



Albion Street Update

Report by the Director for Housing & Communities

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Executive Summary

1. Purpose

- 1.1. The report sets out the latest position on the Albion Street new build project and seeks approval of additional funds to support its delivery.
- 1.2. The main contractor became insolvent in August 2023 and a completion contract is underway however the cost to complete is higher than anticipated and an additional budget is required to complete the work.
- 1.3. The report sets out the background to the project, the latest position on costs and likely completion programme and sets out the financial implications for the Council.

2. Recommendations

- 2.1. To note the anticipated net increase in costs, and that the impact on scheme viability is that it still achieves the necessary financial targets.
- 2.2. To approve an additional budget of £994,411 to enable the project at Albion Street to be completed.

- 2.3.** To delegate authority to the Director For Housing and Communities to enter into all necessary contracts and associated legal documentation to enable the project to progress through the remaining construction phase to completion

3. Context

- 3.1.** The contract for the construction of the 49 flats for affordable rented housing was terminated in September 2023 following the insolvency of the main contractor, Westridge Construction. Although work on the buildings was around 90% complete at this point, there is substantial work left to do to complete cladding, balconies and external works, as well as completing the internal fit out and mechanical and electrical installations. Deterioration of the building as a result of leaks and spread of condensation while the buildings have been vacant has exacerbated the position.
- 3.2.** The cost to complete the buildings will substantially exceed the originally approved scheme budget and has increased since the initial assessment of what is required due the extent of defective and incomplete work now identified.
- 3.3.** Now that a fuller assessment of the work required to complete the project has been undertaken, it is clear that an additional budget of £994,411 is required to complete the project in addition to that already approved.

4. Issues for Consideration

4.1. Project Background

- 4.1.1.** The Albion Street project will provide 49 affordable rented flats in 2 blocks funded through a mix of Homes England funding, Right to Buy receipts, S106 contributions and capitalised rental income.
- 4.1.2.** The building contract was let to Westridge Construction following a competitive tender process, and work started on site in March 2021. The project was delayed by Covid restrictions, together with bad weather and drainage connection issues, and there was overall slow progress from the contractor who encountered a range of technical problems delivering this complex building. Part of the delay was

considered to be 'no fault' due to a range of factors including poor weather, Covid impacts and delays by statutory authorities, and an extension time was granted to December 2022. This means that no damages applied to that period. However damages for late completion were being deducted from payments at the point the contract was terminated.

- 4.1.3.** Westridge had planned to complete the project in October 2023 however it was doubtful this would be achieved. They became insolvent in August 2023 and the building contract was terminated on 28th September 2023.
- 4.1.4.** A report was considered by the Adur Joint Strategic Sub-Committee on 1st February 2024 which set out the initial assessment of the position with the plan for procurement of a completion contract, and included an assessment of costs to complete. Members approved the virement of a budget of £1.776m of which it was anticipated £998k would be claimed from insurers under an insolvency bond leaving a net figure of £778,000.
- 4.1.5.** Contractor J. Cheesmur & Sons Ltd has been appointed to complete construction work on the project and is currently on site with work expected to complete in December 2024.

4.2. Additional costs and mitigation

- 4.2.1.** As noted in the report to JSSC in February 2024, the completion contract is not let at a fixed price as this was not possible given the nature of the work. This means that the Council is liable for additional costs arising from extra work needed to rectify defective work or to cover unforeseen fees.
- 4.2.2.** The construction cost of completing the project has now been agreed with Cheesmur to be £2,055,570 which is an additional £1,279,728 over the cost anticipated should Westridge have completed the building. The main reasons for this are that building cost inflation since the fixed price contract was let in early 2021 means that the cost has risen substantially; and also that work needs to cover the remedial measures needed to correct poor workmanship and deal with the deterioration of the building due to water leaks over the winter. The total construction cost to complete is broken down as follows:

Item	Completion cost £	Remedial cost £	Total cost £
Superstructure	505,212	120,824	626,037
Internal finishes	125,111	144,000	269,111
Fittings	50,000		50,000
Services	386,833	34,845	421,678
External works	220,089	15,185	235,273
Preliminaries	76,429	17,470	93,899
Design fees	16,528		16,528
Contractor's prelims	187,045		187,045
Construction management fee	156,000		156,000
Total	1,723,247	332,324	2,055,571

4.2.3. Since Cheesmur made a start on the major works in March 2024, a number of issues have come to light which have significant cost implications, in particular:

- The main foul drainage connection along the A259 has not been completed, this will require a partial road closure and tunnelling by a specialist contractor to complete. Anticipated cost:£43,500
- A new latent defects insurance policy needs to be put in place as the insurers were obliged to reimburse Westridge for the original premium. Anticipated cost: £120,000
- There are ongoing water leaks to the building due to faulty workmanship which means removing areas of cladding and replacing cavity trays in key locations as well as repairing the roof and damage to internal decoration. This is reflected in the superstructure and finish lines in the table above.
- The wall paint is failing in many areas as it was applied to wet walls and does not adhere soundly to the wall when further coats are applied. This is reflected in the internal finishes line in the table above.
- The programme for the works is now extended to achieve completion in December 2024 and associated consultants' fees will increase to cover this period. Anticipated additional cost: £20,000.
- The prolongation of the work also means an increase in contractors fees and running costs which are included in the prelims and management costs in the table above.

- Due to the overall prolongation of the project together with a rise in interest rates during the development period, the development interest figure has increased from that last reported by £275,000.
- A further contingency is recommended of £77,000 to cover remaining unknown items in addition to the £100,000 previously allowed for

A claim to the bond company has been made. In addition, the following mitigation measures have been considered:

- 4.2.3.1.** Homes England, who are providing some grant funding for the scheme, have been approached for additional grant however have not agreed to this as the project is funded under a previous funding programme.
- 4.2.3.2.** The scheme comprises 2 blocks and it was originally intended for the larger (32 flat) block to be let at social rent levels, with grant from Homes England, and for the smaller (17 flat) block funded by Right to Buy receipt to be let at affordable rents (ie rents at a maximum of 80% market rent). Last year, officers agreed to simplify this and agreed that all flats would be let at social rents. However, to increase the overall rental income from the development, it is suggested that the original approved proposal is progressed with 17 of the flats being delivered at affordable rent levels. This achieves an additional gross rental income of £48k. A financial appraisal of both options has been carried out and the results are summarised in Section 5.
- 4.2.3.3.** Average rent levels are set out in the finance section below.

4.3. Engagement and Communication

- 4.3.1.** There has been extensive liaison with colleagues in the finance and housing teams about options for assessing the costs and the impact on financial viability and considerations regarding the maximisation of income, and officers have agreed on the approach to be taken.

5. Financial Implications

5.1. Budget Movement

There is £37,284 left in the budget previously approved at JSC in February 2020 of £12.191m. Additionally, Adur Joint Strategic Sub Committee Approved an additional budget virement into this scheme of £1.776m with £998k expected to be funded by a successful claim against the insolvency

bond in place. A breakdown of the the approved budget to date and spend is below:

Approved budget	£13,967,166
Construction cost (Westridge)	£9,365,954
Construction cost (Cheesmur)	£416,568
Capitalised Interest to date	£338,791
Other costs to date	£2,032,403
Total costs to date	£12,153,716
Remaining budget:	£1,813,284

5.2. Future Spend Required to Complete the Scheme

Anticipated Costs to Complete	(£)
Works Cost (Remaining)	1,876,800
Professional fees	100,000
Defects Insurance	120,000
Section-106 and Car Club (planning commitments)	92,520
Capitalisation of Interest	441,209
Contingency	177,000
Less:	
Anticipated income from Insolvency Bond	(997,830)
Remaining from prior budget approvals	(815,288)
Net Budget Required	994,411

5.3. Financial Impact

5.3.1. A financial appraisal has been carried out in order to assess the project's viability in light of the updated costs. Options have been modelled for all social rented flats and for 17 flats to be let at affordable rents and 32 at social rent levels (as referred to in section 4.2).

5.3.2. Mixed Scheme - Part Social Rent and Part Affordable Rent

5.3.2.1. If positioned as a mixed scheme as set out above, the financial position improves significantly.

Financial Performance - Mixed	
Net Present Value	£2,189,202
Internal Rate of Return	4.48%
Year 1 Saving/(Cost)	(21,933)
First Year of Net Return	Year 4

5.3.2.2. If presented entirely as all social rent the financial position is much more difficult and current estimates would suggest the scheme would no longer be financially viable in the early years of the scheme, a cost the council would struggle to meet.

Financial Performance - All Social	
Net Present Value	£261,640
Internal Rate of Return	3.62%
Year 1 Saving/(Cost)	(91,713)
First Year of Net Return	Year 11

5.3.3. Average Rent levels

There is around £50-£70 per week difference between social and affordable rent levels with average weekly rents as follows:

- Average social rents inc. service charge: 1 bed: £129, 2 bed £152
- Average affordable rents inc. service charge: 1 bed: £212, 2 bed £276

Social rents are derived from the Council rent formula and affordable rents are based on 80% market rents (Including service charge), but will be capped at the Local Housing Allowance to ensure affordability for tenants. All rents are within housing benefit local housing allowance levels.

6. Legal Implications

- 6.1.** 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.
- 6.2.** Section 3(1) of the Local Government Act 1999 (LGA 1999) contains a general duty on a best value authority 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.
- 6.3.** 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.

Background Papers

- JSSC report 1 February 2024: [Approval of budget to complete Albion Street housing development](#)
- Adur Homes development programme - Albion Street and Cecil Norris House - budget update JSC 11 February 2020: <https://democracy.adur-worthing.gov.uk/documents/s1829/Item%209.pdf>
- Housing Development Programme - update and progress report JSC 4 December 2018: <https://democracy.adur-worthing.gov.uk/Data/Joint%20Strategic%20Committee/201812041830/Agenda/media,151644,en.pdf>

Sustainability & Risk Assessment

1. Economic

The scheme cannot be left uncompleted and dormant. We will be reimbursed for the majority of the vired budget through the performance bond and with the additional spend the project remains viable.

2. Social

2.1 Social Value

Finishing this scheme will provide 49 flats for social and affordable rent, increasing Adur's stock of affordable housing considerably and providing homes to people on the housing register.

2.2 Equality Issues

Issue considered, no impact.

2.3 Community Safety Issues (Section 17)

Issue considered, no impact.

2.4 Human Rights Issues

Issue considered, no impact.

3. Environmental

Issue considered, no impact.

4. Governance

Delivering the project aligns with the Council's 'Our Plan', namely the ambition for everyone to have a safe, secure and sustainable home.