



TITLE OF REPORT - LBH Britannia Update and Next Steps Key Decision No - FCR S039	
CABINET MEETING DATE (2021/22) 14 March 2022	CLASSIFICATION: Open with exempt appendix If exempt, the reason will be listed in the main body of this report.
WARD(S) AFFECTED Hoxton East & Shoreditch	
CABINET MEMBER Philip Glanville, Mayor of Hackney	
KEY DECISION Yes	
REASON Spending	
GROUP DIRECTOR Ian Williams, Group Director Finance & Corporate Resources	

1. CABINET MEMBER'S INTRODUCTION

- 1.1. Our ambition for the Britannia project has always been to provide three things – a state-of-the-art new leisure centre, a brand new secondary school, and genuinely affordable Council homes for the local community – all delivered directly by the Council despite a decade of austerity and the continued absence of external funding.
- 1.2. Last summer the new Britannia Leisure Centre (BLC) opened its doors and saw nearly 400,000 visits in its first six months – a 160% increase on usage at the previous leisure centre before the pandemic. The City of London Academy Shoreditch Park (CoLASP) also moved to its brand new building at the end of June 2021, providing a dedicated sixth form centre, top-of-the-range science laboratories and high-quality music and theatre facilities for 1,100 local pupils.
- 1.3. Our focus now is building the 81 genuinely affordable new homes promised through the Britannia masterplan, the majority of which will be Council homes for social rent, alongside outright sale homes that will help fund both these and the wider community facilities already delivered.
- 1.4. This report sets out how we will deliver on this commitment after the government stalled our existing plans by refusing permission to repurpose land at Shoreditch Park Primary School (SPPS), despite a £7.1 million investment package being agreed with the school, including a brand new Early Years Centre, a multi-use games area, and an increase in the amount of play space.
- 1.5. By re-phasing the next stages of the Britannia masterplan and committing Council investment to provide new onsite Council homes for local people on the former BLC site, we're ensuring that the genuinely affordable homes are delivered first and increasing the number of Council social rent properties compared with previous plans.
- 1.6. These changes will see us deliver on all of our three core priorities in the Britannia project. While our existing planning permission would then give us the right to re-see permission to repurpose land at SPPS to deliver the outstanding outright sale homes previously proposed should we choose, this option would only be pursued in the longer-term through close collaboration with the school and with detailed consultation with the wider community.
- 1.7. This report continues our approach to open governance of the Britannia Project via Cabinet and I commend this report.

2. GROUP DIRECTOR'S INTRODUCTION

- 2.1. This report sets out an update on the delivery of the Britannia Masterplan and in particular, the next steps to ensure the successful delivery of the second phase of the masterplan.
- 2.2. This follows on from the rejection of an application to the Secretary of State to dispose of land that is currently being used or has been used for playing fields (in line with Section 77 of the School Standards and Framework Act 1998).
- 2.3. The Council remains committed to delivering affordable housing as the first phase of the residential development, and to cross subsidise the substantial investment it has already made in the successful delivery of Phase 1 through the delivery of private for sale housing.
- 2.4. The financial implications of this revised delivery plan are set out in paragraph 7, and reflect a revised forecast Council Contribution of up to £64.961m to deliver the masterplan's objectives.

3. RECOMMENDATION(S)

That Cabinet is recommended to:

- 3.1. Approve the re-phasing of the Britannia Phase 2 Masterplan to deliver affordable housing on the Phase 2b site, and to reserve the right to deliver private for sale housing on the Phase 2a site as a final phase, subject to any necessary consents which are required to enable this.**
- 3.2. Approve a Council contribution of up to £64.961m to deliver the re-phased Britannia masterplan.**
- 3.3. Agree to initiate a single stage Design & Build process for Phase 2b using the Competitive Procedure with Negotiation (CPN) provided for within the Public Contracts Regulations 2015 for the construction of Britannia Phase 2b and note that a recommendation report will be brought back to Cabinet prior to award of contract.**
- 3.4. Note that an International Sales & Marketing strategy for the private for sale homes is required to realise the forecast sales values assumed within the business case.**
- 3.5. Note that the business case for the procurement of a Sales Agent and a Marketing & Branding Agent for the private for sale homes will be presented to Hackney Procurement Board, with the award recommendation presented to Cabinet Procurement and Insourcing Committee (CPIC).**

- 3.6. Note the sales risk in relation to the 314 private for sale homes in Phase 2b, and potential for a further 93 homes in Phase 2a.**
- 3.7. Agree to the disposal of the leasehold interests (shared ownership) as part of the Britannia project, in accordance with the Regeneration Sales and Marketing Framework agreed by Cabinet on 18 July 2016, subject to complying with section 123 of the Local Government Act 1972.**
- 3.8. Agree to the disposal of the leasehold interests of the private units subject to complying with section 123 of the Local Government Act 1972.**
- 3.9. Authorise the Group Director of Finance & Corporate Resources in consultation with the Cabinet Member for Finance to agree a framework for and the commercial terms relating to the disposal of the private units.**
- 3.10. Agree to extend the Council's Regeneration Sales & Marketing Strategy to the disposal of the shared ownership homes delivered via the Britannia project including the use of Hackney Sales.**
- 3.11. Authorise the Director of Legal and Governance to agree, settle and sign all necessary legal documentation to effect the disposals envisaged by this report.**

4. REASONS FOR DECISION

- 4.1. Britannia Masterplan Business Case Context
 - 4.1.1 The business case for the Britannia Masterplan was signed off by Cabinet in April 2017. This was based on a self delivery model, where the up front delivery of social infrastructure and affordable housing was cross subsidised by the subsequent delivery of 400 private for sale homes directly delivered by the Council as part of Phase 2. This ensured that the maximum amount of public investment was routed into the social infrastructure, public realm enhancements and affordable housing, whilst recognising that central government funding was not sufficient to enable the delivery of this infrastructure without additional funding sources.
 - 4.1.2 The decision to deliver the affordable housing on the Phase 2a site was driven by this being the first residential site to be available for vacant possession, and the earliest possible date for the delivery of the affordable housing. The Unilateral Undertaking set out a commitment to deliver this affordable housing in block H1 before more than 12 private for sale units were occupied - equating to the number of private for sale units delivered as part of the adjoining private for sale block (H2) of Phase 2a. This reflected yet again the Council's commitment to funding social infrastructure and housing ahead of the recovery of private for sale income.

4.1.3 As approved by Cabinet in April 2017, and updated on a number of occasions, whilst the private for sale housing cross subsidises the masterplan, the Council is still required, and has committed to, funding £41.8m to enable the delivery of the scheme. Further detail on the financial context and forecasts for the masterplan are set out in the financial implications section of this report.

4.2. Britannia Phase 1 Delivery Update

4.2.1 Phase 1 of the masterplan, which consisted of the new BLC, secondary school, and enhanced public realm, has now been handed over and has already made a significant impact on the opportunities and facilities which are available to the local community.

4.2.2 The BLC opened to the public on 30 June 2021. Following its opening, BLC was operating in COVID Secure Operations. Following the move into Step 4 of the Government's Roadmap, most of these restrictions were removed. Despite this context, performance against pre-pandemic 2019 figures is extremely encouraging at this point, with an overall increase in usage of 241,373 visits (a 161% increase). Membership levels are also showing positive results. The highest ever membership base at the old BLC was 2,400 in 2018 - we have already reached 5,000+ in January 2022. Pay and Play Members have also increased significantly from 6,094 in October 2019 to 9,364 in December 2021.

4.2.3 The CoLASP opened in its new building on Hyde Road in June 2021, and features a dedicated sixth form centre, state-of-the-art science laboratories, music and theatre facilities, and a sports pitch on its roof. The new facility has been delivered through more than £40 million investment, half of which is direct Council funding, with the Council also providing a high-specification temporary facility while the new school was being completed. The school, which used more than 60 apprenticeships and work placements during its construction, will provide places for over 1,100 pupils, with a community use agreement in place so that the new facilities can be used by the wider community.

4.3. Britannia Phase 2a Delivery Update

4.3.1 On 21 July 2021, our Section 77 application to use school land at the corner of Bridport Place and Penn Street to build new homes and a new Early Years Centre for SPPS was refused by the Secretary of State at the Department for Education. The proposals in this application were part of a wider £7.1 million investment in improved facilities for SPPS as well as 81 affordable homes for social rent and shared ownership for local families. These plans were the result of extensive discussions between the Council and the school, to agree on the investment in the school in compensation for the loss of land.

4.3.2 While the Council maintains that these plans would have major benefits for SPPS, we have had to look at how we can deliver on our commitment for new Council homes as part of the Britannia project and continue to cross subsidise the considerable public investment which has already been made by the Council in the Phase 1 masterplan. This Cabinet paper updates on our proposals to achieve this, and to bring greater clarity on the future of the Phase 2 masterplan programme.

4.4. Britannia Phase 2 Preferred Delivery Option

4.4.1 At the concept design stage, the design of the residential buildings in the masterplan was tenure blind, giving the choice as to how and where the tenures were delivered. As previously mentioned, the priority was to deliver affordable housing as part of the first phase of the residential project. In order to do this, it was decided to deliver the affordable housing on the Phase 2a site - which was due to be vacant first (after its temporary use as a marketing suite for the Hoxton Press development). This recognised that the Phase 2b site - the site of the old BLC - would not be vacant until the Phase 1 projects had handed over and the old BLC could be demolished.

4.4.2 The Phase 2a site secured detailed planning as part of the original masterplan planning permission in 2018 to secure this, and a Design & Build contractor was selected to commence construction in Summer 2020. This was scheduled to minimise disruption caused by groundworks on SPPS, and was to take place before the completion of the Phase 1 works. Extensive discussions and decisions relating to the S77 approval have delayed this project moving to a Start on Site, as planned.

4.4.3 Following confirmation of the Secretary of State's decision to reject the Section 77 application, the project team has carried out a feasibility exercise to consider how the affordable housing could be delivered on the Phase 2b site (which is now vacant), and what the implications of this would be. This study has been carried out using the existing building massing, height, and footprint parameters which were set and agreed as part of the outline planning permission in 2018.

4.4.4 The Phase 2b housing development comprises two low to medium scale housing blocks (H3 and H4 respectively) providing family sized accommodation up to 3 bedrooms and the higher tower blocks (H5 and H6) providing one and two bedroom properties. There is a natural fit to deliver the Social Rent homes within blocks H3 and H4, and for the Shared Ownership and private for sale properties to be delivered within the towers. This was an alternate tenure mix which was considered as part of the original masterplan. The reason for it being discounted was driven by the ability to deliver the Phase 2a site ahead of the Phase 2b site, and thereby front load the delivery of affordable housing within the masterplan.

- 4.4.5 Following this feasibility study, and further Stage 3 design, a revised tenure and unit mix is able to be delivered on the Phase 2b site, within the current massing, height and footprint parameters already committed to. This would deliver the 81 affordable units committed to, and also offers an opportunity to increase the proportion of Social Rent properties within the overall quantum of affordable homes from 48 homes for Social Rent to 51 homes Social Rent, with the remaining 30 for Shared Ownership.
- 4.4.6 In this feasibility study, to keep within the massing, height and footprint parameters, there is a consequential loss of 73 private for sale homes on the Phase 2b site. This has a significant impact on the overall income delivered from the private for sale properties, and thus the financial business case for the masterplan.
- 4.4.7 Whilst the Secretary of State for Education has refused our current S77 application, this site does still benefit from a detailed planning consent to deliver 93 homes. In order to recover all or some of the lost income from the Phase 2b site, the Council is reserving the right to submit a new S77 application to deliver private housing on the Phase 2a site in the future.
- 4.4.8 This re-phasing of the original masterplan would mean that all of the affordable housing was delivered as part of Phase 2b, before any additional private housing was occupied on the Phase 2a site. Given current programme assumptions, a start on site on the Phase 2a site would be no earlier than Summer 2024.
- 4.4.9 Following a review of the planning implications of these changes, and on the basis that the current Phase 2b Reserved Matters application is determined successfully, the proposed approach is to progress a Minor Material Amendment (Section 73) to the outline planning consent 2018/0926 and to progress a Non-Material Amendment (Section 96a) to the reserved matters application 2021/3335.
- 4.4.10 This re-phased delivery approach is forecast to have the following headline programme:

Date	Programme Headline
14 March 2022	Cabinet Endorsement to the re-phased masterplan programme
Spring/ Summer 22	Stage 4 design development & planning amends
May 22 to January 23	Design & Build Procurement Exercise (refer later sections for further detail)
February	Mobilisation, subcontract procurement & planning

	discharge
March 23	Earliest Start on Site for Phase 2b (3.5 year construction programme)
Summer 24	Earliest Start on Site for Phase 2a (2 year construction), subject to a new Section 77 application

4.5. Britannia Phase 2b Proposed Procurement Arrangements

4.5.1 Cabinet Context. Cabinet first considered the contractor procurement strategy for the Britannia project in December 2017. This set out the strategic procurement context and endorsed the procurement of Phase 2 in two packages of works (Phase 2a and Phase 2b), through OJEU, using Competitive Procedure with Negotiation (CPN). This followed a review of the routes to market, given the key drivers for the Phase 2 scheme. These being:

- a. need to attract a pool of contractors who can deliver the scale and complexity required by the residential project in order to ensure a competitive tender;
- b. need to attract a sufficient quantity of contractors who have experience of delivering products of a similar value and quality;
- c. need to procure as an attractive package of work in order to maintain market interest in a public procurement process; and
- d. need to have sufficient flexibility in the process to react to changing market conditions and council requirements.

4.5.2 In particular, this recommended route offered sufficient breadth of reach and flexibility of use to react to changing market conditions, and attract the right calibre of contractors to bid for a Public Sector procurement. This route also ensured the project could reach the broadest range of contractors, who would not normally be accessible via public sector frameworks.

4.5.3 Since this original report to Cabinet, the procurement strategy for the Phase 2a project was set out in a report to Cabinet in September 2019. This report considered the current market context at that time (gleaned through soft market testing), and recommended a single stage design and build procurement, using restricted procedure. This was based on Stage 3+ design detail.

4.5.4 Soft Market Testing. Following the recommendations within these reports, further soft market testing was carried out in November 2020, Summer 2021, and most recently in January/February 2022. The outcome of this soft market testing confirms the original recommendation to proceed with a public procurement using CPN for the Phase 2b phase. This also follows a single stage tender process, as for Phase 2a, but based on Stage 4 design detail and enabling the ability to negotiate with shortlisted tenderers prior to a final tender being submitted. This added flexibility is not possible within a

Restricted Procedure and is prudent given the pressures in the industry from a cost inflation perspective, and the need to clarify and/or value engineer the initial tenders in order to reach a successful award. Further details on the market testing are set out in a later section of this report.

4.5.5 Benefits of Single Stage. There are five main procurement routes to procure the direct delivery of residential assets (compared to procuring via a development agreement). These all vary in the degree to which risk is transferred from the employer to the contractor. These are as follows (from the greatest risk transfer to the least risk transfer):

- a. Design & Build (Single Stage)
- b. Design & Build (Two Stage)
- c. Traditional Lump Sum (Single Stage)
- d. Traditional Lump Sum (Two Stage)
- e. Construction Management (CM)

4.5.6 The Britannia project has been progressed to date using a Design & Build procurement route; this has minimised the risk retained by the Council. When considering whether to progress a single stage or a two stage Design & Build process, the following has been considered:

	Single Stage	Two Stage (Traditional)
Description	Shortlist invited to tender (no more than 4 bidders). Tenderers submit a quality response and a fixed price. Provisional sums defined, with a schedule of rates and methodology to call off.	Shortlist invited to submit a quality response and fixed price for Overheads and Profit (OH&P) and Prelims only. Preferred contractor enters a Pre-Construction Services Agreement (PCSA) to work collaboratively with the client to develop Stage 4 design and mini tender all packages. Agreed Fixed Price.
Stage of Design	Stage 4	Stage 3
Procurement Programme	6-7 months	9-12 months
Cost Certainty/ Competitive Tension	High (Fixed Price, risk premium, provisional sums)	Medium (20-30% Fixed; 70-80% Open Book; risk premium; provisional sums)

	Single Stage	Two Stage (Traditional)
Client Resourcing Cost	Medium	High (as a result of programme length)
Market Appetite	High	High

4.5.7 The following considerations point towards Phase 2b lending itself more suitably to a single stage procurement as opposed to a two stage procurement:

- a. Market / Contractor Appetite – the current market appetite suggests that Main Contractors (tier 2) are more attracted to tender under a single stage route for a scheme of this size and nature.
- b. Competitive Price/Cost Certainty – Typically, there is more competitiveness under single stage (Contractors in competition) which is likely to be reflected in Tender pricing.
- c. Programme Certainty (incl. Tender Process) – Under single stage, the Tender process can be clearly programmed out with a good level of certainty. However, two stage tendering can often have a lengthy negotiation process which is often dictated by the Main Contractor and responses from their supply chain. This enables the most efficient programme route to get on site.
- d. Client Reduced Risk – Under two stage, risk is often transferred back to the Client (as the Contractor is not in a competitive environment) i.e. where packages are not fully submitted, inflation risks etc. In-turn and in most cases, single stage increases the cost certainty for the Client.
- e. Management/Control of Ground Risk – Any risks, however likely, can be effectively managed either through ‘Defined’ provisional sums within the Main Works Contract by which the Main Contractor can fix their programme on based on the value / pre-agreed quantities / levels of contamination – During the single stage process, and whilst the Tenderers are still in competition, we will be requesting they populate a Schedule of Rates for various levels and types of contamination to manage the expenditure of provisional sums (if necessary).

4.5.8 Phase 1 and Phase 2 context - The Phase 1 projects were procured under a two stage process. This reflected the complex nature of the design of these buildings, and the benefit which was gained by engaging a contractor early on in the design process (at the end of Stage 3). The Phase 2a project was procured under a single stage process. This reflected the appetite of the residential market, and the relatively straightforward nature of the design compared to the social infrastructure buildings and associated infrastructure and public realm. The outcome of both procurements was successful.

4.5.9 In summary, a single stage procurement would benefit the programme, cost less to procure, and maintain competitive tension throughout the procurement. To get value from a single stage process, the market demands a robust Stage 4 level design and best suits straightforward building types where the risks are known and can be proactively managed. Whilst progress on the Phase 2a project has been uncertain, the Phase 2b project has been able to progress to Stage 4 design, thus maintaining programme momentum. Ground risk (contamination and obstructions) is a typical risk which can be managed via provisional sums and a schedule of rates. This approach worked well on Phase 1 (the same site), and the risk did not manifest itself as feared, and was containable within the provision sums identified.

4.5.10 Benefits of CPN Procedure. The cost of building in London is increasing. Heightened competition will help control tender price inflation in the mainstream market (<£100m), but pricing pressures will be stronger in the capacity constrained major projects market (>£100m and/or complex). The central forecast for tender pricing assumes the UK economy grows in line with the consensus forecast among leading economists at 3.5% per annum. However, at this time of heightened uncertainty, considerations must be made on how different economic scenarios could affect pricing dynamics in the main contracting market, e.g. for 2022, Core Five, the project Cost Consultant, forecast a range in tender price inflation of between a low of 3% and a high of 4.5%. This inflation figure is only an estimate and could be higher.

4.5.11 As set out in the financial implications, the viability of the Britannia project is assessed on the basis of the total financial contribution which the Council is required to make in order to deliver the project. This results from the overall cost to deliver the project versus the income which is received from sales and/or grants. The financial model is run on a current day basis - hence gives a snapshot of the total council contribution which would be required. Sensitivity analyses are run on the residential build aspect of the scheme to compare forecast costs and sales values - these give an indication of whether tender price inflation in construction cost will be cancelled out by increases in sales values.

4.1.12 Within this context, there is a risk that pricing from the market comes back higher than the pre-tender estimate. The affordability of the tenders will depend on the consequential sales estimate, however, there is a need to retain some flexibility in the procurement route to ensure that tender negotiations are able to be held and value engineering solutions are able to be taken on board and/or risks clarified and managed in order to successfully recommend a contract sum which both delivers a fixed price and is affordable.

4.5.13 The CPN route is more flexible than the Restricted route and allows the client the right to negotiate specified elements of initial bids prior to bidders submitting a final tender. This allows flexibility to ensure the final tenders reflect the optimum balance of price, quality, and programme.

4.6. Sales & Marketing Strategy Assumptions.

- 4.6.1 As reported to Cabinet in April 2017, the Britannia masterplan is based on the Council acting as developer, and taking on the sales risk of the private for sale homes. In order to successfully achieve this, the project needs to manage risk and optimise sales values.
- 4.6.2 A typical developer would do this through a sales and marketing strategy which targeted a percentage of off-plan sales prior to starting on site. For products of this type, this would be achieved through an international sales campaign ahead of launching in the domestic market. Whilst there is a domestic market for new build sales, this would not sustain the level of sales required to meet funder requirements at key project gateways, e.g. start on site. In part, this is due to the reliance which the domestic market has on mortgages, where mortgage offers are only held for three to six months. Sales relying on mortgages thus pick up nearer to the completion/availability of the homes rather than earlier on in the construction period.
- 4.6.3 To date, the sales and marketing strategy for the project has been based on the advice of JLL, as development advisor, and London Home Quarters, as Development Project Manager. This is based on an international sales launch for the first tower once a design and build contractor has been appointed and a local sales and marketing suite can be made available. The financial model then assumes a prudent pre completion sales target, and ongoing sales rate following completion. The sales and marketing assumptions will be reviewed and developed in conjunction with the successful sales agent on the next phase of the project.
- 4.6.4 The business case for the procurement of the delivery phase sales agent and branding and marketing agent for Phase 2b is being developed and following Cabinet's approval to move forward with the Phase 2b project, the procurement business case will be considered by the Hackney Procurement Board (HPB). The report recommending their award will be brought back to the CPIC for approval.
- 4.6.5 Group Director Finance & Corporate Resources will be responsible for the delivery of the private sale disposals in line with this sales and marketing strategy.
- 4.6.6 At its meeting on 18 July 2016 Cabinet agreed the Regeneration Sales and Marketing Framework, authorising the Director of Regeneration to implement the Sales and Marketing Framework in relation to shared ownership (and outright sale) disposals for both the Estate Regeneration and Housing Supply Programmes, and authorising the Director of Strategic Property and the Director of Regeneration to dispose of leasehold (and freehold) interests in the shared ownership (and outright sale) homes developed or to be developed as part of those Programmes.

4.6.7 Recommendation 3.10 of this report seeks agreement to extend the Regeneration Sales and Marketing Strategy to the disposal of the shared ownership homes delivered via the Britannia project.

5. DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

5.1. Britannia Masterplan Phase 2 Alternate Options Considered and Rejected

5.1.1 A number of options were considered and rejected following confirmation of the Secretary of State's rejection of the S77 approval. Each option was considered in relation to the following criteria:

- a. Likelihood to succeed
- b. Programme Impact
- c. Cost Impact
- d. Reputational Impact
- e. Impact on the Masterplan's objectives

Option	Description
1 - Challenge	Proceed to challenge the S77 rejection by means of a Judicial Review and pause the Phase 2 programme pending its outcome
2 - Re-Phase	Scenario a (Recommended). Proceed to deliver the affordable on the Phase 2b site and reserve the right to develop the Phase 2a site as a final phase of private residential, subject to a new S77 application
	Scenario b (Fallback). Proceed to deliver the affordable on the Phase 2b site and discount any future development on the Phase 2a site
3 - Do Nothing/ Make Good	Do not progress with any of the Phase 2 developments, make good the Phase 2a and Phase 2b site, and fund the Phase 1 investment from other sources

5.1.2 Option 1 - Challenge. The first option which was considered following the rejection of the S77 was to challenge the decision by way of a Judicial Review process. Given the Council does not agree with the outcome of the S77 process, this option would seek to overturn the decision and enable the delivery of the original basecase. Given the protracted time which it would take to go through this legal challenge, the uncertainty of the outcome, and the subsequent delay to the Phase 2 programme, this option had a significant impact on the successful delivery of the masterplan's objectives, and in particular, the delivery of the affordable housing, and the completion of the Phase 1 public realm (including the final phase of the CoLASP's playground).

5.1.3 Option 2 - Re-Phase. This option aims to maximise programme momentum and delivery of the masterplan objectives by re-phasing the masterplan to deliver Phase 2b ahead of Phase 2a. This option minimises programme delay, with the Phase 2b site currently vacant, but also potentially has a significant impact on the financial business case for the programme, should the reduction in private for sale housing on the Phase 2b site not be subsequently recovered through the delivery of private for sale housing on the Phase 2a site. It is for this reason that there are two scenarios which need to be considered, and a range of contribution presented within the financial implications of this report:

- a. Scenario a (recommended) - In the recommended scenario, the Council would commit to delivering the affordable housing on the Phase 2b site, and would reserve the right to submit a new S77 application to deliver private for sale housing on the Phase 2a site. This would be based on the existing detailed planning permission for blocks H1 and H2 and would require further engagement with SPPS to ensure its success.
- b. Scenario b (fallback) - Given that there is a risk attached to any new S77 application, the Council would need to proceed with Phase 2b on the understanding that should this right not be taken up and/or a subsequent S77 application not be successful, then the Council would need to increase its contribution to the masterplan to account for the loss of private for sale income which would result.

5.1.4 Option 3 - Do Nothing/Make Good. This option is the equivalent of a Do Nothing scenario, i.e. where the Council does not proceed to develop Phase 2 of the Britannia masterplan, makes good the Phase 2a and 2b sites, and funds the investment in Phase 1 from other sources. This option has the greatest financial impact, requiring the Council to divert funding and/or find new funding sources to pay for the investment which has already occurred on Phase 1 and the making good costs for the Phase 2 sites. Not only does this fail to deliver the original objectives of the masterplan, which included the delivery of 81 affordable homes, but it also impacts on Council's ability to fund other capital projects which are programmed to receive funding.

5.2. Procurement Soft Market Testing

5.2.1 Following the commencement of Stage 3 design on Phase 2b in May 2021, the project team commenced an updated soft market testing exercise to gauge interest in the opportunity and to help shape the procurement route and programme.

5.2.2 As part of the soft market testing exercise, the project team approached 35 contractors who have either previously been involved in a soft market testing exercise for Britannia, or have the capability to deliver the Phase 2b project.

As part of this exercise, the following questions were explored following an overview of the opportunity by the project team:

- a. Procurement approach preference (single stage or two stage)
- b. preferred stage of design and estimated tender timeline
- c. procurement route (FTS public procurement or framework)
- d. No of shortlisted companies at ITT
- e. Weighting of Quality versus Quantity, e.g. 60/40, 50/50 etc.
- f. Interest in the scheme and timing in relation to business pipeline
- g. Experience in residential of a similar nature and scale
- h. Commercial T's and C's, e.g. form of contract
- i. Any other observations in relation to the procurement approach/market

5.2.3 From this initial exercise, 21 contractors expressed an interest in the scheme, with the following headline feedback. The market:

- a. was open to framework or FTS public procurement.
- b. was interested in either a single stage or two stage tender, with this preference being subject to the business model preferred by each contractor.
- c. expressed a preference for 60/40 quality/cost weighting in the scoring.
- d. expressed that they would not bid if there were more than 4 bidders at ITT.
- e. expressed a desire for a single stage tender period to be 14-16 weeks given the scale of the project and potential holiday periods forecast in the programme.
- f. expressed a requirement for a robust Stage 4 design if progressing a single stage tender.

5.2.4 Together with canvassing the contractor market, the project team also carried out a desktop review of 21 potential frameworks which could be used to procure the works. The main consideration when reviewing the frameworks was the reach they offered in terms of suitable contractors. The Hyde Framework (Lot 7) appeared to have the broadest reach and could be used flexibly to procure either as a single stage or two stage process. When compared against the broader reach which could be attained by a public procurement (FTS), a framework route was discounted in favour of a public procurement.

6. BACKGROUND

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 19 April 2017 report approved by Cabinet.

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

6.1.3 Cabinet updates relating to Britannia have also been presented at the following Cabinet meetings:

- a. 21 January 2019 - Appropriation of Land for Planning Purposes
- b. 25 March 2019 - Award of Design & Build Contract (Phase 1a - Leisure Centre)
- c. 29 April 2019 - Award of Design & Build Contract (Phase 1b - School)
- d. 16 September 2019 - Selection of a Contractor/Developer for the Construction of Mixed Use Tenure Housing at Britannia Phase 2a
- e. 30 November 2020 - Appointment of Main Contractor for Britannia Phase 2a

6.2. **Equality Impact Assessment**

6.2.1 The Britannia Masterplan has and will provide much needed social infrastructure and homes for the area, which not only meet the latest expectations and needs of the local community, but are delivered in line with the latest design and construction best practice and standards.

6.2.2 Tenderers will be required to demonstrate their commitment and best practice in Equality & Diversity through their responses to the initial Selection Questionnaire.

6.3. **Sustainability**

6.3.1 The sustainability strategy for the development was set in response to the Greater London Authority (GLA) London Plan, the associated Sustainable Design and Construction SPD; and the London Borough of Hackney Development Management Local Plan. Further steps have been taken to provide an exemplar development as expected by London Borough of Hackney; the following elements have been provided in direct response to those recommendations:

- a. BREEAM – Residential buildings are designed in line with the GLA Sustainable Design and Construction SPD and London Borough of Hackney Development Management Local Plan.
- b. Energy – the site aims to reduce CO₂ emissions by 35% over Part L 2013 with the use of energy efficiency and a site wide district heat network with air source heat pumps (ASHP) from the neighbouring Colville energy centre and solar PV panels. The detailed modelling undertaken shows that the residential buildings are expected to achieve a 35% CO₂ reduction. The difference will be offset via a

cash-in-lieu payment or with appropriate retrofit opportunities in the local area.

- c. Climate Change Adaptation - measures are included within the scheme to mitigate and minimise the impact of climate change on the development and occupants including measures to reduce risk of overheating, flooding, and water stress.
- d. Sustainable Urban Drainage – is incorporated within the development with the use of living roofs, soft landscaping, permeable paving and buried attenuation tanks to reduce development runoff rates to less than the greenfield equivalent. Rainwater will be collected and used for landscaping irrigation.
- d. Water – the sanitary fittings within each residential unit will include low water use WCs, showers, taps, baths and (where installed) white goods to comply with an average household water consumption of <105 litres/person/day.
- e. Waste Management - A Site Waste Management Plan will be used to manage construction waste on site and ensure that waste is sorted, reused and recycled wherever possible.
- f. Ecological value - The landscaping and living roofs will be designed to enhance and protect the ecological value of the site. No net loss of biodiversity on the site will be targeted. The aim is to enhance Hackney's green infrastructure and promote a varied, biodiverse landscape.
- g. Transport – The masterplan promotes the use of healthy modes of transport by providing safe cycling and attractive walking routes, adequate provision will be made for cycle parking, recognising the importance of user choice in the type and location of cycle parking provided. The residential aspect of the development is a car free development.
- h. Health and Wellbeing – The development promotes an active lifestyle connected to the natural environment, providing facilities for play and fitness outdoors as well as at the new indoor leisure centre.

6.3.2 Unilateral Undertaking. As developer of the Britannia project, the Council signed up to 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 £179,038 during the construction phase).

6.3.3 As part of the Employer's Requirements, the successful Phase 2b contractor will be required to work with the Council to deliver these targets.

6.3.4 Tenderers will also be required to demonstrate their commitment to Hackney's Sustainable Procurement Strategy by submitting a Social Value offer as part of the tender process. These commitments will be required to be passed down to the supply chain in the main Contractor's sub-contracts and will be monitored as Key Performance Indicators for the contract.

6.4. Consultations

6.4.1 The Britannia masterplan has been the subject of formal consultation and informal engagement and communications since feasibility work began in 2016. Most recently, as part of the pre-application process before submitting the reserved matters planning application for Phase 2b, the project team held two online meetings, where the plans were shared with residents and a question and answer session held. This was not a formal consultation exercise, as this had already been undertaken as part of the outline approval, but acted to keep residents informed of design developments.

6.4.2 Now that the Phase 1 contractor has handed over the future Phase 2b site to the Council, the intention is to commence a series of bi-monthly update meetings with residents and local stakeholders. These would commence following Cabinet's endorsement of next steps in relation to Phase 2 and after the pre-election election period, and would continue during the design and procurement phase of the project. Once a contractor has been selected for the Phase 2b project, they will have an obligation to continue resident engagement throughout construction, both proactively and reactively engaging with residents on the progress of the works. During this time, the Council project team will maintain continuity of dialogue and client team contact with residents.

6.5. Risk Assessment

6.5.1 Strategic risk is considered on a monthly basis by the project Steering Group and bi-monthly by the Board. A summary of the key risks relating to this report is presented below.

ID	Risk	Mitigated Risk Rating			Action to avoid or mitigate risk
		Likelihood	Impact	Overall	
		L – Low; M – Medium; H - High			
001	A failure to deliver any affordable homes as the first phase of the residential	L	H	M	Preferred re-phased option continues to progress delivery of the affordable homes on the vacant Phase 2b site, pending further discussion on

ID	Risk	Mitigated Risk Rating			Action to avoid or mitigate risk
		Likelihood	Impact	Overall	
		L – Low; M – Medium; H - High			
	phase of development.				the potential future development of the Phase 2a site as a final phase to the masterplan
002	A failure to provide any cross subsidy from private for sale properties to offset the Council's existing investment in the delivery of Phase 1 leads to a diversion of funds/loss of opportunity on other capital schemes.	L	H	M	Preferred re-phased option continues to deliver private for sale homes to cross subsidise the Council's existing investment. Potential to deliver further private for sale homes on the Phase 2a site in the future provides further opportunity to regain original basecase financial contribution assumptions.
003	A failure to complete the Public Realm required to complete the masterplan aspirations for the old BLC site.	L	M	M	The bringing forward of the vacant Phase 2b site ensures the completion of the final section of the CoLASP playground, access and servicing routes to the School & Leisure Centre and completion of the BRAFA square public realm as soon as practically possible.
004	Lack of market interest from contractors in tendering for the Phase 2b opportunity.	L	H	M	The project team has undertaken a soft market testing exercise and confirmed sufficient interest in the tendering opportunity

ID	Risk	Mitigated Risk Rating			Action to avoid or mitigate risk
		Likelihood	Impact	Overall	
		L – Low; M – Medium; H - High			
					using the proposed procurement route.
005	Tenders returned over budget	M	M	M	<p>The construction budget has been built up based on outturn pricing rather than tender pricing. This underpins a prudent approach to cost estimation, as tested throughout each stage of design development.</p> <p>The CPN procurement route enables limited negotiation following Initial Tenders. This enables the opportunity to take on board value engineering suggestions prior to final tender and gives some flexibility to address tenders which are outwith the original budget.</p> <p>The tender route will also set out a provisional sum approach for areas of risk which are better progressed in an open book way rather than the contractor pricing in 100% risk, e.g. ground risk.</p>
006	Contractor going into liquidation during construction	L	H	M	Answers to SQs and financial checks will be carried out prior to selection and will establish bidders'

ID	Risk	Mitigated Risk Rating			Action to avoid or mitigate risk
		Likelihood	Impact	Overall	
		L – Low; M – Medium; H - High			
					<p>financial capacity to undertake the works.</p> <p>Bidders will be required to provide either a Parent Company Guarantee or a Performance Bond commensurate with the scale of the contract value.</p>
007	Unable to sell all of the outright sale homes and generate the expected or required income for the Council	M	H	M	<p>The Sales & Marketing Strategy is based on best practice carried out by developers. This requires an international off plan sales strategy to secure the optimal sales values.</p> <p>Sensitivity analysis is carried out and reported at each stage gateway.</p>
008	Unable to sell all of the shared ownership homes and generate the expected or required income for the Council	L	M	M	<p>Shared ownership could be converted to sub-market rent should the property market not be suitable for large scale disposals.</p>
009	Unable to sell the shared ownership homes due to affordability challenges within the borough as a	M	M	M	<p>Increased property values may mean we can reduce rent levels to re-align affordability (monthly housing costs)</p>

ID	Risk	Mitigated Risk Rating			Action to avoid or mitigate risk
		Likelihood	Impact	Overall	
		L – Low; M – Medium; H - High			
	direct result of increased property values				
010	Failure of the procurement process causes delays presenting a reputational risk	L	M	M	There is a breadth of experience of the procurement route amongst the legal team, project team and procurement team.
011	Construction work disrupts and negatively impacts adjacent neighbours and residents, including the operational BLC and CoLASP	M	M	M	Contractors to be assessed on their approach to mitigating impact on neighbours as part of tender process. Procurement of Phase 2b works as one single package assists with the most efficient delivery route and accountability for the successful carrying out of the works.

7. PROPOSED PROCUREMENT ARRANGEMENTS

7.1. Procurement Route and EU Implications

7.1.1 The proposed procurement route is a public procurement via Competitive Procedure with Negotiation (CPN). This will be advertised via Find a Tender Service (FTS).

7.2. Resources, Project Management and Key Milestones

7.2.1 Resources and Project Management. The Britannia Phase 2b project will be led and project managed under the same governance arrangements and contracts which were put in place to support the development of the masterplan and have progressed the design aspects of the Phase 2b residential project since Stage 0. This team is procured via Consultancy

Agreements which are in place through the Local Education Partnership (LEP), which continue to ensure continuity of resource, and agreed call off rates and scope of services.

7.2.2 The Project Director is responsible to the Senior Responsible Officer (SRO), Group Director Finance & Corporate Resources, and the Britannia Board for the delivery of the project, supported during the procurement phase of the project by the following core team:

- a. Development Project Managers - London Home Quarters
- b. Quantity Surveyors - Core Five
- c. PMO Officer - LBH
- d. Procurement Category Lead and Coordinator - LBH

7.2.3 This core team will be supported by the design team, to respond to contractor questions and clarifications. Key design team members include:

- a. Residential Architects - FCB Studios
- b. Multi-Disciplinary Engineers (including fire) - Buro Happold
- c. Facade Engineers - Wintech
- d. Acoustic Engineers - Max Fordham
- e. Transport and Waste Consultants - WSP
- f. Construction Advisors - Blue Sky Building

7.2.4 The Phase 2b project management team will act as developer, and engage with Regeneration (who will be acting in the role of client) and Housing Services colleagues for the affordable housing aspects of the delivery. This coordinated approach will be carried out for all aspects of the project, from design and specification, through procurement, construction, sales & marketing and handover of the affordable housing. The team will work in an open and transparent way, bringing together the right resources to ensure efficient oversight, governance and decision making. The internal client role will be coordinated through a Regeneration Project Manager, with input from the Regeneration Sales & Marketing and Strategic Design teams.

7.2.5 In order to ensure best practice in project delivery across the Council, and lessons learned between housing delivery teams, the Project Director will have fortnightly 221s with both the SRO and Strategic Director, Inclusive Economy, Regeneration and New Homes.

7.2.6 Key Milestones. The programme for the procurement programme has the following key milestones:

Key Milestones	
Business Case Report to Cabinet	14 March 2022
PIN Issued	4 April 2022
Contract Notice Issued (including Selection Questionnaire, SQ, and Invitation to Tender, ITT)	9 May 2022
Bidders' Day for main contract	16 May 2022
Closing date for Requests to Participate	3 June 2022
SQ evaluation & Shortlisting	6 June to 17 June 2022
Approvals and Tender finalisation	20 June to 22 July 2022
ITT Issue (min 3 shortlisted)	25 July 2022
Initial Tender returns	14 October 2022
Tender evaluation, clarification, and negotiation meetings	17 October to 4 November 2022
Final Tender preparation	7 November to 18 November 2022
Final Tender Returns	18 November 2022
Finalise Tender Analysis & Recommendation Report	21 November 2022 to 16 January 2023
Contract Award Report considered at Cabinet	23 January 2023 (est)
Standstill Period	23 January to 1 February 2023
Contract awarded	3 February 2023
Lead-in & Mobilisation	6 February to 3 March 2023
Main contract - start on site	6 March 2023

7.2.7 The project will use the Standard Selection Questionnaire (SSQ) format, with additional questions included in Part 3 to address potential contractor's professional and technical ability.

7.2.8 The Invitation to Tender (ITT) document will be issued with the SQ, and include Stage 3 level design information in order to give potential bidders a clear understanding of the scope of the project.

7.2.9 The evaluation matrix included in the ITT will be based on a 60% quality to 40% cost weighting, with the quality section focused on the contractor's experience, team and supply chain structure, critical method statements, programme, and cost management approach. The contractor will also be required to provide a Social Value proposition, which will demonstrate the contractor's commitment to Hackney's Sustainable Procurement Strategy.

7.3. Contract Documents: Anticipated Contract Type

7.3.1 The contract will be a JCT Design and Build Contract (2016). This will be based on the form of contract which was drawn up and used for the Phase 1 project. Given the similarity in site conditions, this is felt to be the most appropriate starting point. External legal contract support will be called off from Ashfords, who were procured to support the masterplan's delivery and have provided contract legal services for Phase 1 and Phase 2a. Procurement legal advice will be provided in-house, with ad hoc call off support provided by Ashfords as required.

7.4. Subdivision into Lots

7.4.1 Due to the constrained nature of the site and cross cutting below ground considerations, e.g. CR2 and Thames Water storm relief sewer, the Phase 2b contract is being let as one Lot. This will ensure the most efficient delivery programme, minimise duplication of site welfare facilities and streamline site logistics. Whilst the contract is being procured as one Lot, this will have a number of sectional completions as the buildings and public realm areas are handed over in a phased manner. This includes the completion of the final phase of the CoLASP playground.

7.5. Contract Management

7.5.1 Once awarded, the contract will be managed through the appointment of an Employer's Agent/Development Project Manager, Clerk of Works, and retained client monitoring team (to include MEP and facade engineers). These appointments will be made within the existing Britannia project team, which will ensure continuity of personnel throughout the lifecycle of the project. Monthly site meetings will be held, where progress against the programme and adherence to the Employer's Requirements and Key Performance Indicators will be monitored. A principal's meeting will also be held with the main contractor and core project management team on a monthly basis - this will focus on strategic issue identification and resolution. Key to the success of the contract will be the selection of a partner who works in a transparent and collaborative manner to achieve the aims of the project.

The role of the principals (both client side and contractor side) is to embed this culture top down within the teams.

7.6. Key Performance Indicators

7.6.1 Key Performance Indicators (KPIs) will be reported by the contractor on a monthly basis. This will include, but not be limited to the following:

- a. Health & Safety
- b. Cost - Forecast Outturn against tender price
- c. Programme - Progress against contract Sectional Completion dates
- d. Social Value - Progress against Social Value commitments, including UU commitments
- e. Residents & Stakeholder Engagement

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

8.1. The financial business case for the Britannia masterplan scheme was first reported to and endorsed by Cabinet in April 2017. At this stage a Council contribution was estimated at £41.8m based on feasibility level design. This funding was agreed to be made available up front and finance charges were not applied to the provision of this capital. Finance is modelled at 2.5% for capital required above this amount.

8.2. Since this approval to proceed with the masterplan on this basis, Cabinet has been updated at a number of key gateways on the latest current day forecasts for the scheme. As a project which is reliant on residential sales, these reports have also considered development risk - initially through the application of a broad 7.5% developer's contingency, and then more recently by way of a sensitivity analysis which looks at tender price inflation (TPI) and new build sales forecasts. As such, a current day Council contribution is presented, together with a standalone sensitivity analysis. Given the uncertain and unpredictable macro economic conditions over the last 2-3 years, these forecasts however need to be taken cautiously, particularly when considered over the life of the project, rather than looking at potential trends over the coming quarters/year.

8.3. The last masterplan financial update to Cabinet was in September 2019, when a Council contribution of £45.336m was presented. The sensitivity analysis at the time reflected a forecast Council contribution between a range of £14.822m and £58.045m. This reflected TPI and new build sales forecasts as at June 2019 published values.

8.4. Since the last update to Cabinet phase one of the Britannia Masterplan, the Leisure Centre and the School have been delivered. After taking account of

estimates in relation to the defects period and other factors such as the dismantling of the temporary energy centre, it is forecast that the total cost of phase one will be below the original cost estimate. The remaining budget is to be retained within the overall Britannia Masterplan Budget to mitigate against ongoing cost uncertainty for the remainder of the masterplan project.

- 8.5. Following the Secretary of State's adverse decision in relation to the proposed phase 2a site, this Cabinet paper recommends progressing Phase 2 of the masterplan in a re-phased manner, i.e. delivering the affordable housing on the Phase 2b site (thus decreasing the number of private for sale homes which are able to be delivered on that site by 73), and reserving the right to deliver 93 private for sale homes as a final phase on the Phase 2a site. As this recommendation is reliant on a successful S77 application on the Phase 2a site, there is a risk that this phase may not be able to be delivered in the future. As such, this report presents both scenarios and requests approval to move forward on the scenario where the original phase 2a site remains undeveloped.
- 8.6. By re-phasing the Britannia masterplan to deliver the affordable housing in Phase 2b and private homes in Phase 2a, the current day assessment of the Council's contribution is £45.707m, with a peak debt requirement in December 2024 of £224.152m. Should the Phase 2a site not secure S77 approval to deliver the private housing, then this would impact on the financial business case and reduce the amount of income being received from private sales. In this scenario, the current day assessment of the Council's contribution is £64.961m, with a peak debt requirement in December 2024 of £219.458m.
- 8.7. A further option to be considered is that the Council carries out no further development on the site, and makes good the Phase 2a and Phase 2b sites. The assumption is that these areas would be returned to being used as school playground or public realm as appropriate. This scenario would require the Council to contribute at least £118.5m to close out the masterplan (noting that this estimate excludes the cost of any finance required to fund this). This would have a significant impact on the diversion of funds from other capital projects which would then not be able to be carried out. One option which could be explored to recover spent costs in the absence of the Council wanting to develop the land, is to sell the Phase 2b plot by way of a leasehold land sale. This would be subject to planning, and has been estimated to be able to realise in the region of £18m if this was put out to the market. This has not been recommended as a way forward because it doesn't represent best value for money for the Council.
- 8.8. The financial summary position for all three of the scenarios (re-phased 2a and 2b, rephase with no 2a site and the 'do nothing' option) are presented in Exempt Appendix A.

8.9. As the most costly option (other than the 'Do Nothing' option), TPI and sales forecast sensitivity has been carried out on the re-phased scenario where the phase 2a site is not progressed. This takes published forecasts as at December 2021 for 5 Quantity Surveyors and 3 sales agents and looks at the High, Low, and Average estimates for the private for sale costs/sales values only (which in this case is contained solely within blocks H5 and H6). This would alter the basecase Council contribution level by the following estimates:

Private Sales Commentator Sensitivity (value increase minus cost increase)		Residential Value Forecast		
		Low	Average	High
Cost Inflation Forecast	High	- 5,845,123	£5,872,381.36	17,103,280
	Average	- 1,096,105	£10,621,398.53	21,852,297
	Low	3,087,462	£14,804,966.36	26,035,865

8.10. Applying these variables results in a revised council contribution range of between £38.925m and £70.806m, with an average scenario of £54.34m. For exemplification, the £54.34m represents the current day forecast contribution of £64.961m less £10.621m which is the average scenario from the sensitivity analysis.

8.11. As set out in paragraph 8.1, the original financial business case (April 2017) estimated that the Council would be required to contribute £41.8m to the overall Britannia masterplan and it was anticipated that this was to be funded as set out below:

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

8.12. 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.

8.13. The revised scenarios set out in this report (excluding the do nothing scenario) estimate that at current day prices an increased contribution of £45.707m or £64.961m will be required to deliver the scheme depending on whether a successful S77 application is submitted for the original phase 2a site. Therefore, in taking these proposals forward the Council has to consider the need to fund a further £23.161m of capital expenditure and that this will need to be included in the Council's capital programme going forward. The Council has sufficient capital receipts on its balance sheet to fund this additional requirement but it would be reasonable to take the decision as to whether to fund this amount from capital receipts or whether this should be met from borrowing alongside funding decisions for the rest of the Council's programme.

8.14. Given the scale of the Britannia project and the uncertainty surrounding the housing market as a result of the impact of both the pandemic and Brexit, it is

important that we continue to revisit cost and revenue estimates as the project develops. This includes updating cost and sales estimate sensitivity analysis as we move into the next phase of the project.

- 8.15. The main risk of the project's financial model rests with the eventual sale and values achieved in respect of the 314 private residential units on the phase 2b site and a further 93 if the phase 2a site is developed. In order to mitigate this risk the project team has engaged JLL as development advisors on the price point and sales rate which underpin the financial model. JLL have considered neighbouring developments, their price points and sales rates along with the development pipeline and buyer profiles. Following this work, prudent assumptions have been built into the financial model. Going forward it is important that the project team procures further advice to develop a robust sales and marketing strategy. The strategy assumed in the modelling is based on an international sales launch (first for block H6 and then H5) once a design and build contractor has been appointed and a local sales and marketing suite can be made available. The financial model then assumes a prudent pre-completion sales target, and ongoing sales rate following completion. Further detail in relation to the assumptions made are included at Exempt Appendix A. These sales and marketing assumptions will be reviewed and developed in conjunction with the successful sales agent on the next phase of the project. It is emphasised that a deviation from the current assumed strategy could have a detrimental impact on the current financial forecasts on the project.
- 8.16. Furthermore the project also presents a significant risk in terms of cost inflation. The following is noted:
- Phase 2b: The pre-tender estimate for the design and build contract has been estimated by the Quantity Surveyors, Core Five, this includes all building and infrastructure costs relating to the Phase 2b plot and includes a design contingency to cover Stage 4 design development. Due diligence at this stage by Core Five included testing the supplier market for key components, to check pricing assumptions, and reviewing outturn figures from recent projects. This estimate will undergo further due diligence as part of Stage 4 design. The current estimate is within the allocated construction and infrastructure budget, and in addition to this the client holds a construction phase contingency and a budget for design team fees (pre and post contract award).
 - Phase 2a: A pre-tender estimate for Phase 2a was presented to Cabinet in September 2019. The outcome of the single stage OJEU procurement was reported to Cabinet in November 2020, and the award of the contract was approved subject to the approval of the S77 application. The winning bidder was within pre-tender estimate. In order to update this pre-tender estimate for Phase 2a, the pre-tender estimate has been uplifted to include inflation to a revised Start on Site of 2024 and to take account of the range of the three tenders. This

construction estimate is for planning purposes only, and should the Phase 2a scheme be re-started, a full budget review and revised pre-tender estimate would be carried out, based on the new tenure, and any design changes which may be proposed to satisfy the new tenure and/or a S77 application.

- 8.17. Further information in relation to cost assumptions are included in Exempt Appendix A.
- 8.18. Estimated revenues and costs will be kept under review and a full business case review will be undertaken once tender prices are in and prior to contract award noting that the contract award will be brought back to Cabinet for decision.

9. VAT Implications on Land & Property Transactions

- 9.1. The disposal of the Shared Ownership and private for sale units is zero-rated for VAT purposes, while the provision of Social Rented properties is non-business, so VAT inputs may be recovered in the usual way for all residential properties.
- 9.2. The provision of nursery type services is exempt for VAT purposes and so the VAT on the inputs related to the development of the Early Years Centre in Phase 2a, should this proceed, may need to be included in the Council's Partial Exemption calculation.
- 9.3. The public realm works is a non-business activity, so any VAT costs incurred will be recoverable in full.
- 9.4. With the option to tax already in place for the Phase 2b site, the lease of the new commercial property will be standard rated for VAT purposes.

10. COMMENTS OF THE PROCUREMENT CATEGORY LEAD

- 10.1. The Phase 2b scheme will be procured using the Competitive with Negotiation Procedure under the Public Contracts Regulations, to undertake and complete Phase 2b of the Britannia Scheme construction programme. The opportunity will be advertised in accordance with the legislation in the Find A Tender Journal.
- 10.2. The procurement strategy set out in this report has had inputs from the corporate procurement officers, and the procurement process for the appointment of the works contractor will be led by the Construction and Environment Category Team with input from the project team's technical advisors.
- 10.3. 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.

- 10.4. 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. Cabinet is recommended to approve the report.
- 10.5. There will be a requirement to pay the London Living Wage in accordance with Council policies.

11. COMMENTS OF THE DIRECTOR, LEGAL & GOVERNANCE SERVICES

- 11.1. 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 is permitted to approve the recommendations in this Report.
- 11.2. The works to be procured in this Report in respect of the Main Works are of an estimated value above the threshold for works of £5,336,937 (including VAT) under Regulation 5 of the Public Contracts Regulations 2015 and therefore it will be necessary to publish a high value notice on the Find a Tender service in respect of the procurement of these works. It is proposed to use the Competitive Procedure with Negotiation under Regulation 29 of the Public Contracts Regulations 2015 to award the contract for such works.
- 11.3. Under the Competitive Procedure with Negotiation the Council will negotiate with tenderers the initial and all subsequent tenders submitted by them, except for the final tender, to improve their content. In doing so the Council will need to ensure equal treatment of all tenderers and shall not provide information in a discriminatory manner which may give some tenderers an advantage over others. Notwithstanding the opportunity to negotiate with tenderers, it is possible for contracting authorities to award a contract on the basis of the initial tenders without negotiation where they have indicated that they reserve the possibility of doing so, and therefore the Council should reserve this right in the tender documentation.
- 11.4. Legal Services, along with support from external Solicitors, will provide advice for this matter as requested.
- 11.5. Disposal of leasehold interests, shared ownership and private units. A disposal of a leasehold interest falls within the Mayoral Scheme of Delegation of January 2017 and is reserved to the Mayor and Cabinet.

- 11.6. Section 123(1) of the Local Government Act 1972 provides the Council with the power to dispose of land and property, provided such disposal is made for the best consideration reasonably obtainable. However, the General Disposal Consent 2003 removes the requirement for local authorities to seek specific consent from the Secretary of State for any disposal of land where: the local authority considers that the purpose for which the land is to be disposed is likely to contribute to the achievement of any one or more of: (i) the promotion or improvement of economic well-being; (ii) the promotion or improvement of social well-being; (iii) the promotion or improvement of environmental well-being; and the “undervalue” (i.e. the difference between the unrestricted value of the interest to be disposed of and the consideration accepted) is £2 million or less.
- 11.7. Where the case does not fall within the terms of this General Consent then an application to the Secretary of State for Communities and Local Government for a specific consent is required. Furthermore, the General Consent Order 2003 specifies that it is the responsibility of the Council to satisfy itself that the land is held under powers which permit it to be disposed of under the terms of the 1972 Act. A disposal of a leasehold interest is defined as a disposal within the Local Government Act 1972.

APPENDICES

EXEMPT

Appendix A - Britannia Masterplan Financial Summary (Exempt)

By Virtue of Paragraph 3 Part 1 of schedule 12A of the Local Government Act 1972 this appendix is exempt because it contains information relating to the financial or business affairs of 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.

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

Description of document (or None)

None

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