



**POWYS COUNTY COUNCIL AFFORDABLE HOUSING PROGRAMME.
25 September 2017.**

Procurement Workshop

Attendance

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Donna Heatlie	Finance
Jim Knight	Housing
Simone Hodges	Housing
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Apologies

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Introduction

The purpose of the workshop is to explore options for the procurement of developer / contractor partners to deliver a new Powys County Council Housing Build Programme.

The approach taken looked at the following areas

- What does the Affordable Housing Project look like
- What is important for Powys County Council (PCC) in respect of the over arching aims and objectives of the project
- What do we want developers / contractors to tender for

- What is procurement and what will inform the procurement route
- Procurement options - advantages and challenges.

The project

In order to understand the procurement options it was important to identify the project itself, what are the aims and objectives and any challenges / barriers to its delivery. The subsequent discussion identified the following main considerations for the procurement approach:

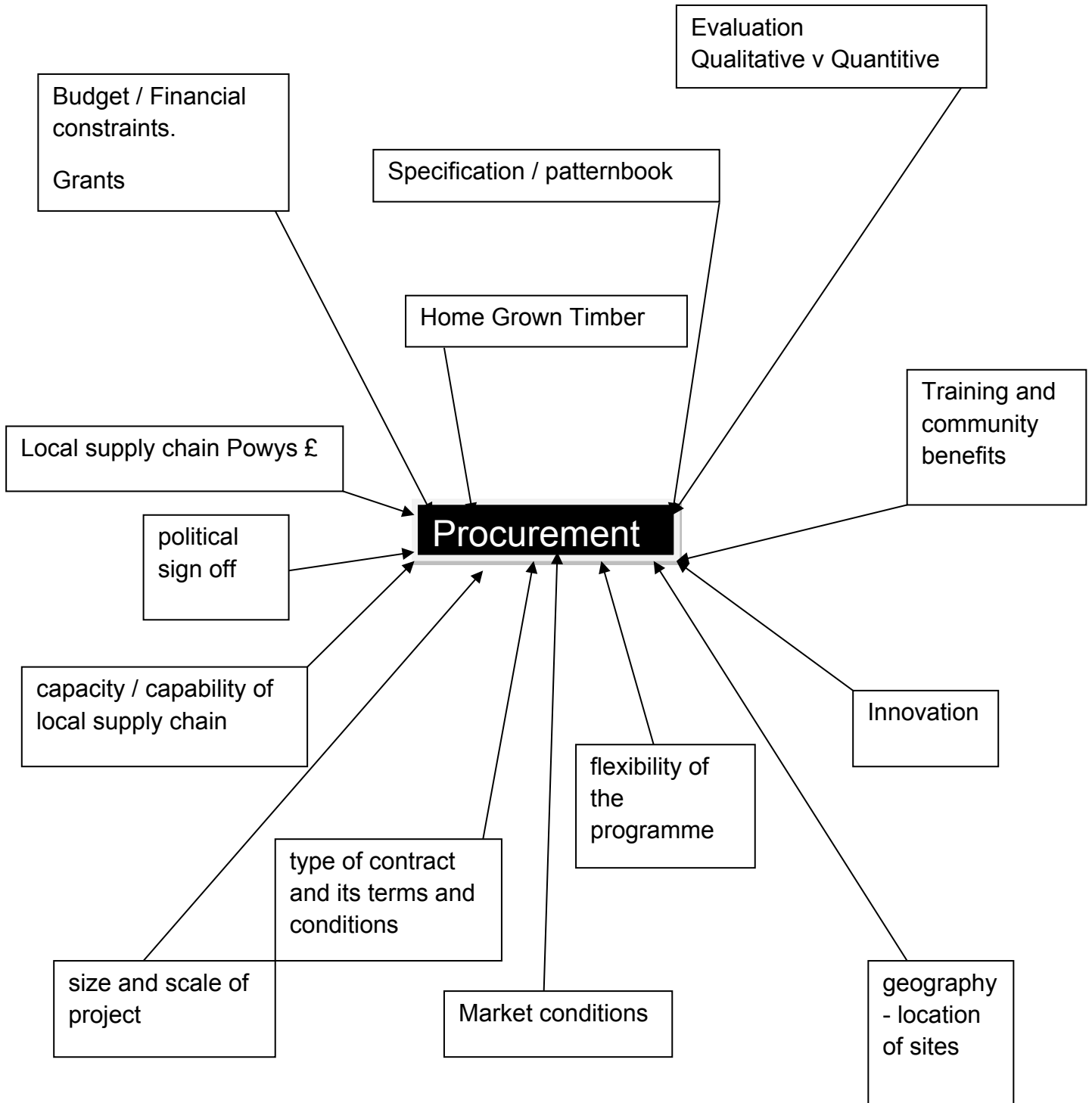
- The project in its current form has identified sites / development opportunities with a number of sites within the Housing Revenue Account (HRA). As such these HRA sites could form the basis for a Phase 1 project as they have more certainty around them subject to completion of due diligence work. **A programme of deliverable sites is to be established as a priority.**
- Majority of sites are small from one unit to five and may present viability challenges i.e. cost to build v rent able to charge.
- Housing need will be the driver around prioritisation using Common Housing Register and Local Housing Market Assessment however these forms of evidence are not robust and more local engagement with communities is needed to understand the local need / demands.
- Tenure is to be mixed enabling market housing, low cost home ownership (LCHO), social rent (SR) and intermediate rent (IR). However PCC can only offer SR and LCHO opportunities under current restrictions unless a separate development company is established. **A risk of rent policies was raised which restricts the amount of rent PCC is able to charge and how this affects the financial business model.**
- PCC has an ambition to maximise the use of 'Home Grown Timber', and to maximise the use of local supply chains (Powys £).
- There are time constraints due to funding available for 18/19 which will result in a programme being developed focussing on the deliverable schemes being prioritised.
- Capacity and capability within the current construction workforce within Powys is limited.

- The geographic spread of the sites will pose challenges for programming and procurement.

The above is a snap shot of the points raised by the team and a full list of points is appended for information.

Procurement

The procurement approach will be informed by many elements of the project as indicated below.



Current position.

It has been identified that the PCC project is currently formed of two groups of sites, one being sites in the Housing Revenue Account and a further group of sites held in other service areas and thereby not confirmed as being available for development under this project. To progress the project it is recommended the group focus initially on deliverable sites within the HRA as a Phase 1.

Funding has been identified in the financial year 2018/19 to support the development of sites. PCC is progressing four sites to enable a site commencement within 2018/19 financial year to ensure the funding available can be accessed. Each of the four schemes is being treated as standalone projects.

A financial viability assessment has been undertaken based on estimated construction costs provided by partner Housing Associations operating in Powys using an average cost per m2 the outcome of which concluded a programme of circa 50 units per annum is achievable. It is uncertain at this point as to the basis of the costs provided i.e. are they representative of the area and size of sites Powys are considering for development and whether they include on costs. There is however a risk the costs will increase once the Powys design and specification is developed and the restrictions of the rent policies that affect the council restrict flexibility in the modelling will further impact on the number of units that can be delivered.

It is also uncertain at this stage as to how many of the sites are actually developable both in terms of site constraints and value.

Recommendation.

Before a procurement approach can be agreed it is important to understand the programme. It therefore recommended the following be actioned:

Mapping

- Map all HRA sites including the density estimated for each site and preferred tenure.
- Map all non HRA sites including the density estimated for each site and preferred tenure.
- Map all Housing Association (HA) sites that have been included within the Councils PDP including the density and tenures.
- Map sites within the private sector identified within the LDP's or other strategic plans applicable for the council. Identify which of these sites has an existing planning consent. (Note: candidate sites within LDP's do not necessary translate to developments and are often used to maximise land values. This

applies to sites with planning consents in place and therefore the information this provides can be used as a guide to inform potential development.)

The above will inform how the overall programme can be split regionally.

Due Diligence

Identify any barriers to the sites being developed such as infrastructure including services and ground conditions. This will inform where a site might sit within a programme i.e. no known barriers will enable early development where as other sites might need a longer lead in to resolve issues or actually drop from the programme completely.

Housing demands to be identified to inform the most appropriate tenures balanced with the housing associations agreed development programme which the Council manages. It is noted the information within the Common Housing Register and the Local Housing Market Assessment is not robust to be able to drill down to a local level requiring a site by site local assessment. As previously mentioned PCC is only able to offer social rented (SR) and low cost home ownership (LCHO). Intermediate rent or market housing will have to be delivered either by contractor partners or a separate development company. If an LCHO model is to be established the council must adopt a policy to inform the allocation of the units.

Financial business plan

A robust financial development appraisal system is required that enables a sensitivity analysis to be undertaken to understand the maximum capital costs that a scheme can afford to cost against the restricted rent being able to charge. It is important to ensure all capital costs are factored in and how and when grants / other funding is applied.

Community benefits

A full schedule of community benefits to be set out and the process for how these are to be measured if they are not currently included within the Value Wales Tool Kit.

An emphasis on the Powys £ has been made and this focuses on local labour and supply chain. The Powys contractor base is of smaller traditional contractors who will need to have their capacity and capability assessed. These contractors traditionally have no experience of contract working and will need guidance through the process including how and why community benefit clauses are important.

The Home Grown Timber project is a priority for the council and this will have to be assessed for value for money and appropriateness of its use in some of the projects (potentially).

Design and Specification

Currently each scheme is being treated as a standalone project with no continuity of design or specification. Where grant funding is applied the design is required to meet the Welsh Governments Development quality requirements. Officers have expressed a desire to develop a pattern book of designs and a standard specification which should be commissioned at the as soon as practical.

A suite of warranties is to be compiled to cover all design aspects.

Programme Management

Whilst the day to day project management of the schemes will be undertaken by officers it is important for a Programme Board to be established to oversee the wider programme, agree how the sites will be developed including the when and how across the life of the programme, review the value for money aspect and understand why fluctuations on pricing occurs and what value engineering should be implemented. The board will also have reported to them the outputs from each project in respect of community benefits. The Board will also review the risks of each individual scheme.

Procurement Process

As referenced above before the procurement process can be progressed the programme of sites must be established and an understanding of the values of the individual schemes and overall programme. The below points summarise the minimum information required to inform the procurement approach.

- Estimated value of the construction works per individual project and then as a combined programme of sites. This is to based on known deliverable projects and not to include at this stage potential additional sites that may be added in the future.
- Location of sites and then grouped in to geographic regions and by tenure
- Number of units per annum min and max based on available budget

- Local agenda (e.g. Powys £ and Home Grown Timber)
- Who is the contracting authority? i.e. PCC as a standalone or include partner HA's and a separate development company.

One area of concern expressed by the team is in respect of the capacity and capability of the existing contractor / developer workforce based within Powys. There is a lack of large contractors based in Powys and a reluctance from national management contractors to work in Powys unless sites are of a 40 unit plus density as a minimum (note this has been confirmed verbally by three of the major management contracting companies operating in Wales). This is due to the way in which their financial business models are set up.

However there is a drive from PCC to maximise local opportunities and for the existing local supply chain to benefit from this scheme which therefore enables the procurement options to be more focussed. This also aligns with the push by Welsh Government to enable more SME's to secure opportunities.

A further consideration is the availability of grants and funding within the 2018/19 grant funding programme which sets a timeframe for applicable schemes to get a site start which is a condition of the grant.

Taking the above into consideration it was determined by the team that two options for procurement should be focussed on. Appended is the full list of options considered for information purposes.

Procurement routes

Single route - direct tendering - individual sites or batched sites

Tender each site or a batch of sites on a design and build basis. PCC can maintain control over the initial design stage through to planning and develop a specification for the projects. Contractor partners will have responsibility for obtaining building control approval and any design development. There are a number of forms of contract that can be used such as a JCT or NEC. The size and scale of the development will inform the most appropriate form of contract to be used.

The advantages of this route is the specification and design can be unique to each scheme, lessons learnt from previous projects can be accommodated, using Sell 2 Wales will provide an open and transparent procurement approach. It can also be

targeted at the smaller contractors benefiting SME's within Powys subject to their capacity and ability.

Batching of sites will depend on the geographic spread and is beneficial where a group of small sites are all located within one town. This approach may enable the drawdown of grant in a timely manner as grant is usually paid on the basis of start on site of a contract. If the sites are small this approach may provide a value in terms of economy of scale.

Disadvantages are Powys will be at the mercy of the market forces and may struggle to secure interested contractors to provide tenders.

Procure a Powys OJEU compliant framework

It is important to recognise that as a public body PCC has to comply with OJEU (Official Journey of European Union) for tenders. This applies to construction projects / programmes that have an estimated contract value (or aggregation of values) that exceed £4.1M. It has been confirmed that the current HRA sites on an individual basis will not exceed £4.1M with the largest being circa 30 units. If the sites are collated into a single programme they will exceed the £4.1M threshold.

Establishing a framework of contractors.

Given the various size of sites and the geographic spread a framework based on 'Lots' of values and geographic areas can be considered. This approach will enable the LA to have in place a range of contractor partners split across the council area and further assessed on financial capacity.

Discussion took place to the benefit of setting up to three sub regions within Powys of North, West and South and mapping the HRA sites within the agreed regions. The programme can then be tendered under an OJEU compliant tender route where interested parties can express an interest in one, two or all three regions. This is further broken down into 'Lots' of values. Before finalising the value limits PCC must estimate the minimum size and value of a site and the maximum.

An example of value ranges is as follows:

£25k > £250k
£250k > £500k
£500k > £1500k
£1500k > £3000k

£3000k >

An umbrella agreement covers the framework under which each project can be tendered either on an individual or batched basis using an agreed form of contract such as the previously mentioned JCT or NEC.

The advantage of establishing a framework of multiple partners is the council can target local SME's and pay them direct rather than rely on a management contractor partner paying a fair price to the sub contractor work force of the region.

Disadvantage is however contractors cannot move to a higher value lot under the term of the framework.

There will be a cost to any framework arrangement as they require input from procurement legal experts and experienced quantity surveyors to ensure the process is followed correctly from the initial notice to the stand still and award of contract. This is not a quick procurement solution but it will eliminate any risk of challenge going forward and can be extended over time frames if built in at the start.

If this approach is taken forward it would be advisable to include a potential further phase the sites not currently within the HRA portfolio.

Note if PCC wishes to open the framework out to HA partners they should be named within the agreement.

Summary

The procurement process for the Affordable Housing Programme is subject to the following being confirmed:

- Confirmed programme of sites within HRA ownership.
- Identification of potential additional sites that could be brought into the programme.
- Location of sites split into regions
- Estimated density of the sites and construction values
- Tenure of sites (e.g. market or affordable)

The above will help to establish the full scope of an overarching framework split into 'Lots' based on values and sub regions. In addition it will help identify any discrete projects that could be tendered as a standalone schemes e.g. there may only be one or two sites within an area. It is possible to operate more than one procurement option.

It is noted that the Council has in place up to four projects that have been progressed to various stages that will be used as pilot projects to experiment with specification and construction / design solutions that will inform the wider programme. It is proposed these projects be tendered as individual pilot projects and advertised through Sell to Wales to create an open and transparent procurement process. It has been confirmed that as individual sites these will be below OJEU thresholds and will not therefore breach single contract rules. If possible not having identical tender lists for each project would be preferable.

As many of the sites are small with densities of between one and six units they could be tendered on individual basis without procuring a larger framework. As long as no one contractor is seen to be benefiting from the tenders this might be a simple route to progress.

Subject to agreement establishing a framework of contractors split into lots and geographic regions is considered beneficial to the authority rather than securing a single developer partner.

Whichever procurement route is followed it will be affected by market conditions and officers will have to maintain an overview of pricing fluctuations and labour impacts.

The form of tender adopted must take into consideration the capability of the local supply chain many of whom are not used to contractual working. Overly complex partnering contracts might put some off expressing an interest in the project. Furthermore consideration must be given to the capability of officers project managing the programme in respect of understanding of the contracts.

One area not fully explored at this stage is the desire to build some market homes. This could be included within the framework on the basis the contractor partner will purchase the site from the LA and build out or alternatively PCC sell the sites to highest bidders and reinvest the capital receipts into the affordable housing project.

Nikki Cole

**Nikki Cole Consulting.
29 September 2017**

Appendices

The project notes.

- Housing need - common housing register and LHMA
- Site based assessment for tenure - noted PCC only able to provide social rent within the rent policies and LCHO. Market housing and Intermediate rent would have to be undertaken through a development company or separate partner.
- Home grown timber - local supply Powys £
- Improve economy of areas
- Time scales of grant availability
- What is practical
- WG target of 20,000 homes plus.
- Improve existing Powys targets
- Local Labour - Powys lack of main construction companies
- Budget - 50 units / annum
- Community involvement and enhancements -training and apprenticeship opportunities
- Price
- "Passive House" sustainability, fuel poverty, overall cost of living in the property.
- Specification - space standards - grant drivers e.g. DQR - pattern book?
- Qualitative V Quantative measures.
- How - as much use of timber
- What is PCC USP what will attract resident to want to live in a PCC home?
- Viability - Cost to build V rent **RISK - RENT POLICIES**
- Maintenance - life cycle costs
- Adaptability / flexibility of the design and construction
- Deliverability of the market - capacity within the market / resources
- Demographics
- Economies of scales - lots of small sites
- Challenge identified of larger managing contractors not attracted to small site nature of such a project due to their business models restrictions
- Need may direct to development of small sites but these may be costly to build out. - viability of small sites in some areas may result in them not being built out due to infrastructure constraints

- Potential strategic approach could be to start with larger deliverable sites to get the project moving but will be subject to members buy in.

- Ownership of sites - not all identified sites in the HRA these will need to be prioritised to understand any phasing and link to deadlines and timescales.
- It was noted that housing need changes as units built and project needs to cross over into the PDP to ensure a balance.
- Suggestion of a risk register for unit thresholds
- Challenges will be geography of sites.

Procurement options discussed but not taken forward

Single partner OJEU route.

Seek a single developer partner to deliver the whole programme over an agreed number of years based on a schedule of rates for above ground works and indication of values for sub structure elements. The tender prices will be adjusted annually to meet changes in construction costs for which an Employers Agent (Q.S) will be required.

The advantages of this approach is PCC only have one partner to manage and work with but it will require robust contractual details such as to maximise the local supply chain and set in place targets / measures and monitor these. This type of contract is usually management contractor led who will sub out each project to various contractors. They also have a sales arm and will undertake open market housing if required.

The main barrier to this for PCC is the management contractors have robust business plans which only work where there is volume i.e. a minimum density of 30 plus units per site. The PCC programme of sites is predominantly small site focussed which may reduce interest from such management contractors.

Other points to be considered centre around whether the LA is happy to work with one partner over the life of the project and how will the scheme there be project managed.

Tap into existing frameworks (note it has been confirmed that the Heart of Wales framework is currently not suitable for this project)

There are limited frameworks available that may be open to PCC. Existing frameworks with other local authorities are limited by single developer partners who as managing contractors require volume and larger sites for their business planning.

Other

Other avenues open to PCC for procurement are the authority builds out small sites itself by project managing the construction and 'piggy back on to HA tenders. Both these routes are challenging. For the LA to build itself will require extensive knowledge and experience of the construction process and a dedicated quantity survey for the schemes. If this is of interest to the LA it is would recommend a single house pilot project be identified later in the overall project to use as a learning experience. 'Piggy backing' on to HA tenders could save time but there should be a common specification and having two clients project managing may create problems for contractors and it is recommended if this route is explored one party lead the project management process. (note this could help as a learning tool for PCC staff through shadowing HA development project managers.)