



WORTHING BOROUGH
COUNCIL

Joint Strategic Committee
17 July 2024

Key Decision: Yes

Ward(s) Affected: Central

Construction Contract Award - Victoria Road, Worthing

Report by the Director for Housing and Communities

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Executive Summary

1. Purpose

- 1.1 The Victoria Road Housing Scheme and its budget was originally approved at Worthing JSC on 7 June 2022. Planning permission for the scheme was granted in April 2023 and demolition of the vacant Air Cadet portacabins took place in July 2023, funded by a grant from the Brownfield Land Release Fund, in preparation for the site's future redevelopment.
- 1.2 Since then, the project has been awarded grant funding from Homes England of £770,000 and the Development Team has invited tenders from contractors to deliver the scheme. The viability of the project has also been reassessed following this tender exercise.
- 1.3 In accordance with the recommendation contained in para 2.5 of the original report, this report has been prepared in order for the Committee to review the final costs and viability of the scheme, approve the virement of Homes England grant into the scheme's budget, and approve the appointment of the preferred contractor to deliver the Main Works package.

2. Recommendations

- 2.1 To note the updated financial modelling undertaken by the Delivery team following fixed fee tender returns and grant receipt, and to note the viability of the Victoria Road scheme as a spend to save initiative.
- 2.2 To approve the final costs of the scheme of £3,497,457 (to include professional fees, construction and contingency) funded through Prudential borrowing and central government grant.
- 2.3 To approve the award of the Main Works contract to Sunninghill Construction Company Ltd following the competitive tendering process undertaken earlier this year.

3. Context

- 3.1. 20-22 Victoria Road in Worthing is owned by Worthing Borough Council and was a former Air Cadet Headquarters comprising two small single storey portacabins with hardstanding on a 0.3 acre site. The site has been empty since May 2022, when the South East Reserve Forces & Cadet Association vacated their premises and handed it back to the Council, due to their declining membership.
- 3.2. The principle of the site being developed into Temporary Accommodation (TA) was accepted by Joint Strategic Committee in June 2022, when Members approved this as the Preferred Option. The decision taken at that time was informed by a comprehensive analysis of temporary housing demand and costs, and guided by the Council's housing delivery targets. Since then, the demand for TA has increased by 233% from 215 households in April 2021, to 502 households in April 2024, which, alongside the increasing costs of alternatives, makes the argument for scheme delivery even stronger.
- 3.3 Following the scheme's budget approval by Members in June 2022, ECE Architects were appointed to progress the design from feasibility stage through to the submission of a planning application (RIBA Stages 1-3). The scheme of 11 one and two bedroom flats was granted planning permission in April 2023 and has been specifically designed by ECE to target the Passivhaus standard, a whole-building approach to delivering high levels of comfort for occupants using very little energy for heating and cooling. The key drivers for the Council in adopting Passivhaus design principles were:

- Addressing the climate emergency – Passivhaus buildings are likely to consume around 80% less energy for heating
 - Excellent thermal comfort in both summer and winter
 - Improved indoor air quality (IAQ)
 - Lower maintenance costs
- 3.4 Since planning permission was granted, the Development Manager for the project has submitted bids for Brownfield Land Release Funding (BLRF) and Homes England subsidies under its Affordable Homes Programme 2021-26, which have both been successful. In total, the project has been awarded £104,000 of BLRF and £770,000 in HE subsidies, which helps support the viability of the scheme as a ‘spend to save’ project.
- 3.5 BLRF was awarded to cover the costs associated with the enabling package of works, including: asbestos removal, demolition of the portacabins, grubbing out the foundations and site clearance. These works were carried out by Portsmouth Demolition & Salvage Ltd and completed in July 2023, which means that the site is now ready for the next stage of development.
- 3.6 Homes England funding will be used to fund the delivery of the Main Works package. The award from Homes England of £70,000 per unit reflects the slight cost uplift associated with building to Passivhaus levels of energy efficiency. However, the exceptional quality of build associated with Passivhaus schemes means that their maintenance and energy costs tend to be lower resulting in savings for both the Council and the occupants over the lifetime of the buildings, and a more valuable asset for the Council.

4. Issues for consideration

- 4.1 The recommendations adopted within the original report require a report to be presented to Executive Members post-procurement, confirming the final costs associated with the scheme and the viability of the proposal.

Tenders and evaluation process

- 4.2 Contractors were invited to tender for the Main Works package through the Council's Procurement Portal in January 2024. This exercise led 8 Contractors to submit Expressions of Interest (Eoi), after which three- Cheesmur Building Contractors, Kind and Company Ltd and Sunninghill Construction Company - were invited to submit their tender response.

4.2 Following a thorough evaluation of their tenders, two of the Contractors were awarded the same score (Cheesmur and Sunninghill). Since they were in joint first place, the Panel decided to hold Clarification Interviews with both Contractors based on their responses to the Quality criteria. Each Contractor was asked identical questions to establish their understanding of Passivhaus design, construction techniques and Certification processes. This was a useful exercise which led to the identification of a preferred contractor, Sunninghill Construction Company Ltd, who were able to demonstrate that they had more understanding and experience of delivering Passivhaus development than Cheesmur Building Contractors.

Financial assessment of preferred contractor

4.3 The Pricing derived from Sunninghill's tender submission has been used to inform the latest estimated costs and viability of the Victoria Road Housing Scheme (see Table 1).

Table 1 - Summary of final costs for Victoria Road Scheme

Build Costs (based on Tender Price)	£2,574,820
Risk Contingency of 25%*	£643,710
Demolition Costs (already completed and expended)	£20,917
Professional Fees	£236,010
Fitting Out	£22,000
Proposed Initial Cost	£3,497,457
Brownfield Land Release Funding (BLRF)	- £104,000
Homes England Funding	-£770,000
Borrowing Required	£2,623,457

**N.B. This amount of risk contingency is higher than recommended by the Council's appointed Quantity Surveyor in their Tender Report, to further protect the Council from any cost-overruns.*

4.4 Since the budget for the project was approved in June 2022, the Council has been successful in securing £104,000 of Brownfield Land Release

Funding (BLRF) and £770,000 of Homes England grant, which has significantly improved the viability of the scheme as a spend to save initiative.

- 4.5 The appraisal results based on latest costs are summarised in Table 2. It demonstrates that the project is viable, delivering an operational saving of £11,980 to the Bed & Breakfast budget in Year 1, a £120k per annum average saving over the appraisal period totalling £6,001,800 over the lifetime of the project (i.e. 50 years). Tables 1 and 2 demonstrate that the project can be delivered within an overall budget of £3,497,457, with a borrowing requirement of £2,623,457, which sits within the original budget of £3.541m approved by JSSC in June 2022.

Table 2 - Summary of financial appraisal

Annual Saving (First Year)	£11,980
Average annual saving over appraisal period	£120,036 per annum
Total saving over 50 years build period	£6,001,800

These figures represent the costs following a Value Engineering exercise with the preferred contractor.

- 4.5 A 5.25% interest rate on borrowing has been assumed in the modelling. However, should the Council be able to borrow at a lower rate of interest then these figures will improve further. Capital Economics (9th May 2024) forecast that by Q3 2024 PWLB rates could be 4.65%. If this rate is secured then operational first year savings would improve.
- 4.6 Given the high demand for TA units from people currently being housed in inadequate and expensive B&B's, the swift progression of this project is desirable from a financial and social perspective. Awarding the Main Works Contract will also make sure that the grant conditions and spending deadlines associated with both the BLRF and Homes England funding awards are met in full.
- 4.7 The Council's Finance Team has undertaken due diligence with regard to the appointment of Sunninghill Construction Company Ltd and have confirmed that they have passed the Council's financial checks. They are

a local contractor who benefit from in-house Groundworks and Design teams, which help streamline their delivery and operations. They have a proven track record in delivering quality developments for local authorities and were recently successful in tendering for the South Street Main Works package in Adur (also a Temporary Accommodation scheme) where they are performing well.

- 4.8 In order to achieve the Passivhaus standard, close attention must be paid to the detailed design stage of the project, to ensure that maximum air tightness is achieved and thermal bridging is avoided. ECE will be retained as specialist Passivhaus designers for RIBA Stages 4-6, so that continuity in the design process can be assured.

Risks and mitigations

- 4.9 Table 3 identifies the key risks in progressing and delivering the project and the measures proposed to address them.

Table 3 - Project risks and mitigations

Risk	Mitigation
Challenging site conditions	Early surveys were carried out at the feasibility stage, including a preliminary ecological assessment (PEA), topographic survey, asbestos survey, Ground Radar Survey etc. which have informed the final costed scheme, limiting the risks going forward. An extra contingency of 10% has been allowed within the budget to cover any additional costs arising from unexpected site conditions.
Achieving Passivhaus Design Accreditation	Designing to Passivhaus standards can be demanding. However, the appointment of a Passivhaus Champion (Patrick Osborne, ECE Architects) as well as a Site Manager (James Berwick, Sunninghill) who has direct experience of Passivhaus construction projects, should help smooth the design and delivery process, thereby reducing the risk of not meeting the accreditation requirements. Even if final certification isn't achieved, the development will still bring significant benefits to residents in the form of reduced energy bills and the creation of a highly sustainable home environment.

<p>Cost overruns due to e.g. inflation, material shortages, rising labour costs etc.</p>	<p>The economic conditions, post-Brexit and Pandemic, have not been favourable to the residential market in the UK and are unlikely to change significantly in the short-term. Nevertheless, the scheme has been tendered and the preferred contractor's tender price has been robustly tested and benchmarked by our Cost Consultants (MGAC) based on the current and predicted market conditions. A risk contingency of 25% has been included in the construction budget to mitigate any unexpected cost overruns.</p>
<p>Main Contractor becomes insolvent</p>	<p>The Council's Finance Team has carried out financial checks on Sunninghill Construction Company Ltd and are satisfied that the company is on a sound financial footing. Nevertheless, a Performance Bond for 10% of the Contract Price has been put in place in case Sunninghill become insolvent during the Main Works Contract period. The Bond is intended to compensate the Council to overcome the difficulties that may have been caused by non-performance of the contractor such as, for example, finding a new contractor to complete the works.</p>

5. Engagement and Communication

- 5.1. The principle of piloting a Passivhaus scheme on this site has been agreed through engagement with Executive Members, the Council's Housing Management Team and Affordable Homes Delivery Group.
- 5.2. The Housing Needs Team, in particular, has been integral to ensuring that the planning approved scheme meets the needs of their customer base and enables efficient, effective management of the properties once completed.
- 5.3. Neighbouring properties immediately adjacent to the site which are likely to need Party Wall agreements, have been contacted and served notices.
- 5.4. Following the award of the Main Works Contract, it is anticipated that both the designers and the successful Contractor will engage with local residents at a Meet the Contractor event and subsequently through the

posting of regular newsletters, so that they are kept informed about the development and the construction programme.

6. Financial Implications

- 6.1 In June 2022 JSC approved the release of £3.403m of capital budget from the Temporary and Emergency Accommodation budget, alongside the approval of a virement of £440,000 in relation to external funding provided from Homes England. Creating a total budget of £3.541m.
- 6.2 Officers were able to secure £330,000 of additional Homes England grant, given on the basis of the sustainability credentials of the scheme. Additionally the scheme will benefit from £104,000 of funding from the Brownfield Land Release Fund. These additional funds will reduce the council's borrowing requirement and have protected the viability of the scheme.
- 6.3 The forecast expenditure in relation to the full build costs is £3.497m as set out in full in section 4.3 above. This will be funded by £874,000 external grant and £2.624m from prudential borrowing.
- 6.4 Based on the latest assessment of the financial viability of this project at the time of authoring, these investments can be expected to reduce the cost of temporary accommodation as follows:

Annual costs	Victoria Road	
	Development £	Bed and Breakfast £
Debt charges		
Interest	137,730	0
Principal repayment	15,410	
Total borrowing cost	<hr/> 153,140	0
Maintenance	22,440	0
Annual buildings insurance	5,610	0
Lease costs	0	
Staff - management costs	16,650	
Bed and Breakfast charges		214,130
Total costs	<hr/> 197,840	<hr/> 214,130

Less: Potential rental income	-70,230	-70,230
Allowance for Rental Voids	3,510	
Council Tax Void Allowance	900	
Net annual income	<u>132,020</u>	<u>144,000</u>
Net annual saving	11,980	

Over the next 50 years both projects will provide considerable financial benefit to the Councils as follows:

	Net annual cost	Net cost / income(-) over 40 years	NPV over 40 Years
Purchase for Temp Accommodation	132,020	6,177,510	1,104,652
Current B&B arrangements	144,000	12,179,31 0	5,652,751
Average annual saving	11,980	120,036	
Saving over life of the investment		6,001,800	

7. Legal Implications

7.1 Under Section 111 of the Local Government Act 1972, the Council has the power to do anything that is calculated to facilitate, or which is conducive or incidental to, the discharge of any of their functions.

7.2 Section 1 Local Government (Contracts) Act 1997 confers power on the local authority to enter into a contract for the provision of making available of assets or services for the purposes of, or in connection with, the discharge of the function by the local authority.

7.3 The Homes England grant funding must be spent by the Council in a way that does not breach the funding terms and conditions or create any unlawful state aid to any commercial undertaking.

Background Papers

- “Delivery of housing for Emergency & Temporary Accommodation - Victoria Road, Worthing” - JSC Report, June 2022.
- Adur & Worthing Councils Housing Strategy 2020-2023
- Our Plan - 2023-26

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1. Economic

This proposal will lead to the creation of emergency housing available to eligible local families at what is considered 'affordable' levels (no more than 80% of market rent or no more than the 90% of 2011 Local Housing Allowance; whichever is lower) - this helps ensure that the family in need do not have to worry about being able to afford the cost of the accommodation. During this time the Council's 'Opening Doors' programme will support residents into permanent accommodation.

2. Social

2.1 Social Value

The proposals will provide temporary homes which are purpose built and local - reducing the need to place families in substandard, small or cramped accommodation, or re-house them outside of the area.

2.2 Equality Issues

Worthing Borough Council has a responsibility under the Homelessness Reduction Act 2017 to provide interim accommodation to eligible households with the criteria for eligibility set and agreed by the Council.

2.3 Community Safety Issues (Section 17)

Delivery of purpose-built accommodation in small clusters removes the need for eligible families or individuals to be housed in hostels where the Council has less ability to influence or address criminal or antisocial behaviour.

2.4 Human Rights Issues

Matter considered and no issue identified.

3. Environmental

This is a Passivhaus scheme which is designed to be extremely well insulated, air tight and energy efficient, so that it won't need central heating. Care will also be taken to design the homes to minimise consumption of water, minimise run-off to sewers, address overheating risks and promote sustainable transportation measures.

4. Governance

The proposals in this report are in line with the Councils' Housing Strategy and Our Plan 2023-26 document.