

<b>TITLE</b>	<b>Delivering the Gorse Ride Regeneration Project - Procurement of Construction Works and Services</b>
<b>FOR CONSIDERATION BY</b>	The Executive on Monday, 7 March 2022
<b>WARD</b>	Finchampstead South;
<b>LEAD OFFICER</b>	Deputy Chief Executive - Graham Ebers
<b>LEAD MEMBER</b>	Executive Member for Finance and Housing - John Kaiser

## **PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)**

To seek agreement for the procurement of the construction services and works for the regeneration of social housing at Gorse Ride, to provide more affordable homes and support a strong community.

## **RECOMMENDATION**

That the Executive recommends Council to:

- 1) approve the procurement business case of the construction works and services as relevant to Gorse Ride Regeneration project;
- 2) give delegated authority to the Director of Resources and Assets and Director of Place and Growth to approve the awarding and execution of the construction works and services as relevant to Gorse Ride Regeneration within the funding envelope and the over-arching business case as presented to the Executive on 17<sup>th</sup> February 2022.

## **EXECUTIVE SUMMARY**

The Gorse Ride regeneration project is a flagship scheme in the Council's response to the housing crisis, providing more and better affordable housing. The project recognises the value a thriving community can make to a successful housing regeneration project, by working collaboratively with the residents to ensure that the sense of community is preserved through a proactive engagement process.

The provision of well-planned and delivered affordable housing has never been more important. Data on a national and local level shows that homelessness is on the increase, with an escalating demand for temporary accommodation not only impacting the Council's future temporary accommodation budgets but having a major effect on those residents whose lives are disrupted by not having a stable and secure home. Meanwhile increasing house prices in Wokingham Borough continue to make home ownership unaffordable for many. The project is generally well supported by residents who along with the Tenant and Landlord Improvement Panel are updated on progress on a regular basis.

In May 2018, the Council's Executive approved the Gorse Ride regeneration project to replace the existing 178 poor quality, primarily Council owned, socially rented homes, with 243 new high quality, well designed and energy efficient homes, set in landscaped green space. If the recommendations within this report are adopted a total 249 new homes will be provided, of which 136 will be social rented homes, 49 shared ownership and 64 private sale homes. This equates to 51 more affordable housing properties than currently provided on the development.

In a report presented to Executive on 17<sup>th</sup> February 2022 it is recommended that the regenerated properties in Gorse Ride are transferred to the HRA, rather than to the Council's housing company, Loddon Homes, as proposed in the 2018 report, which will allow access to the HRA borrowing capacity without the need for additional affordable housing contributions.

Subject to approval of the report presented to the Executive on 17<sup>th</sup> February 2022, this report to the Executive seeks agreement to approve the procurement business case of the construction works and services as relevant to Gorse Ride Regeneration and give delegated authority to the Director of Resources and Assets and Director of Place and Growth to approve the awarding and execution of the construction works and services as relevant to Gorse Ride Regeneration within the funding envelope and the overarching business case as presented to the Executive on 17<sup>th</sup> February 2022.

## **BACKGROUND**

The Gorse Ride is a community regeneration scheme that will help meet local affordable housing need and maintain a strong community in Gorse Ride. It supports the Wokingham Borough Corporate Delivery Plan (2020 – 2024) priority ‘Right Homes, Right Places’. The scheme also supports the Council’s Housing Strategy (2020 – 2024) outcome to deliver regeneration programmes of older, poor quality housing stock. The scheme makes a major contribution to the four key priorities within the Housing Strategy to:

- 1.) Address and understand our housing needs
- 2.) Support our vulnerable residents through a range of housing options
- 3.) Improve the quality, sustainability and management of the Borough’s homes
- 4.) Enrich people’s lives

The project team is working collaboratively with the Gorse Ride residents to keep the community together to ensure that the project adds to the quality of life and community cohesion of the residents living there. By engaging with the local community throughout the planning and design process it is expected that the new homes will better meet the needs of residents now and in the future. The project is generally well supported by residents and the Tenant and Landlord Improvement Panel, made up of social housing tenants and councillors, are regularly updated on progress.

Gorse Ride is a residential area in Finchampstead comprising a total of 178 properties, of which 133 are Council owned, socially rented homes and 45 are privately owned properties. The homes were built in the 1970s, with the purpose of providing accommodation for a limited period of time, which was reflected in the build quality. Over the years there have been a number of issues relating to the non-traditional construction, including poor thermal insulation, some structural defects and above and below ground drainage issues. These have all led to poor living conditions and high maintenance liabilities compared with other homes in the Council’s ownership.

The proposed regeneration will transform Gorse Ride through the provision of new, high quality, social rented and shared ownership homes, private market replacement homes and well-designed open spaces.

### **Previous Executive reports giving approval for the regeneration of Gorse Ride**

In March 2017, the Executive agreed the intent to regenerate the Gorse Ride estate and in May 2018 the Executive approved a number of recommendations to progress with the redevelopment of the scheme. This included:

1. Approval for the funding model based on a construction cost estimate of £69,500,000 and site assembly cost estimate of £18,700,000, with a total scheme cost of £88,200,000. The report also confirming the allocation of £28,015,683 of affordable housing s106 receipts as well as £1,300,000 from the Housing Revenue Account (HRA) for statutory compensation payments to tenants. Loddon Homes, was proposed as the appointed landlord, were to meet the remaining funding through borrowing, Homes England grants, sale of a proportion of properties on the open market and rental income.

2. Approval of taking a community regeneration approach to the redevelopment with the intention of developing the site whilst keeping the well-established community together through tenant decanting and acquisition of privately owned properties.
3. Recommendations for the indicative number of new homes and the proposed tenure mix, proposing a total of 243 homes. Comprising of 136 social rented homes, 12 affordable rented homes, 19 shared ownership homes and 76 homes for private sale.
4. The selection of Wokingham Housing Limited (WHL) as the development partner and Loddon Homes Limited as the end landlord for the new homes.

To allow better co-ordination of the decant process which enables residents to move to new homes within the development and keep the community together the construction has been divided into four phases. Phase 1, Phase 2a, Phase 2b, and Phase 2c

Phase 1 - is adjacent to Phase 2 and is now complete and has been transferred to Loddon Homes. Phase 1 properties are being used to decant residents from Phase 2a as part of site assembly/decant process to allow development in that Phase to proceed over the next two years. Phase 1 of Gorse Ride is outside the scope of this report.

This report is only concerned with the approval of the procurement strategy for the construction works and consultant services associated for the delivery of Phases 2a, 2b and 2c.

### **Progress since the Executive report in May 2018**

Significant progress has been made with progressing the delivery of the Gorse Ride regeneration project since May 2018. This includes:

- The completion of Phase 1 of the Gorse Ride redevelopment. (Note this part of the development will remain within Loddon Homes as the landlord)
- Successful on-going engagement with the Gorse Ride community including the establishment of a Steering Group. The community has been fully involved with the regeneration process being consulted on overall design and process with regular communications distributed. Most of the residents in the Phase 2a of development have now been successfully moved into new homes
- Granting of full planning consent in February 2021
- In July 2021, the demolition contract for the first phase was awarded.

### **Events that have impacted on the delivery and finances of the Gorse Ride regeneration project since the May 2018 Executive report**

Since May 2018 a number of significant events have taken place that have impacted on the financial modelling and project times lines for the development.

- The Council restructured its housing companies in 2019 by bringing Wokingham Housing Limited and its development services inhouse.
- The construction costs quoted in May 2018 were an estimate based on an outline early-stage design. Since then, significant detailed design and planning work has been undertaken with additional design costs for the project being identified for items such as the mitigation for flooding issues and upgrading environmental sustainability measures.

- Inflation of material costs and shortage of labour and skills triggered by the Covid pandemic have seen escalating construction costs (often in excess of twenty percent) which have increased the anticipated costs for the project.
- Changes to the Homes England funding criteria in December 2020 significantly reduced the amount of grant funding available for social housing on regeneration projects. This has resulted in an estimated decrease of £10 million for the project.

Gorse Ride is a development project of considerable size and as with all projects of this nature it is expected that there will be an element of review at different stages of the project. With planning permission agreed and the decant process coming to an end for the first stage of development, officers have undertaken a review of the project in its entirety to mitigate the events outlined above and to guard against future risks.

## BUSINESS CASE

In accordance with the Procurement and Contracts Rules and Procedures (PCRP) (see section 3.1.1): a formal business case is required for any procurement with a total value above £50,000. The level of approval required for the Business Case depends on the type of procurement and total ascertainable value of the contract, as indicated in the table below:

Type of Procurement	Level 1 Assistant Director & Director Approval	Level 2 Executive Approval	Level 3 Full Council Approval
Goods and Services	£50k – £500k	> £500k	Annual Value >£5m or TAV >£25m (if capital >£15m)
Schedule 3 services	£50k – £663k	> £663k	
Works	£50k – £4,733k	> £4,733k	

A detailed procurement business case, for the delivery of the works and services as relevant and necessary for the scheme, is attached in **Part 2**. As this covers a number of procurement activities yet to be initiated by the Council, this information held is commercial sensitivity and cannot be published yet.

The project is being delivered across multiple phases to align with the phased decant strategy. For each phase, there are broadly 3 areas of procurement activity:

- Site Enabling works / site investigations – the value of this element is anticipated to be less than £4.7m per phase and therefore will not require Full Council approval.
- Professional Services / Consultancy – the value of this element is anticipated to be less than £500k per phase and therefore will not require Full Council approval.
- Construction works – the value of this element is anticipated to be in excess of £15m for each phase and therefore will require Full Council approval in absence of delegated authority.

## **Options appraisal**

For the purpose of the procurement business case, focus is given on the Construction works, as the other elements are below the threshold requiring Council approval and as such, these will be dealt with in accordance with the requirements of section 13 of the Constitution (Procurement and Contracts Rules and Procedures).

Due to the anticipated value of the construction works to be delivered in phase 2a, the contractor must be procured through an approved UK Public Procurement route, either:

- Public procurement – competitive tendering process, advertised internationally with the opportunity made available to all members of the Government Procurement Agreement (GPA), which the UK signed after leaving the European Union.
- Public procurement – call-off from competitively procured third party framework agreement.

Competitive procurement process of that scale, compliant with the requirements of the Public Contracts Regulations 2015, would usually take 8-10 months, subject to sufficient resources available across the Council to undertake the relevant research and develop the tender documents.

Third party's framework agreements are procured through robust compliant procedures external to the Council organisations, pre-vetting / pre-qualifying suitable contractors and this way generating a list with qualified, capable, and financially stable contractors, enabling other contracting authorities to access those contractors and sign a contract with the one, who can demonstrate the ability to meet the buyer's requirements. Appointment from an approved framework can either be through a mini-competition process (competition between all contractors on the framework agreement) or by a direct award (award to one of the contractors on the framework agreement, selected by the contracting authority), depending on the framework procedures and the preferred adoption route by the contracting Authority.

## **Proposed procurement strategy**

The strategy adopted to date is to procure the contracts relevant to each construction phase separately and to deliver the scheme in phases, rather than as a whole project, to enable maximum flexibility and efficiency, as well as to use the experience of delivering the previous phase. The benefits of this approach are:

- Reduces risk to WBC of implications of poor performance of appointed Contractor.
- Reduces cost commitment from the outset as only signing up on a phase-by-phase basis.
- Reduces risk of time and costs to WBC in the event the contractor was to cease trading during the scheme.
- Encourages successful contractor to maintain high standards of build quality on site with the potential to continue with the follow-on phases.
- Encourages contractor to maintain cost competitiveness, again with the potential of the follow-on phases.
- Allows experience gained from the first phase to be used to fine-tune the other phases, encourage innovation, and cost savings.

- Allows the successful contractor to continue to work as a team with the WBC team and the residents/wider community, and form trust, which will ensure an excellent outcome is achieved.
- Allows the successful contractor to form relationships and trust with the local residents and residents' groups. This is very important on a project with this type with overall duration of approximately 5 year build for all phases. The contractor will be working in and around a community where some residents will be living next to a building site for a considerable time.

To avoid any further delay, and without compromising the compliancy with the relevant procurement legislation, we recommend the use of an approved construction framework to procure the main contractor over the use of a traditional tender route. This has the benefit of improved appointment timescales which assist with overall project programme:

- As all frameworks have undergone the required robust Public Procurement regs processes there is an element of cost certainty, when it comes to generic items (prelims, contractor profit etc.) – this reduces the Council's risk exposure as these items will be in pre-determined value ranges.
- The framework contractors have been assessed on rigorous criteria, which include value for money, quality, performance and ongoing KPI's on other schemes, social responsibility, community engagement, sustainability, etc. All in accordance with the Procurement Regulations.
- Utilise the direct award mechanism for framework "call-off" process, enabling early engagement with a single contractor to progress the project within the required timescales. This also ensures the scheme design as it currently stands is scrutinised to ensure buildability and should drive costs savings by design tweaks to lessen time on site thus saving Prelims etc.

The appointment will be made in accordance with the framework conditions and with a 2-stage JCT Design & Build contract, as recommended by the Employer's Agent and Designer, as the most appropriate method.

### **Framework Review**

There are a number of nationally recognised construction procurement frameworks that are available to use by Local Authorities, a review has been made of 5 potential frameworks.

- Crown Commercial Services: Construction Works and Associated Services Framework
- Homes England DDP3
- Pagabo
- Scape
- Southern Construction Framework

Following a review of the scope and the terms of these framework agreements, it is recommended that the Crown Commercial Services: Construction Works and Associated Services Framework be used for Phase 2a due to the following considerations:

- Crown Commercial Services: Construction Works and Associated Services Framework (CCS) is owned and operated by Central Government and sponsored by the Cabinet Office. The framework is founded on an Alliance structure to promote collaborative behaviour between Clients, Suppliers and Framework Managers.
- The framework supports the implementation of key government policies and strategies, including building information modelling (BIM), life cycle costing, prompt payment, project bank accounts, early contractor involvement and social value.
- The framework delivers a wide range of major and minor building and civil engineering projects for central government and the wider public sector. The flexible contract structure is designed to provide solutions for varying customer requirements.
- In 2019 CCS undertook a full OJEU European procurement exercise (pre-Brexit) to establish a Framework to deliver public sector building and civil engineering projects ranging in value from £0 to £80m+. The framework is arranged in to 11 Lots of varying levels of complexity, this includes general construction and specialist market areas: housing, high-rise, maritime, airfields, demolition/decommissioning and construction management.
- Individual lots are divided into regional sub-lots appropriate to the market sector and value range. All commonly used procurement routes, tendering methodologies, payment arrangements and standard forms of contract are available through the framework. There are standard common government “boiler plate” clauses included for things such as GDPR and intellectual property rights. The framework runs for a period of 7 years. There are 135 appointed suppliers across the 11 Lots.
- By accessing the Framework, public bodies can contract directly with a selected contractor/supplier rather than having to run lengthy and expensive procurement exercises each time a Building or Civil project is undertaken.
- During 2019/20 the CCS framework helped 18,000 Public and 3rd Sector customers achieve commercial benefits totaling over £1 billion of public money by using the framework.
- The CCS framework is free to use by Local Authorities and does not charge a fee, all other frameworks that are listed above and assessed were found to be commercially run companies that charge a wide range of fees dependant on the project value.

The CCS framework also allows the client to choose the Contract that is used for the execution of the works, something that some of the others do not. WBC on other construction projects has preferred to use the Joint Contracts Tribunal (JCT) suite of construction contracts as they have found to be robust, and the Council has excellent knowledge in operating them; this is very important when managing a project of this scale and value.



## **Analysis of the Business Strategy**

The proposed procurement strategy is beneficial to the Council as it improves the delivery process, provides greater flexibility and minimises the timescales to appoint a contractor.

It also provides resilience and the ability to react to fluctuations within the construction market as recently experienced due to external factors such as Brexit, COVID 19 and fluctuations within the energy market prices.

## **Risks**

If delegated approval is granted, risks will be managed and mitigated by

- Continuing to engage with the residents and other key stakeholders to ensure a collective buy-in to all key decisions made
- Increasing ability to continue to make progress seamlessly across work streams and phases, to tie in with the progress of decanting process
- Providing ability to retain key relationships throughout the progress of the works
- Ensuring adherence to the strategy as approved throughout the delivery process by a robust governance arrangement

## **Recommendation**

The Executive is therefore recommended to approve the procurement business case of the construction works and services as relevant to Gorse Ride Regeneration and to give delegated authority to the Director of Resources and Assets and Director of Place and Growth to approve the awarding and execution of the construction works and services as relevant to Gorse Ride Regeneration within the funding envelope and the overarching business case as presented to the Executive on 17<sup>th</sup> February 2022.

## **Expected Outcomes and Project Times Scales**

The recommendations will ensure that the Gorse Ride redevelopment project can proceed at pace in the knowledge that the procurement strategy is approved. The project will provide a total of 249 new homes of which 136 will be social rented homes, 49 shared ownership homes and 64 private sale homes equating to 51 additional affordable homes in the Borough. The current poor-quality housing will be replaced with new, well designed, energy efficient, quality homes. The community, who in the main have elected to return to the development, have been involved in the design process and kept fully updated on progress.

Subject to the Executive agreeing the recommendations, the next steps will be to

- Conclude the procurement of the Works contract for Phase 2a
- Agree the Pre-Construction Services Agreement (PCSA) with the appointed construction company for the later phases of the site
- Finalise construction contracts for subsequent phases
- Apply for a new CPO which will take up to twelve months as detailed in the report which will be presented to the Executive on the 31<sup>st</sup> March 2022
- New build construction works anticipated to commence around Summer 2022 for the first phase

## FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

***The Council faces severe funding pressures, particularly in the face of the COVID-19 crisis. It is therefore imperative that Council resources are focused on the vulnerable and on its highest priorities.***

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£2,500,000	Yes, subject to the approval of Executive of recommendations in this report	See menu of funding steams in the Executive report dated 17 <sup>th</sup> February 2022
Next Financial Year (Year 2)	£29,300,000	Yes, subject to the approval of Executive of recommendations in this report	See menu of funding steams in the Executive report dated 17 <sup>th</sup> February 2022
Following Financial Year (Year 3)	£32,500,000	Yes, subject to the approval of Executive of recommendations in this report	See menu of funding steams in the Executive report dated 17 <sup>th</sup> February 2022

### **Other Financial Information**

See the report dated 17.02.2022 for current scheme costs.

### **Stakeholder Considerations and Consultation**

On-going engagement is being undertaken with the local community through the Community Regeneration Senior Specialist with the Community Steering Group and they are duly involved in the overall delivery process and any key decisions made.

### **Public Sector Equality Duty**

An Equalities Impact Assessment (EQIA) of the scheme was undertaken in April 2018. The Council has considered each protected characteristic to identify whether the regeneration of the site or delivery of the scheme could have a detrimental impact of such protected characteristics. The EQIA identified a number of impacts on the protected characteristic and actions to be undertaken to address any negative impacts identified. The EQIA is a live document and was updated in January 2021. It will continue to be updated as the scheme progresses and is implemented to ensure that identified actions are undertaken to mitigate any impacts.

### **Climate Emergency – *This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030***

The regeneration of Gorse Ride is anticipated to reduce energy demand by 17% through energy efficient fabric and building services. The proposed dwellings have high levels of airtightness and thermal mass, and reductions in thermal bridging potential. In response to climate change and rising temperatures, the properties have been designed to have passive solar shading through the balcony design. Mechanical Ventilation with Heat Recovery has also been incorporated into the design to ensure that the properties

are well ventilated without losing heat and eliminating the condensation within a building.

An estimated 22.6% of the development's total energy demand will be supplied via a decentralised heating network serving the apartment blocks. Total energy consumption is anticipated to be reduced by 17% through energy efficient design, with 8.3% of the development's anticipated in-use demand being provided by low carbon technologies.

In response to Wokingham's Climate Emergency Action Plan individual properties have electricity only and are heated by internal Air Source Heat Pump, integrated into a hot water cylinder. EV charging points will be distributed around the development to encourage the use of electric cars.

#### **Reasons for considering the report in Part 2**

The report in Part 2 covers a number of procurement activities yet to be initiated by the Council, this information held is commercial sensitivity and cannot be published yet. As such therefore the information in Part 2 is exempt under paragraphs 1 and 3 of Schedule 12A of the Local Government Act 1972.

#### **List of Background Papers**

Part 2 – Procurement Business Case  
Executive Report dated 17<sup>th</sup> February 2022

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