



TITLE OF REPORT: SELECTION OF A CONTRACTOR/DEVELOPER FOR THE CONSTRUCTION OF MIXED TENURE HOUSING AT BRITANNIA PHASE 2A

Key Decision No. FCR P47

CABINET MEETING DATE (2019/20)

16 September 2019

CLASSIFICATION: OPEN WITH EXEMPT APPENDICES

**Exempt Appendices:
Appendix 1: Pre-tender Cost Plan
Appendix 2: Britannia Masterplan
Financial Forecast**

WARD(S) AFFECTED

Hoxton East and Shoreditch

CABINET MEMBER

Mayor Glanville

KEY DECISION

Yes

REASON

Spending

GROUP DIRECTOR

NEIGHBOURHOODS & HOUSING

1. CABINET MEMBER'S INTRODUCTION

- 1.1 The Council has invested heavily in providing excellent housing, schools and leisure facilities within the borough in the past decade. While central government funding has decreased significantly since 2010, the Council's own investment programmes have ensured that public infrastructure in the borough has been modernised, renewed and expanded where possible. Hackney's continued investment in housing, schools and leisure facilities, as well as a spectrum of other services, demonstrates both the Council's commitment and its corporate capacity to deliver ambitious, large scale investment programmes to address local priorities and an ambitious political administration.
- 1.2 The Council is determined to build on this success by delivering a further investment programme focused on creating public infrastructure that will directly benefit local residents. Our proposals at Britannia seek to continue the mixed use model, with the Council acting as developer and retaining the freehold for the land involved.
- 1.3 The Britannia development will provide a new Leisure Centre for the Britannia site, and a new secondary school to meet the demographic demand for additional school places in the borough. It will also deliver 81 genuinely affordable homes and 400 homes for outright sale to partially fund this public infrastructure.
- 1.4 Across all our new developments we are committed to maximising the number of genuinely affordable council homes. Phase 2a comprises of 93 new homes, including 48 for Council social rent, 33 for Council shared ownership and 12 for outright sale. The Council's Estate Regeneration Team will be taking forward the delivery of this part of the Britannia Scheme to continue to build on the success of the Estate Regeneration Programme (ERP). The newly completed scheme will be managed by Hackney Housing Services and complement the nearby Colville regeneration.. We also promised at the outset of the Britannia development that the public and social infrastructure would be developed first, the new leisure centre and new school teams are now onsite, and this paper continues that approach setting out how we plan to frontload the genuinely affordable housing in the scheme.
- 1.5 Cabinet considered and approved proposals to develop the Britannia leisure site in April and December 2017. This project continues the Council's commitment in 2016 to invest in providing new homes (including genuinely affordable council homes), schools, and council leisure facilities within the borough, and responds specifically to existing and expected population growth, rightly increasing resident expectations, and the age and condition of existing leisure facilities. As well as the previous Cabinet approvals, the rebuilding of the Britannia Leisure Centre and the delivery of

the new school, council homes and community infrastructure also formed a key part of our manifesto.

2. GROUP DIRECTOR'S INTRODUCTION

- 2.1 This report is seeking approval to commence the procurement of a contractor for Britannia Phase 2a. The process will ensure that the Council selects a contractor on the basis of both cost and quality. It also allows for further detailed financial assessments to be undertaken prior to entering into formal contractual arrangements.

3. RECOMMENDATION(S)

Cabinet is recommended to:

- 3.1 **Agree to commence a single stage tender process using the restricted procedure provided for within the Public Contracts Regulations 2015 for the construction of Britannia Phase 2a, as outlined in paragraph 4.4.**
- 3.2 **Agree to the disposal of the shared ownership and outright sale homes delivered as part of Britannia Phase 2a in accordance with the Sales and Marketing Strategy report of the 18 July 2016 in respect of the direct development and disposal of those homes.**
- 3.3 **Grant authority to the Group Director of Neighbourhoods to implement the sales and marketing strategy.**
- 3.4 **Agree to commence the procurement of a separate enabling works contract for the Britannia Phase 2a site to allow the groundworks to be delivered within the 2019/2020 academic year school holidays, minimising the impact on Shoreditch Park Primary School. In line with the provision of the Contract Standing Orders, the contract award report for the separate enabling works contract will be presented to Cabinet Procurement Committee in March 2020.**

4. REASONS FOR DECISION

- 4.1 This report outlines the process for procuring a main contractor and entering into a single stage design and build contract for Britannia Phase 2a in the Hoxton East and Shoreditch Ward. The recommended procurement route is to follow a restricted process compliant with the Public Contract Regulations 2015. As the pre-tender estimate for this contract is above the OJEU threshold for works, the process of engaging the market will be achieved by advertising the project through issuing a

Contract Notice and on Contracts Finder. This will be the most effective way to attract the interest of construction firms capable of undertaking the works.

- 4.2 The Britannia masterplan (including Phase 2a) secured planning permission on 7 December 2018 (Planning reference: 2018/0926), which enables the construction phase of the project to commence. In line with the primary objectives of the project, the first phase of development was to build the new council leisure centre and secondary school on the site of the existing leisure centre (including the hard courts on Shoreditch Park). By delivering the new Council leisure centre, the project is able to unlock the rest of the existing leisure centre site for market sale development. This is key to the financial business case and enables the cross-subsidy required to pay for the new social infrastructure. As developer, the Council is able to prioritise the social infrastructure and affordable housing. It is also able to ensure that the maximum benefit of the market sale income is channelled into tangible benefits for the area. This first phase of work is underway.
- 4.3 The development of the Phase 2a site represents an opportunity to complete the affordable housing element of the Britannia Masterplan as well as delivering a new Early Years Centre.
- 4.4 Britannia Phase 2a comprises the following:
 - 48 Council social rent homes
 - 33 Council shared ownership homes
 - 12 outright sale homes
 - A new Early Years Centre
 - Associated public realm and landscape works.
- 4.5 The parcel of land to be developed forms part of the Shoreditch Park Primary School's playground and currently also hosts Anthology's sales and marketing suite, which was being utilised to sell the homes in the two residential towers on the Colville Estate. Anthology's lease has expired and the site can be cleared and hoarded to undertake additional ground condition surveys from early next year.
- 4.6 The primary school is having their play areas re-provided and upgraded, as well as receiving a financial contribution through the Unilateral Undertaking for the Britannia scheme.
- 4.7 The construction of the site will have to be carefully managed with logistics being well thought through and considered in respect to the proximity of the primary school.
- 4.8 Bidders will be required to offer a fixed contract price for building out the whole of the Phase 2a scheme. The form of contract to be used will be the 2016 JCT Design and Build Contract with Hackney Council amendments.

For the enabling works, bidders will be required to offer a fixed contract price for the groundworks. The form of contract to be used will be the 2016 JCT Design and Build Contract with Hackney Council amendments.

- 4.9 A pre-tender cost plan has been prepared for the Council by its Quantity Surveyor (QS), Core 5, setting out the estimated costs of construction. This also includes the enabling works. Please refer to Exempt Appendix 1.
- 4.10 The estimated costs are based on a pre-tender stage estimate and are based on developed designs to RIBA Stage 4. The pre-tender cost plan will be reviewed and updated prior to issuing the construction works procurement package, which is scheduled for October 2019 and the enabling works procurement package which is scheduled for October 2019.
- 4.11 The Council proposes to act as developer for the outright sale and shared ownership homes and directly dispose of all relevant homes on a leasehold basis. The Council's Sales and Marketing Strategy that has been developed and authorised by Cabinet enables the Council to market and dispose of shared ownership and outright sale homes directly to individuals. Using in-house expertise we can demonstrate value for money and ensure that the homes are marketed to the local community, giving people living and working in the borough priority to access a suitable home of their choice. The profile of Hackney Council as a developer of new homes for sale and the Hackney Sales brand is being strengthened with each project delivered. The Council's in-house sales team, Hackney Sales, can demonstrate a track record of success across a number of projects within the ERP.
- 4.12 Under the General Consent 2013 the Council only has powers to sell dwellings to purchasers who do not intend to immediately sub-let. This potentially limits the pool of available purchasers. If the Council wishes to complete disposals to individual investors or private rented sector operators, an application to the Secretary of State would be required. A review of these options will be considered in the sales strategy. This will only be considered as part of a risk management strategy, as the Council's preference remains to sell homes to owner occupiers.
- 4.13 At current market values only a proportion of the outright sale homes would be eligible for buyers under the Government's Help to Buy Shared Equity scheme. This scheme has been significantly beneficial to sales progress with recent schemes and therefore is a consideration. Also, it should be noted that it is not known at present whether the government will continue funding Help to Buy after 2023.
- 4.14 Should sales not achieve the forecast values, or in the case of reservations be slower than expected, alternative strategies (as set out in the Risk Section below and which are not included in the current Sales and

Marketing Framework) will need to be considered to maintain the viability of the overall Britannia scheme and General Fund, some of which may require Cabinet approval.

- 4.15 For the construction works the estimated value of the work is over the EU threshold for works contracts and a procurement process compliant with The Public Contract Regulations 2015 (the Regulations) must be followed. Using the restricted procedure provided for within the Regulations is the recommended method of procuring the proposed building works, as it gives a wide range of suitable contractors the opportunity to tender, and also provides a framework in which best value can be obtained in terms of both price and quality. For the enabling works as the value is below the OJEU threshold, the contractor will be procured from an approved list of contractors who have the relevant skills and experience.
- 4.16 A soft market testing exercise was carried out in December 2018 to consider the likely level of interest in this scheme, if it was procured as a single stage OJEU Design and Build contract.
- 4.17 The recommendation reflects market knowledge and feedback from the soft market testing. 11 contractors responded positively to the proposed procurement route.
- 4.18 A cohesive, consistent in-house approach to sales and marketing provides a transparent and customer focused method for the delivery of projects such as Britannia, which deliver new build outright sale and shared ownership homes that can be accessed by priority groups.

5. DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 5.1 Procuring through a Framework for the construction works was considered. However, this was rejected due to concerns about narrowing the market. The decision was taken to use the EU restricted procurement route in order to give the widest range of suitable contractor/developers the opportunity to tender, and also provide a framework in which best value can be obtained in terms of both price and quality. An open (one stage) tender process was also rejected, as it was felt that the burden placed on tenderers via this route would limit the response.
- 5.2 A competitive procedure with negotiation, as provided for in the Regulations, wasn't felt appropriate for this scheme. This is due to the contract value and fairly straightforward design and construction of the scheme, thereby minimising the level of risk associated with the design.
- 5.3 Due to the size and cost of this scheme and level of detail being provided as part of the tender pack, the preference from contractors who expressed an interest in bidding for this scheme was a single stage tender process.

5.4 Preferred Option

5.4.1 The recommended procurement route is to use a list of selected suppliers from an 'approved' list for the early enabling works and then for the construction works contract to follow a restricted process compliant with the Regulations. The process of advertising the construction works project through a Contract Notice in OJEU and via Contracts Finder is the most effective way of attracting the interest of construction firms capable of undertaking the works. The restricted process will involve contractors submitting an expression of interest by completing and submitting a Selection Questionnaire (SQ), from which a maximum of five of the top scored contractors will be shortlisted to participate in the tender stage and submit a full tender submission. Sections 5.4.2 to 5.4.8 describe the proposed approach for the main contract procurement, and Sections 5.4.9 - 5.4.19 set out the proposed approach for the early enabling works procurement.

5.4.2 For the main contract procurement the SQ stage will examine:

- Eligibility to bid
- Financial and economic capacity to undertake the project
- Experience of working with key stakeholders
- Experience of partnership working and delivery of high quality residential development
- Track record of good construction practices.

5.4.3 Bidders will be assessed at the tender stage on two key elements:

- Fixed price lump sum for the works
- Qualitative submission.

5.4.4 The tender documentation will include:

1) Project Particulars:

- Description of works
- Project management organisation chart
- Design team composition
 - Estimated start date
 - Employer's Requirements including design agreed by the Planning Authority
- Enhanced design details to protect design integrity and quality
- Evaluation matrix
- Site surveys and
 - Title plans for the site

- Preliminaries including Project Particulars
- Conditions of Contract.

2) Pricing Document:

- Fully detailed contract sum analysis pro forma.

3) Qualitative Assessment:

Questions will be asked which will assess exactly how the bidders intend to deliver this project. These will include:

- Construction logistics
- Proposed project team
- Proposed design team and how design integrity will be maintained
- Delivering quality
- Health and Safety
- Sustainability (e.g. waste disposal)
- Construction programme
- Engagement with the local community
- Commitment to employment and training targets
- London Living Wage payment compliance.

5.4.5 The tenders received will be evaluated on the basis of 60:40 quality/price ratio. Tenders will be assessed by the Evaluation Team. The financial information submitted in the Pricing Document will be assessed in order to verify the details of the tender, interrogate the bid made and examine the assumptions used.

5.4.6 The JCT Design & Build Form 2016 of Contract with Employer's Requirements and Hackney Council specific amendments will be used.

5.4.7 Decisions and change control will be undertaken in line with agreed governance procedures for the ERP, contract management policies, and the terms and conditions of the JCT Contract.

5.4.8 The main KPIs will be set to monitor:

- Programme
- Budget
- Quality
- Waste management
- Employment and training targets
- Neighbour complaints - the contractor will be required to register the site with the Considerate Contractor's Scheme.

In addition, resident satisfaction with the completed properties and occupant satisfaction with the Early Years Centre will be tested by survey and interviews after a period of occupation.

5.4.9 An Enabling Works Contract will be procured separately and in advance of the Main Contract. This is in order for the noisy and disruptive groundworks to commence when the adjacent school is closed during the school holidays (Easter 2020, and Summer 2020). This will involve site clearance and demolition, as well as ground investigation work, piling and removal of any obstructions in the ground. The value of the works is approximately £3m and will therefore be under the OJEU threshold.

5.4.10 The Enabling Works strategy supports the main construction business case by:

- Ensuring a start on site in summer 2020
- Ensuring early demolition in order to maximise use of the summer school holidays for noisy, dirty works thus minimising any interface with children, parents, teachers, etc.
- Providing survey information early to ensure swift design and construction progress when we commence substructure in July 2020.
- Early de-risking of the project through establishing the extent of underground contamination and removing any obstructions identified.

5.4.11 Additional benefits include greater certainty as regards both cost and programme and reducing main contractor on-costs (Overhead & Profit and preliminaries). With groundworks happening during summer 2020 this will minimise (or, hopefully, avoid) any weather delays.

5.4.12 For the Enabling Works Contract the use of the JCT Design & Build Contract 2016 with Hackney Council's schedule of amendments, to include the option for novation, is proposed.

5.4.13 The Enabling Works Contract will require novation into the main construction works contract to ensure full responsibility is transferred to the selected main contractor. This will require the Hackney legal team to draft additional contract amendments and/or warranties.

5.4.14 It is proposed that the Enabling Works Contract consists of two sections, both taking place during school holidays (Easter 2020 and Summer 2020). The first section (Easter) will consist of demolition and site clearance, construction of site hoarding and gates, site surveys and investigations and, time permitting, pile probing. The second section (Summer) will consist of site establishment and set up, piling works, excavation, removal of obstructions and disposal of contaminated material, and any service diversions (if required).

5.4.15 Estimated contract values for the single enabling works package are £3-4 million, £0.5 - £1.0 million (dependent on ground conditions) for the Easter works and £2.5 - £3.0 million for the Summer works. Contract values are to be confirmed by the QS, Core 5.

5.4.16 In order to facilitate the novation of the Enabling Works selected contractor onto the main construction contract, it is proposed that the tender process for the Enabling Works should follow the same structure and assessment procedure as the single stage OJEU previously described in paragraphs 5.4.3 – 5.4.6.

5.4.17 The Enabling Works Contract will be procured through a simple tender process from a previously approved shortlist of contractors. These companies will be selected because of their specific capabilities, their experience of delivering similar projects and their novatability. Before finalising the selected shortlist, a soft market testing exercise will be undertaken to ensure our shortlist have a real interest in pitching for the work.

5.4.18 Tenderers will be invited to complete a Selection Questionnaire (SQ) to confirm their interest in delivering the Enabling Works Contract and to confirm in writing that they have the experience and capability to deliver it. The SQ will also provide reassurance of potential contractors' financial stability (independent verifications are also advised).

5.4.19 Subsequent to the SQ the shortlisted companies will be asked to submit a full tender for a fix.

5.4.20 The following Key Milestones are subject to factors such as no requests from tenderers for time extensions being granted, and compliant, suitable bids being received:

Key Milestones	
Business Case Report to Cabinet	16/09/2019
SQ for enabling works contract issued (including issue of ITT)	02/10/2019
SQ evaluation of enabling works contract	16/10/2019-23/10/2019
OJEU Advert placed for main contract (including SQ & ITT)	30/10/2019
Bidders' Day for main contract	11/11/2019

Closing date for Expressions of Interest for main contract	27/11/2019
SQ evaluation for main contract	28/11/19 - 18/12/2019
Enabling works tender returns	06/12/2019
Enabling works tender evaluation	09/12/2019-/10/01/2020
Tender returns for main contract	21/02/2020
Tender evaluation including clarification meetings for main contract	24/02/2020 - 20/03/2020
Contract award for enabling works contract (Cabinet Procurement Committee)	11/03/2020
Enabling works - site demolition/clearance	06/04/2020 - 19/04/2020
Contract Award Report considered at Cabinet for main contract	13/07/2020
Standstill Period for main contract	13/07/2020 - 22/07/2020
Contract awarded for main contract	23/07/2020
Mobilisation period for main contract	27/07/2020 - 16/10/2020
Enabling works - groundworks start on site	22/07/2020 - 31/08/2020
Main contract - start on site	19/10/2020
Main contract - practical completion	21/10/2022

6. BACKGROUND

In December 2017 Cabinet approved the procurement strategy for the Britannia development including the procurement of the leisure centre, school, associated external works and supporting infrastructure (Phases 1a and 1b) through the Southern Construction Framework and the procurement of the residential units (Phases 2a and 2b) through OJEU, using Competitive Procedure with Negotiation (CPN). Cabinet approved the award of contract in respect of the Design and Build contracts for the

leisure centre and school to Morgan Sindall in March and April 2019 respectively.

Following soft market testing, the procurement of the construction of Phase 2a is now proposed to be through OJEU, using a restricted procedure. This is because the contractors who expressed an interest were more comfortable with a restricted procedure for a scheme of this size and complexity. The enabling works contract will be procured separately and in advance of the construction contract through using a list of selected suppliers from an 'approved' list for construction projects.

Phase 2a of the Britannia project will be delivered by the Council's Regeneration Division. This element of the scheme contains the affordable housing and Early Years Centre and the residential blocks will be managed by Hackney Housing Services once completed.

6.1 Policy Context

6.1.1 The Britannia project is integral to the Council's commitment to provide excellent housing, schools, and leisure facilities within the Borough. The need for the specific social infrastructure to be delivered through the Britannia project is set out in the April 2017 report approved by Cabinet.

6.1.2 The procurement strategy for Britannia was subsequently considered and endorsed at the 18 December 2017 Cabinet.

6.2 Equality Impact Assessment

6.2.1 The SQ will establish bidders' track record with regards to Equality and Diversity. Key Performance Indicators will be set to ensure that the required outputs are achieved. Disability Discrimination Act (DDA) compliance is included in the design specification to ensure that the contractor will deliver a DDA compliant scheme.

6.3 Sustainability

6.3.1 The Britannia development project will deliver new social infrastructure, which will be to the benefit of the local community. The facilities will be designed in line with local policy, regulatory guidance and best practice. The existing leisure services will be provided on the same site and with at least the same provision. The school and residential development will be a new provision.

6.3.2 The previous regulatory requirement for Code for Sustainable Homes Level 4 is being used to inform elements of the design. Photovoltaic cells will also be installed in order to provide a source of renewable energy.

6.3.3 Recycling construction waste and the development of a Site Waste Management Plan are mandatory. The invitation to tender stage of the procurement will ask bidders to provide responses regarding how they will reduce the impact on neighbouring residents during construction.

6.3.4 Site logistics plans of the contractors will be evaluated as part of the tender process, with a key requirement to set out a plan that is well coordinated and that minimises disruption and noise pollution.

6.3.5 It is intended that the scheme will connect to the Energy Centre, which is being built as part of the Colville Estate Regeneration scheme.

6.3.6 The scheme is car free and each home will have provision for two cycle spaces.

6.3.7 As developer of the Britannia project, the Council entered into a Unilateral Undertaking (UU) in relation to the masterplan outline (hybrid) planning consent. This UU commits the project to:

- a. Deliver a Local Labour percentage of 30%
- b. Deliver at least one Apprentice per £2m of construction contract value (including an Apprentice Support Contribution of £1,500 per Apprentice)
- c. Participate in the Council's Hackney Works initiatives (with a total contribution of £221,120 during the construction phase and £213,187 during the operational phase).

6.3.8 The pre-tender cost plan allows for the cost of delivering against these targets.

6.4 Consultations

6.4.1 Since the feasibility phase of the project in summer 2016, the Council has held over 30 different events for local residents, parents, Britannia Leisure Centre users and other interested groups about the proposals. These included the original consultation from December 2016 to February 2017, community workshops, feedback sessions, drop-ins for leisure centre users and sport groups, and the final planning exhibition in late February and early March 2018. These have been held at the Colville Community Hall, Shoreditch Park Primary School and the Britannia Leisure Centre.

6.4.2 The events, as well as general information on the project and how it is progressing, have been publicised in the Britannia Update, a leaflet circulated to more than 30,000 properties in Hoxton, Shoreditch, De Beauvoir, Haggerston and London Fields.

6.4.3 Engagement with key stakeholders will continue throughout the procurement and delivery phase of the project. Key stakeholders include:

- Council Officers (Regeneration, Property Services, Finance, Procurement, Education, Housing Services)
- Ward Councillors
- Shoreditch Park Primary School
- Colville Estate Tenants and Residents Association
- Local interest groups.

6.4.4 Regularly updated FAQs are also available on the Council’s website, at a page dedicated to the development (<https://www.hackney.gov.uk/britannia-site>). The project also underwent statutory consultation as part of the outline (hybrid) planning application.

6.5 Risk Assessment

6.5.1 The cost of the construction works and the income received from the sale of the shared ownership and outright sale homes are the major elements of the overall project finances. Therefore, factors relating to these are the key risks that need to be mitigated and managed throughout the project.

Risk	Likelihood	Impact	Overall	Action to avoid or mitigate risk
	L – Low; M – Medium; H - High			
Lack of market interest if the Council is the developer (contractors may prefer the opportunity to achieve profits from sale themselves)	M	M	M	The Employer’s Agent has undertaken a soft market testing exercise and confirmed sufficient interest in the tendering opportunity.
Tenders returned over budget (both contracts)	M	M	M	The QS cost plan has been completed and checked at each RIBA stage. Contingency is also built into the cost plan to address the potential risk in the market.
Contractor going into liquidation during construction (both contracts)	L	H	M	Answers to SQs and financial checks will be carried out prior to selection and will establish bidders’ financial capacity to undertake the works.

				Updated information will be requested if there are any delays encountered close to the start of contract e.g. Dunn and Bradstreet financial status reports. Regular checks throughout the contract period will also be carried out.
Unable to sell all of the outright sale homes and generate the expected or required income for the Council	M	M	M	The Council's Housing Company could acquire the outright sale units.
Unable to sell all of the shared ownership homes and generate the expected or required income for the Council	L	M	M	Shared ownership could be converted to market rent/living rent should the property market not be suitable for large scale disposals.
Unable to sell the shared ownership homes due to affordability challenges within the borough as a direct result of increased property values	M	M	M	Increased property values may mean we can reduce rent levels to re-align affordability (monthly housing costs)
Contractual risk due to untested Hackney amendments to JCT D&B 2016	L	L	L	The legal implications of any new amendments or unamended JCT contract clauses will be fully explored by expert legal advice and tested with a wide range of consultant employer's agents before agreement.
Failure of the procurement process causes delays presenting a reputational risk (both contracts)	L	M	M	There is a breadth of experience of the procurement route amongst the legal team, Employer's Agent and procurement team.
Construction work disrupts and negatively impacts adjacent Shoreditch Park Primary School	M	M	M	Enabling works over the Easter and summer holidays are proposed under separate contracts to ensure much of the

				noisy work takes place inside the school holiday period.
The main contractor will have to novate the groundworks, which could reduce market interest and potentially increase main contract price if an additional provisional sum is included to rectify any issues with the groundworks	M	M	M	Soft market testing to be undertaken to gauge interest from enabling works contractors. Only highly regarded enabling works contracted to be approached to ensure the main Contractor is likely to have confidence in their performance. The overall build cost is likely to be reduced as the enabling works contractors on-costs will be less than the main contractor.

7. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

- 7.1 On 19 April 2017 Cabinet approved the strategic development at the Britannia Leisure Centre site to provide a new leisure centre, six forms of entry secondary school (City of London Shoreditch Park) and 80 affordable housing units to be part funded by the delivery of around 400 private for sale units. Also included in the site master plan assumptions are significant improvements to the public realm and investment in the adjacent Shoreditch Park Primary School.
- 7.2 In December 2017 Cabinet approved the procurement strategy for the Britannia development including the procurement of the leisure centre, school, associated external works and supporting infrastructure (Phases 1a and 1b) through the Southern Construction Framework and the procurement of the residential units (Phases 2a and 2b) through OJEU. Cabinet approved the award of contract in respect of the Design and Build contracts for the leisure centre and school to Morgan Sindall in March and April 2019 respectively. This report seeks Cabinet approval to initiate procurement of Phase 2a comprised of the construction of 93 homes including 48 for Council social rent, 33 for Council shared ownership and 12 for outright sale, as well as a new Early Years Centre. Following soft market testing, the procurement of Phase 2a is now proposed to be through OJEU, using a restricted procedure. An early enabling works package, not procured through OJEU, and can therefore be procured in advance of the main contract to enable the groundworks to commence during the school holidays, minimising disruption to Shoreditch Park Primary School.

- 7.3 The Britannia development continues the Council's ambitious programme of mixed-used delivery, seen in the completed project at Tiger Way and the project under construction at Nile Street, whereby the Council seeks to maximise the value of its land to deliver much needed social infrastructure in the absence of sufficient Central Government funding. Such projects come with significant risks - notably the Council takes on the risk of sales, which are considerable for this project given the number of private for sale units proposed on the Britannia site and the volatility of the housing market post-Brexit referendum.
- 7.4 In the April 2017 Cabinet report it was made clear that revenues generated from private for sale residential taken along with the ESFA funding, of £21.8m (which partly meets the cost of the school), would be insufficient to meet the costs of the considerable social infrastructure being delivered on the site and that a capital funding allocation from the Council would be required. The estimated gap was £41.8m.
- 7.5 In the December 2017 Cabinet report, given we were circa 18 months before site construction commenced and due to the phasing of the project around four years away from marketing the residential units, there was still a considerable amount of uncertainty around final numbers such that we estimated that the Council's contribution to the project, should it proceed as planned, over and above the revenue generated from sales and the ESFA funding to be within the range of £44.9m best case to £72.4m worst case. This bandwidth was estimated after taking into account a fall in anticipated revenues post the Brexit referendum.
- 7.6 Given we are now in a position of having awarded contracts in respect of phase one of the project (the leisure centre, school and associated infrastructure works), we have a position of greater certainty over the costs of this phase of the project. At Exempt Appendix 1 we set out the cost estimates for Phase 2a, the subject of this report, and these are within the parameters originally set out in December 2017. However, we remain a way from being in a position of certainty on the cost figures for Phase 2b (388 private for sale units). In addition, as Brexit continues to linger, there remains considerable uncertainty and therefore risk over the revenues in respect of the private for sale units including the 12 units in Phase 2a of the project.
- 7.7 The current financial estimates for the Britannia project are set out in Exempt Appendix 2. The main change from the estimates presented in the last report to Cabinet (April 2019 Cabinet report on contract award for phase 1b - the school) is a reduction in the current day estimate of the sales values of the private residential sale units in Phase 2b of £8.165m as a result of continued uncertainty regarding Brexit. This is partially offset by additional estimated income of £6.886m in respect of grant for the affordable homes in phase 2a. Taken with some reduction in the estimated costs of phase one, for which contracts have now been awarded, the base case contribution as at August 2019 is estimated at £45.336m. Forecasts

from six cost consultancies and four sales agents have been applied to this updated base case figure to assess the likely impact of future residential cost inflation/residential sales on the level of contribution required by the Council.

7.8 The sensitivity analysis (set out in the Exempt Appendix 2) as at August 2019, produces the following results:

- Best case scenario (lowest forecast on cost inflation, highest on sales values): £14.822m Council contribution
- Worst case scenario (highest forecast on cost inflation, lowest on sales values): £58.045m Council contribution
- Average scenario (average forecast on cost inflation, average on sales values): £38.889m Council contribution

7.9 The cost plan in respect of Phase 2a (included as Exempt Appendix 1) is within the cost estimate for Phase 2a reflected in the masterplan position at Exempt Appendix 2.

7.10 Costs and revenues estimates will continue to be revisited as the project progresses, and costs are further firmed up and anticipated revenues from private for sale housing changes. However, given where we are in the overall timeline of the project and taking account of the work undertaken to date, including the sensitivity review referred to above, the £41.8m referred to in the April 2017 Cabinet report is still considered a reasonable estimate of the required Council contribution. It is anticipated that this is to be funded as set out below:

- Basic need allocation £15.7m
- Capital receipts (non-Britannia) £20m
- Council CIL £6.1m.

7.11 In the project's financial model this funding is factored in upfront with the balance assumed to be met from borrowing with the estimated cost of borrowing also accounted for within the estimated costs of the project.

7.12 The estimated cost and revenue streams of the Britannia project have been built into the overall Capital Programme. However, given the scale of the project and the uncertainty surrounding the housing market pre-Brexit, it is important that we continue to revisit cost and revenue estimates as the project develops and ensure review points are built into the project programme at regular intervals, and the Capital Programme and Cabinet are updated accordingly. This would include consideration of the Council contribution figure of £41.8m.

8. COMMENTS OF THE PROCUREMENT CATEGORY LEAD

- 8.1 As highlighted in various sections of this report, the scheme will be procured in two parts: One tender activity will focus on the engagement of the services of a works contractor, using the Restricted Procedure of the Public Contracts Regulation, to undertake and complete Phase 2a of the Britannia Scheme construction programme and the other will seek to secure a contractor to undertake the enabling works ahead of the main construction project. In line with the provision of the Contract Standing Orders, the latter will be procured using a list of selected suppliers from an 'approved' list of suppliers for construction projects and officers have been advised to specifically target SMEs and local suppliers when making the selections.
- 8.2 The procurement will be carried out in line with the strategy set out in this report and tenders will be evaluated using a set of criteria which forms an overall split of 60% quality and 40% price. This will allow the Council to achieve optimum combination of the cost of the project, quality of build and any desirable community benefits as part of the delivery of the scheme.
- 8.3 Due consideration has been given to sustainability issues that need to be addressed and the opportunity that is presented to the Council to deliver wider sustainability benefits in the borough as an integral part of delivering the construction project.

9. VAT Implications on Land & Property Transactions

Not applicable to this report.

10. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE SERVICES

- 10.1 With regard to Regeneration schemes, the "approval of the initial proposals, selection of preferred option(s), approval of masterplan, delivery plans (including annual plans) funding arrangements within the budget strategy, disposals and acquisitions of land, charters and/or other documents setting out Council's proposals for residents affected by the schemes and structures for delivery" are reserved to the Mayor and Cabinet under the Mayor's Scheme of Delegation (January 2017) so Cabinet will need to approve the recommendations in this Report. Under paragraph 5.13 of the Constitution Cabinet Procurement Committee has been authorised by Cabinet to give detailed consideration on all issues relating to procurement practice and policy. Nevertheless the Mayor and Cabinet has the authority under the Mayor's Scheme of Delegation to approve the matters in this Report.
- 10.2 The works to be procured in this Report in respect of the Main Works outlined in paragraph 3.1 are of an estimated value above the threshold for works of £4,551,413 under Regulation 5 of the Public Contracts

Regulations 2015 and therefore it will be necessary to publish an OJEU notice for the procurement of the works. It is proposed to use the Restricted Procedure under Regulation 28 of the Public Contracts Regulations 2015 to award the contract for such works. As set out in paragraph 5.4.20 the Report for the award of such contract will be presented to Cabinet in due course.

10.3 Under the Restricted Procedure, the Council will invite candidates to submit a tender, following an assessment of the information provided in the request to participate.

10.4 The works to be procured in this Report in respect of Enabling Works outlined in paragraph 3.4 are of a value below the works threshold of £4,551,413. Therefore it will not be necessary to publish an OJEU notice but it will be necessary to comply with the provisions of the Council's Contract Standing Orders in the advertisement of the contract opportunity, and the principles of transparency and equal treatment of bidders in the procedure to award the contract. As set out in paragraph 3.4, the Report for the award of such contract will be presented to Cabinet Procurement Committee in due course.

APPENDICES - EXEMPT

By Virtue of Paragraph 3 , Part 1 of schedule 12A of the Local Government Act 1972 this report and/or appendix is exempt because it contains information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Appendix 1: Pre Tender Cost Plan

Appendix 2: Britannia Masterplan Financial Forecast

BACKGROUND PAPERS

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports is required

None

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