

EXECUTIVE

15th September 2022

Report Title	Cannock Road Housing Development- Budget Amendment and Procurement Strategy
Report Author	David Watts, Executive Director for Adults, Communities and Wellbeing
Lead Member	Cllr Matt Binley, Executive Member for Housing, Communities and Levelling Up.

Key Decision	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Are there public sector equality duty implications?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information (whether in appendices or not)?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Applicable paragraph number/s for exemption from publication under Schedule 12A Local Government Act 1972	Appx A & B Paragraphs 1&2

List of Appendices

- Appendix A-** Cannock Road Cost Plan (**Exempt**)
- Appendix B-** Cannock Road Risk Register Plan (**Exempt**)
- Appendix C-** Cannock Road Site Plan
- Appendix D-** Cannock Road Layouts

1. Purpose of Report

- 1.1. To seek approval to amend the project budget for the Cannock Road, Corby housing development following a full review of the project, cost plan and risk register.
- 1.2. To seek approval to procure a principal contractor via an open tender process.
- 1.3. To seek delegation of authority to the Executive Member for Housing, Communities and Levelling up, in consultation with the Executive Director for Adults Communities and Wellbeing, to take any further decisions/actions to

conclude the procurement and deliver the project without the need to return to the Executive.

2. Executive Summary

- 2.1. The Cannock Road housing development is a scheme to convert a vacant commercial building into five new council homes in Corby.
- 2.2. This project forms part of the housing development programme contained within the Housing Revenue Account (HRA) Capital Programme and the homes developed will be owned, managed, and maintained by the Council as part of its portfolio of HRA properties (otherwise known as 'Council housing').
- 2.3. The capital costs of the project are covered over the longer-term by the rental income collected from the completed properties once occupied.
- 2.4. Initial approval for this scheme was obtained from Corby Borough Council in 2019 and a contract awarded in 2020 for the construction of the homes. In May 2021 the appointed contractor went into liquidation, leaving a partly demolished building and no principal contractor to deliver the project.
- 2.5. The development includes homes specially designed to be accessible for disabled people, including a three bed home specifically designed for a family in need who will be referred to as 'Family A' throughout this report for confidentiality reasons.
- 2.6. A budget increase was agreed by Executive in September 2021 and approval given to appoint a new contractor via a direct award framework.
- 2.7. A new Interim Strategic Lead for Housing Development and Enabling was appointed in September 2021. As a result of this appointment all existing HRA housing development projects were reviewed. For Cannock Road, the review identified that the approved budget was likely to be insufficient and so an increase is required from a budget of £1,036,107 to £1,490,000.
- 2.8. Due to the budget increase required, it has also been determined that the most appropriate procurement method for the works contract would be a full open tender process as it allows a higher degree of competition, opening the opportunity to a larger number of contractors and allowing closer scrutiny of contractor quality. This will ensure that value for money is achieved.
- 2.9. This report seeks approval to amend the project budget. It also seeks approval to procure a principal contractor via a full open tender process.

3. Recommendations

- 3.1. It is recommended that the Executive recommends that Full Council

- a) Approves that the budget for the Cannock Road project be increased to £1,490,000
- b) Approves the proposal to procure the project via a competitive open tender
- c) Delegates authority to the Executive Member for Housing, Communities and Levelling Up in consultation with the Executive Director for Adults Communities and Wellbeing to take any decisions necessary to complete the project without the need to return to Executive.

3.2. Reasons for Recommendations:

- To enable the delivery of the Cannock Road development, which has been paused since May 2021 and ongoing since 2018.
- To bring a redundant brownfield site in a residential area, which is currently partly demolished, back into use.
- To increase the supply of affordable rented housing available in North Northamptonshire, which meets the corporate objective of enabling safe and thriving places.
- To increase the supply of housing suitable for disabled people, which meets the corporate objective of helping people to live healthier, more active and fulfilled lives in North Northamptonshire.

3.3. Alternative Options Considered-

- Do nothing- this was discounted because it would not deliver any of the objectives set by the Council and would not deliver additional housing.
- Cease the development and sell the site- this was discounted because the site is required by the Council to deliver its existing programme of housing development, increase the supply of affordable housing and housing suitable for people with disabilities and enable spend of Right to Buy Receipts, which would otherwise have to be returned to the Government.
- Further pause the development and redesign the scheme to achieve lower per unit costs/increase rental income- this was discounted because it would not allow the provision of additional housing suitable for disabled people and would deny Family A the only feasible option of suitable housing. Family A were allocated this property in 2018 and have been waiting for the development to be delivered since that time. It would also require the project to be restarted as a new planning application would be required and all spend to date would be abortive cost.

4. Report Background

- 4.1. This project forms part of the housing development programme contained within the Housing Revenue Account (HRA) Capital Programme and the homes

developed will be owned, managed, and maintained by the Council as part of its portfolio of HRA properties (otherwise known as 'Council housing').

- 4.2. The capital costs of the project are covered over the longer-term by the rental income collected from the completed properties once occupied.
- 4.3. Following the approval of the project by the former Corby Borough Council, the scheme was tendered and awarded to Cafos Ltd. who commenced work on site in December 2020.
- 4.4. The development was designed to include properties which would be suitable for disabled people. All five homes are ground floor, accessible properties and one home (a three bed, fully wheelchair accessible home) was specifically designed for Family A who are existing tenants of the Council. This family are currently living in an unsuitable property with no alternative suitable options available to them and it is not possible to adapt their current home to fully meet their needs. One member of this family has a life-limiting illness and requires significant care and specialist equipment which cannot be properly accommodated within their existing home. Family A have been waiting for their new home at Cannock Road since 2018.
- 4.5. In May 2021 work on site ceased due to Cafos Ltd. going into liquidation and leaving the project without a principal contractor.
- 4.6. A report on the project was presented to the Executive in September 2021. The report explained the above, recommended approval be given to uplift the project budget from £847,000 to £1,036,107 and recommended approval to appoint a principal contractor via a direct award procurement framework on the basis that this would be the fastest way to appoint a new contractor for the development.
- 4.7. In September 2021, to prepare for combining the two previously separate development programmes for Kettering and Corby, a review was carried out of all identified development projects to assess deliverability, appropriate budget provision and project risks.
- 4.8. For Cannock Road, it was identified that the cost plan upon which the budget was based did not appear to fully consider the specific risks relating to the project. It also became clear that build costs were rising rapidly because of inflation. In the construction industry this inflation is the combined result of supply issues, rising costs of materials and increasing competition for labour and sub-contractors. The previous cost plan did not allow for inflation.
- 4.9. In January 2022, Gleeds Cost Management Ltd. (part of the Perfect Circle Joint Venture) were appointed via the SCAPE public sector procurement framework, to carry out a more in-depth review of the project, including providing a new cost plan and risk register in consultation with the Strategic Lead. This review has identified that the allocated budget is unlikely to be sufficient when all risks are considered. The decision was therefore made not to continue with appointing a principal contractor until a further decision is made by Executive to increase the budget for this project. Continuing the project knowing that there was already a significant risk of a budget overspend was considered an

unacceptable risk and therefore required further approval from the Executive to proceed.

- 4.10. The updated cost plan (attached as **Appendix A**) identifies that a budget of £1,490,000 is required to ensure that the project can be delivered to completion. This report seeks approval to increase the budget to this amount from the £1,036,107 previously approved, an increase of £453,893.
- 4.11. There is sufficient money available within the HRA housing development capital budget to fund this increase and therefore no additional borrowing would be required within the HRA. 40% of the total cost of the development (£596,000) will be funded by Right to Buy Receipts, which is money collected from the sale of other council homes to tenants who exercise their Right to Buy.
- 4.12. The additional budget will be vired from an existing budget allocated for a project called Hidden Homes 2 in the Corby area. This project has not been commenced as it is planned to develop proposals for a wider regeneration project within the same area (including the area where this project is located) and so a new business case, project plan, budgets and approvals will be required in due course for the wider project.
- 4.13. Due to the cumulative value of the current budget increase with the previously approved increase of £189,107, this decision will need to be made by Full Council in accordance with the Council's Constitution.
- 4.14. It is important to note that the increased budget allows for the entire cost of the development, including previous abortive costs, all statutory and planning fees, surveys, design fees, professional fees, and the estimated cost for the construction work. The risk register also identifies the specific risks and quantifies the level of contingency required to allow for those risks within the overall budget. Any risk/contingency money which is not required at the conclusion of the project will be returned into the overall capital housing development budget to be spent on other projects.
- 4.15. Considering the increased budget requirement, it is prudent to now recommend seeking a principal contractor via a full open tender process, rather than via a direct award framework. A full competitive tender is considered the best test of the current contractor market as it allows any interested contractor to tender for the project and is the best way to demonstrate that value for money has been achieved. It will also allow closer scrutiny by officers of the Council over issues relating to quality control, use of local sub-contractors and labour, Health and Safety procedures and environmental sustainability standards which are all important to the successful delivery of this project.

5. Issues and Choices

- 5.1. Several options were considered in formulating the recommendations contained within this report. An issue of relevance to the recommended decision is the specialist home which was specifically designed for Family A within the

Cannock Road development. This home is a three-bedroom property which is fully accessible to a specialist wheelchair user, provides accessible sleeping, eating, and bathing facilities and allows independence for all members of the household. Any decision to redesign the scheme or cease the development would either significantly delay or completely remove the only suitable housing option which currently exists for this family. Some minor adaptations are being carried out to Family A's current home to improve its accessibility whilst they await the progress of this development, but it is not possible to fully meet their needs and the recommendations of Occupational Therapists and health professionals within the current home.

5.2. If the full budget allocated is expended, the cost per unit for this development is high (£298,000 per unit). It is important to note however that there are several reasons for this including:

- The specialist nature of the homes being constructed. Two of the homes are being built to be fully wheelchair accessible, including the larger three bed home for Family A.
- The development involves the part demolition, refurbishment, and extension of an existing building. This is usually a more expensive option than full demolition and rebuild.
- There have already been abortive costs associated with the liquidation of the previous contractor and the technical design stage (RIBA stage 4) must be recommenced by either the Council itself or by a new contractor. The proposal is now for the Council to oversee this detailed design to ensure greater control over the specification and project risk allowances.
- The specification is higher than required on sustainability as the development will include Air Source Heat Pumps, Solar panels and Electric Vehicle Charging Points which increase the build costs of the scheme.

5.3. Options considered:

- Do nothing- This was discounted because it would not deliver any of the objectives set by the Council and would not deliver additional affordable and specialist housing for people currently on the Council's housing register.
- Cease the development and sell the site- This was discounted because the site is required by the Council to deliver its existing programme of housing development, increase the supply of affordable housing and housing suitable for disabled people and enable spend of Right to Buy Receipts, which would otherwise have to be returned to the Government.
- Further pause the development and redesign the scheme to achieve lower per unit costs/increase rental income- this was discounted because it would not allow the provision of additional housing suitable for disabled people and would deny Family A the only feasible option of suitable housing. It would

also require the project to be restarted as a new planning application would be required and all spend to date would be abortive cost. Even if the scheme could be redesigned to still incorporate a suitable property for Family A, the delay would mean that they remain in unsuitable accommodation for longer than is reasonable, and with inflation in construction costs and the abortive costs associated with restarting the project, there is a significant risk that very minimal or no financial saving would be achieved.

6. Next Steps

- 6.1. If approval is given to increase the budget as recommended the Housing Development and Enabling Team will appoint a professional team to commence the RIBA stage 4 technical design and start preparing the necessary tender documentation in consultation with the Procurement Team. A construction contract will need to be agreed between the Council and the successful contractor and then contracts prepared by the Council's Legal Service.
- 6.2. The RIBA stage 4 design will take approximately 8-10 weeks to complete, followed by the tender stage which will take approximately a further 10 weeks.
- 6.3. Currently it is envisaged that a start on site could be achieved in early 2023 and a 52 week build programme has been assumed, although the exact programme will be agreed during the tender and contract award process.
- 6.4. A separate report on the overall HRA development programme and individual projects within it will be brought before the Executive in the Autumn.

7. Implications (including financial implications)

7.1. Resources and Financial

- 7.1.1. This project requires an additional £453,893 of capital budget to be allocated from within the Housing Revenue Account, increasing the overall budget to £1,490,000.
- 7.1.2. It is important to note that the budget allows for the entire cost of the development, including previous abortive costs, all statutory and planning fees, surveys, design fees, professional fees, and the estimated cost for the construction work. The risk register also identifies the specific risks and quantifies the level of contingency required to allow for those risks within the overall budget. Any risk/contingency money which is not required at the conclusion of the project will be returned into the overall capital development budget.
- 7.1.3. There is sufficient money available within the HRA capital budget for housing development to cover the additional costs and 40% (£596,000) of the total

development cost will be paid for from retained Right to Buy Receipts. There are currently approximately £9m of Right to Buy Receipts which require spend between 2022 and 2027.

- 7.1.4. The capital costs of this development will be covered over the longer-term by the rental income collected from the homes at Cannock Road once occupied and so the development is self-funding. No additional borrowing is required against the Housing Revenue Account to fund this project as it can be funded within existing allocated budgets.
- 7.1.5. As specialist properties designed to be accessible for disabled people, these homes will be exempt from purchase under the Right to Buy scheme and so will not be sold on to occupiers. This ensures that this much needed housing is retained by the Council to help future households who are in need. It also removes the risk of losing the rental income in future before the capital cost has been repaid, which would have to be covered from elsewhere within the HRA.
- 7.1.6. A copy of the latest cost plan for the project is attached as **Appendix A**. This information is classed as commercially sensitive at the current time and is therefore exempt from publication. This is because, in being made public, it would also be available to potential contractors and may prejudice the open tender exercise which would prevent best value from being achieved.

7.2. Legal and Governance

- 7.2.1. To progress the project, it will be necessary to procure a contractor in accordance with the Public Contracts Regulations 2015 and the Council's Contract Procedure Rules. Support will be sought from the Procurement Team to ensure that the full open tender is compliant with the above, and the risk of legal challenge is minimised.
- 7.2.2. An appropriate form of construction contract, along with suitable insurances, performance bond and warranties will be required to be in place prior to any works commencing. A suitably qualified Contract Administrator will be appointed to agree the appropriate contract particulars in consultation with the Council's Legal Team and to administer the contract through the construction phase and Defects Period.
- 7.2.3. The Council will be required to manage the project in compliance with the Construction Design and Management Regulations 2015 and ensure all other Health and Safety requirements are met. An independent Health and Safety/CDM Advisor will be appointed as part of the project to ensure the Council is meeting its obligations as a client in this regard and will conduct independent site safety audits throughout the construction phase to monitor compliance.

7.3. **Relevant Policies and Plans**

- 7.3.1. The Cannock Road development will provide five additional social rented homes which will be owned and managed by the Council and allocated to households on the housing register. It also includes the home specifically designed to meet the needs to Family A, for which it has been identified there are no other suitable housing options.
- 7.3.2. The provision of additional affordable housing meets the objective of creating safe and thriving places in the Corporate Plan 2021-2025.
- 7.3.3. The provision of specialist housing to meet the needs of disabled people meets the Corporate Plan objective of helping people to live healthier, more active and fulfilled lives in North Northamptonshire.

7.4. **Risk**

- 7.4.1. A fully costed risk register has been prepared for this project and is attached as **Appendix B**. It is exempt from publication for the same reasons as the cost plan, to avoid prejudicing the open tender exercise. The risks contained within the register will be monitored and managed closely as the project progresses and the register updated accordingly. A professional project manager/contract administrator will be appointed to oversee the risk register as part of the management of the overall project in consultation with the Strategic Lead for Housing Development and Enabling.
- 7.4.2. A cost report will be provided each month by an appointed Quantity Surveyor and any financial risks will be reported through the Council's monthly budget monitoring report to Executive.
- 7.4.3. If the project does not proceed there is a risk that the Right to Buy receipts committed to this project would not be spent by the deadlines required by DLUHC (within five years from receipt). Failure to spend Right to Buy Receipts by the required deadlines means that the money must be returned to the Treasury with punitive interest.

7.5. **Consultation**

- 7.5.1. Consultation was carried out as part of the planning application for the site.

7.6. **Consideration by Executive Advisory Panel**

- 7.6.1. This item has not been considered by an Executive Advisory Panel.

7.7. Consideration by Scrutiny

7.7.1. The decision has not been considered by scrutiny as it is proposed to cover the additional costs within the existing HRA capital budget for housing development and does not require any increase to the overall budget. It is however eligible for call-in by scrutiny if required.

7.8. Equality Implications

7.8.1. The three aims of the General Equality Duty under the Equalities Act 2010, which must be considered consider in the Council's decision-making processes, are:

(a) Eliminate unlawful discrimination, harassment and victimisation and any other conduct prohibited by the Act.

(b) Advance the equality of opportunity between those who share a protected characteristic and those that do not share it.

(c) Foster good relations between those who share a protected characteristic and those that do not share it.

7.8.2. It is considered that this decision will have a positive impact on a group with a protected characteristic, particularly people who have a disability. The negative impact on disabled people which would be caused by selecting one of the previously discussed alternative options was a primary consideration in discounting those options.

7.9. Climate and Environment Impact

7.9.1. The scheme has been designed to exceed Building Regulations on energy efficiency and sustainability, the properties will achieve at least an EPC B rating and will include Air Source Heat Pumps, Solar Panels and, if possible Electric Vehicle Charging Points.

7.9.2. In the quality scoring for the tender process, questions will be included about how contractors consider environmental impact and climate change in the operation of their business.

7.10. Community Impact

7.10.1. The Cannock Road site is situated within an existing residential area in Corby and the site is currently secured with Heras fencing and contains a partly demolished building. The development of this site will have a positive impact

on the community, bringing back into use a currently redundant and unattractive site.

7.11. Crime and Disorder Impact

7.11.1. The development of this site will reduce the likelihood of crime and disorder by bringing a redundant site back into use. The scheme has been designed with Secured by Design Principles being adopted and the Police were consulted as part of the planning application process.

8. Background Papers

8.1 None