it is anticipated that the income stream from the sale of the homes will commence in month 14 of the scheme (financial Year 2019/20). The actual details of the cash flow forecasting along with the final financial modelling of the scheme will be finalised as the project goes through the Planning process and a final detailed financial model and cash flow will be prepared as part of the Cabinet report for approval to move to the construction phase (see Recommendation 4.).

29. Additional Right to Buy receipts can be used to fund 30% of the costs of developing new affordable homes, if not used for this purpose these receipts must be repaid to government. Approximately £2m of Additional Right to Buy receipts could be used to fund this development.

30. Budgets for Housing Services are approved at Cabinet and Full Council as part of the Council's annual budget report. The expenditure for the initial stage of this development (including the cost of pre-construction fees and surveys required to support a planning application) is included within the 2017/18 HRA budget, the remaining costs of the scheme have been included in the 30-year HRA business plan, and considered by Full Council 21 February 2017.

Consultation and scrutiny input:

b. Internal consultation:

31 Procurement and Legal teams have commented on the use of the Scape framework for the procurement approach.

- 32 Planning and Highways have been involved with the works already carried out on the feasibility report
- 33 Initial discussions have been held with the Placement Service Provision Manager – People with regards to the Children’s home at the edge of the proposed site in order to unlock the access to the site, which is one of the options that is being explored in relation to removing the risk to the development of the site being landlocked.

b. External consultation:

- 34 As previously referenced, an extensive feasibility study has been carried out by external consultants, which has identified the relevant stakeholders that will need to be communicated with as this scheme is progressed. These will include local residents, allotment group, the community centre, the Metro bus team and the MetroWest railway team with regards to a proposed new railway station along one edge of the proposed development site.
- 35 A ward member briefing note and an initial information letter about the proposal to bring this site forward for development have been sent out. A more detailed and comprehensive public consultation will take place once the preferred contractor partner is appointed. Further full consultation will also take prior to any planning application being submitted.

Other options considered:

- 36 No other option considered the residential development for this site as the site has been identified for Housing Development in the Local Plan. As part of the feasibility study a range of mixes of housing / tenure were considered and the proposed mix (60% private / 40% council) delivered the best balance of value for money and maximising affordable housing.

Risk management / assessment:

FIGURE 1							
The risks associated with the implementation of the (subject) decision :							
No.	RISK Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES Mitigation (ie controls) and Evaluation (ie effectiveness of mitigation).	CURRENT RISK (After controls)		RISK OWNER
		Impact	Probability		Impact	Probability	
1	Failure to procure suitable D&B contractor	High	Low	Various procurement routes to be explored, with the use of an Existing framework appropriate and available	Medium	Low	Martyn Pursey/Procurement
2	Failure to obtain Planning Consent	High	Low	Detailed discussions already held during Feasibility stage, and full pre- app discussions to take place prior to any application being submitted to ensure consent obtained	Medium	Low	Martyn Pursey/D&B contractor /Planning
3	Access to the site not achieved	High	Medium	Further work required around the access options required. There are three alternatives and each have varying degrees of impact on the local community and will require further negotiations once Cabinet approval is confirmed	High	Low	Martyn Pursey/Peter Quantick
4	The cost of construction is higher than the estimated sums	High	Medium	The preferred procurement route results in a fixed sum contract.	High	Low	HRA Development Team

5	The Estimated Sales figures do not achieve the predicted level	High	Low	Partnership working with our partner to monitor sales values and to incentivise them to achieve above required levels	High	Low	Peter Quantick
6	The required Design standards are not met	High	Low	Partnership working, close liaison over the specification and contract requirements	Medium	Low	HRA Development team
7	The risk of the market crashing/declining	Medium	Medium	Could look to flip the units to Affordable housing	medium	Low	HRA development team/Peter Quantick
8	We act as the Developer, so would be responsible for any Risks in the same way as any other developer	High	Medium	Will closely monitor the quality of the development and associated costs and risk as they are identified.	High	Medium	HRA Development team
9	Challenge to the delivery model being employed	High	Medium	Securing specialist legal advice	Medium	Low	HRA Development team

FIGURE 2

The risks associated with not implementing the *(subject)* decision:

No.	RISK Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES Mitigation (ie controls) and Evaluation (ie effectiveness of	CURRENT RISK (After controls)		RISK OWNER
		Impact	Probability		Impact	Probability	
1	Site will not be developed will mean a loss of around 140 new homes in the city	High	High	Cabinet approval to procure preferred D&B contractor	High	Low	Martyn Pursey
2	Impact on the Right to Buy funding held by the HRA not being spent and returned to the Government	High	High	Cabinet approval to procure preferred D&B contractor will allow us to spend the required sums	High	Low	

Public sector equality duties:

37 Equalities Impact Assessment is included at appendix 2

38 Equalities will be part of the procurement process and managed throughout the contract. The equality impact assessment highlighted those individuals with protected characteristics and who need to be communicated with at an earlier stage of the proposal. It is a contractual requirement that the contractor must have a risk assessment in place identifying how protected communities will be affected, and must provide clear information to stakeholders and deal with personal concerns and queries on a one to one basis.

Eco impact assessment

39 ECO assessment is included at appendix 3

40 The significant impacts of this proposal are...
The use of raw materials, production of waste and consumption of fossil fuels for travel etc.

41 The proposals include the following measures to mitigate the impacts:

- Where possible, works will be scheduled to co-inside with any other external works required, so as to minimise disruption and nuisance.
- The procurement process for appointing contractor(s) will include a sustainability assessment, and specific contractual requirements as appropriate.

- Insulation standards to building regulations will be achieved.
- The chosen contractor(s) will demonstrate compliance with the waste hierarchy by:
 - Preparing and adhering to Site Waste Management Plans.
 - Reducing waste e.g. through effective material storage
 - Reusing waste e.g. reuse of off-cuts.
 - Recycling as much waste as possible and using readily recyclable products.
 - Avoiding landfill wherever possible.

42 Contractors will complete an Environmental Method Statement describing how they will mitigate the environmental impacts. This will form part of their contractual obligations.

43 The net effects of the proposals are:
The proposal will ensure the building fabric are maintained and water tight, along with improving thermal efficiency within the loft. This should lead to a positive environmental impact.

Resource and legal implications:

Finance

a. Financial (revenue) implications:

44 There is an assumed rental stream from the new council homes to the HRA estimated at £267,296 per annum from year 2019/20 based on 40% of the new homes being built being retained by the Council. There is also an assumed ongoing revenue cost of maintenance estimated at £73,080 per annum.

45 The revenue contribution to capital is set out in the Financial (Capital) implications below.

Advice given by Robin Poole / Finance Business Partner

Date 02/12/2016

b. Financial (capital) implications:

46 The report sets out a set of financial estimates for the development based on 140 homes, 60% to be for sale and 40% to be retained as Council homes. The cost of developing the scheme is estimated to require capital expenditure of £25m funded by a combination of reserves, revenue contribution and useable right to buy receipts. It is estimated to generate capital receipts from sale of the homes of £21m. The profile of the expenditure and income assumed in the HRA capital budget for 2017/18 and the long-term HRA business plan, considered at Full Council 21st February 2017, is set out in the table below.

Table 1: Profile of expenditure and income assumed in the HRA budget for 2017/18 and the long term business plan for the Alderman Moores development

	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	Total £000s
Revenue Contribution to Capital	500	-	-	-	-	500
HRA Reserves	-	9,500	8,500	4,500	-	22,500
Useable right to buy receipts currently held in reserves*	500	500	500	500	-	2,000
Total Capital Expenditure	1,000	10,000	9,000	5,000	-	25,000

Capital Receipts	-	-	(8,000)	(10,000)	(3,000)	(21,000)*
Net Position	1,000	10,000	1,000	(5,000)	(3,000)	4,000

*useable right to buy receipts have been pro-rated across the development at this stage, the amount currently held in reserves is £11.9m and the estimate for these receipts at the start of 2017/18 is £25m.

47a The cost of pre-construction fees and surveys required to support a Planning application are intended to be met by the £1m budget proposed for 2017/18. The financial estimate of the development cost also includes:

- The provisional cost of the options for site access; and
- Provision for community infrastructure levy (CIL).

47b Taking into account the projected capital costs, income from sales of £21m and ongoing revenue implications as set out above, the project IRR over 30 years is estimated at 3.44%, which can be compared with the Council’s cost of borrowing over this period of approximately 3% to 4% (as a proxy for the Council’s cost of capital). This indicates the fragility of the financial acceptability of the project based on current estimates and with little tolerance given the project risks (e.g. sales values). This will be further reviewed including undertaking sensitivities to support the delegated authorities being sought by this report.

48 The sale values, construction costs and timings may vary from the figures set out above as more detailed investigations and negotiations take place with the selected contractor, the scheme is re-evaluated and the sale proceeds are realised. The report therefore seeks approval for the Strategic Director of Neighbourhoods in consultation with the Service Director Finance to: commence the work required to make a planning application upon review of an updated feasibility study; and agree the final financial commitments of the proposed scheme following the achievement of a planning consent for the site and enter the construction contract.

Advice given by **Robin Poole / Finance Business Partner**
Date **09/02/2017**

Comments from the Corporate Capital Programme Board:

49 Not Applicable

c. Legal implications:

50 S.9 of the Housing Act 1985 (“the Act”) provides that a local housing authority may provide housing accommodation by erecting houses on land acquired by them for the purposes of providing housing accommodation. No restrictions are placed on the type of tenure that must be used when the Council decides to provide housing under this power, or indeed whether the Council must retain ownership of the completed units. By relying on Section 9 the Council will not, even in connection with the houses being built for sale, be engaged in a commercial activity, and so is not required to act through a company, regardless of the intention to generate a profit from the market sales.

51 Furthermore, S.32(1) of the 1985 Act gives local authorities power to dispose of land held by them for the purposes of providing housing accommodation (under Part 2 of the 1985 Act), in any manner, provided the land is not subject to “Right to Buy” rights. Although this power is subject to consent from the relevant Secretary of State, he has issued a general consent: the General Housing Consents

2013. The Consents (at paragraph A.3.1.1) provide that a local authority may dispose of such land, (which includes dwelling houses, houses and flats), for a consideration equal to its market value.

52 The Council therefore has the power to develop the site as proposed and sell a proportion of the units at market value in order to subsidise the social housing units.

53 By virtue of S.12 of the Local Government Act 2003 the Council has the power to invest for any purpose relevant to its functions. Bristol would be able to rely on this provision to invest to erect dwelling houses and dispose of them at market value

54 New homes for sale are required to have the benefit of a suitable building warranty. The council's contract specification will require the Contractor to procure quotations from reputable warranty providers (e.g. NHBC Buildmark and/or Buildmark Choice and/or Buildmark Connect/LABC New Homes Warranty) for appropriate warranties for consideration and determination by the Council.

Advice given by Eric Andrews, Team Leader Corporate, Legal Services
Date 20/1/2017

d. Land / property implications:

55 Property advice has been provided to the Housing Team and the initial full feasibility study indicates the development is viable and should achieve the housing numbers detailed in the report. Property has also advised on the structure of the relationship with the proposed contractor to maximise open market sales and minimise build cost. The development will contribute to meeting the Core Strategy minimum target of providing 26,400 new homes in the period 2006-2026. Property advice will continue to be provided.

Advice given by Robert Orrett / Senior Director Property
Date 11/11/2016

e. Human resources implications:

56 Whilst this proposal is related to procurement strategy and the development of new homes, the service will encourage the chosen partner to look at maximising the use of local and BCC workforce, as well as opportunities for Apprenticeships.

Advice given by Sandra Farquharson / HR Business Partner Neighbourhoods
Date 1/11/2016

Appendices:

Appendix 1 – Location Plan

Appendix 2 – Equalities Impact Assessment

Appendix 3 – ECO Assessment

Access to information (background papers):

Not Applicable