

AUDIT AND RESOURCES

Thursday 21 December 2023

CABINET

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SERVICED LAND & LOWER ACRE FINANCIAL UPDATE AND OPERATIONAL APPROVALS

Report of the Deputy Chief Executive (CFO)

Recommendations

It is recommended that Audit and Resources Committee:

- 1) note the contents of this report and make recommendations to Cabinet as appropriate.**

It is recommended that Cabinet:

- 1) approve an additional capital budget of £115.8M to complete delivery of the Serviced Land, Overheads and Sales and Marketing for the whole One Horton Heath Development to be funded from future income from the scheme;**
 - 2) approve an additional capital budget of £38.4M to deliver the first delivery phase known as the Lower Acre, to be funded from future income from the scheme;**
 - 3) delegate approval to the Service Director for Finance, Improvement and Strategic Housing to complete the purchase of the housing sales system for a cost up to £350,000 (included within the amounts at recommendation 1);**
 - 4) approve the procurement and contracting strategy for residential main contract works on the Lower Acre;**
 - 5) delegate authority to the Leader and Deputy Chief Executive (CFO) to award the Tier 1 in-parcel infrastructure, services and associated groundworks contract for the Lower Acre at a maximum value of £8.9M (included within the amounts at recommendation 2);**
 - 6) approve capital funding of £75,000 to commence work on self-delivery of the new Primary School (full expenditure covered by recommendation 1);**
 - 7) approve production of the Brief for the second phase of housing in the north of the development, namely The Holme/Homestall c.350 homes; and**
 - 8) approve the updated Prudential Indicators as detailed at Appendix 6.**
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Summary

The Council previously purchased 129 hectares of land to the west of Horton Heath and is progressing with the planning and delivery of a new community. Reports have been brought to Cabinet discussing progress to date and relevant approvals in October 2017, July 2018, April 2019, September 2020, December 2021 and October 2023 with the resultant project known as 'One Horton Heath'.

The principles behind the project remain sound with the business plan for the Lower Acre, and business planning for the site for a whole, delivering a net financial return for the Council, despite increased costs and delays arising from economic conditions including the Covid-19 pandemic.

With the majority of work on infrastructure for the wider scheme either complete or underway, the project is in a position to begin house build with the intention to commence construction during 2024 with first occupations programmed for early 2025. Approval of the recommendations in this report will enable work to progress and the letting of contracts for the house construction. To enable the momentum of the programme to be maintained, this additional meeting was requested for Audit and Resources Committee and Cabinet to consider this report as award of the Tier 1 tender cannot be made without Cabinet approval.

This report updates Cabinet on the One Horton Heath financial position and requests budgetary approval for the following:

- Serviced Land, Overheads and Sales and Marketing for the whole development;
- The first delivery phase known as the Lower Acre, comprising 381 residential units including delegated approval of the Tier 1 construction contract to be entered into early in the new year;
- Initial work on scoping self-delivery of the primary school;
- Delegated approval to purchase a housing sales system.

The report also explains procurement routes as presented to the recent Procurement Executive Group, asks for approval to produce the Brief for The Holme and Homestall (approx. 350 homes) and updates the Council's Prudential Indicators.

Statutory Powers: Localism Act 2011, Section 1

Introduction

1. The Council's Corporate Plan recognises the delivery of housing as its top priority. However, the vision is far wider than simply seeing more homes constructed as quickly as possible and is more about creating communities and making the Borough a good place to live and work. To do so, the increase in and accelerated delivery of homes needs to be alongside the continued delivery of the right infrastructure such as roads, schools, provision for healthy lifestyles and open spaces.

2. A key Council Corporate Plan objective is ensuring there is a planned housing supply to meet residents' requirements for new housing in the Borough. The Corporate Strategy for Housing (February 2018) explains the Council is a housing delivery enabler, taking responsibility for both facilitating development and ensuring development happens within the Borough. There is an emphasis on the Council actively using its own assets and capabilities to unlock housing opportunities.
3. On 11 July 2019, Cabinet approved a [Project Brief](#) for the One Horton Heath, (OHH) Project, which confirmed the direction of travel or 'roadmap' for the Council's Project Delivery team responsible for the planning, design and implementation of the Council's aspirations for the land as landowner. Further information about the project is online at www.onehortonheath.co.uk.
4. The Project Brief aims to deliver the maximum reasonable quantum of residential development, to ensure efficient use of land. This has driven the acquisition of additional land parcels as they have become available within the project's red line. Delivering infrastructure ahead of residential development wherever possible and otherwise simultaneously with development, is another key aim of the One Horton Heath project.
5. This report updates Cabinet on progress to date with the OHH Project and in particular requests the relevant capital budgetary approvals to complete the Lower Acre and to take further phases of the project to the next stage. In order to keep to time on this project, the award of a significant tender for "Tier 1" in-parcel infrastructure, services and associated groundworks is imminent and falls between Cabinet meetings. Therefore, an additional meeting was requested in order that delegated approval can be given to award the tender within sums detailed within this report.
6. The delivery of the One Horton Heath project has continued to follow the aims and objectives defined in the Project Brief. Cabinet will recall that these aims included a commitment to an 'infrastructure first' approach. By providing new roads, utilities, a school, play parks and open spaces before or alongside the building of homes means that local people and future occupants will benefit from new better access and community facilities early on.
7. An 'infrastructure first' approach requires significant capital investment in advance of a revenue return being generated, funded through planned borrowing. This is not an approach a traditional developer would employ due to the up-front costs incurred; however, the Council's financing model, including retention of rented stock, enables the financing of the scheme to be repaid from future revenue income which will also deliver surplus funds to support Council services. Appendices attached to this report demonstrate the financial opportunity and surpluses that the business plan expects to be returned to the Council, net of associated costs, from first occupations.
8. Despite the macro-economic climate changing vastly over the last 5 years, prudent financial modelling has enabled the project to remain financially viable

despite the downturn in economic conditions. Increasing interest rates and levels of inflation have been factored through the business case with these costs being offset in part by revised income projections from the sale of properties, market and affordable rent, and forecast grant levels. Although there has been a period of sustained high-cost inflation, the long-term asset ownership approach taken allows a revenue return to the Council once units are occupied, inclusive of the full repayment of borrowing over the life of the asset for retained market rental stock.

Cabinet Approvals and financial monitoring

9. There have been several approvals to date as the various parcels of land have been acquired but most importantly there have been three versions of the overall business plan, all approved by Cabinet as detailed below:
 - Original Purchase – Cabinet 12 October 2017
 - Increase to 2,500 homes and securing Local Authority Accelerated Construction (LAAC) Grant – 17 September 2020
 - Secondary Infrastructure and self-delivery of the First Residential Parcel (FRP) which is now known as Lower Acre – 9 December 2021
10. Recent capacity studies suggest that the site can accommodate up to 3,000 homes. The business case is predicated on 2,850 homes and will be subject to detailed design and planning considerations.
11. The total approved budget to date for the One Horton Heath project is £327.5M, consisting of the purchase of land (circa 320 acres), infrastructure and related costs for the entire site, herein called the “Serviced Land” element, as well as an approval for the self-delivery of the first phase of One Horton Heath housing delivery, known as “Lower Acre Delivery”. Furthermore, there have been budget approvals granted to progress the design and development phases of Quobleigh Breach, Upper Acre and the Local Centre.
12. To the end of October 2023, £152M had been spent, consisting of £148.8M for Serviced Land, Overheads and Sales and Marketing, and £3.2M on the self-delivery of development phases of the project. This demonstrates the Council’s commitment to an ‘infrastructure first’ approach to development, including the Bubb Lane to Burnetts lane link road (opened in 2021) and new roundabouts at Allington Lane and Chalcroft Way (opened 2021) and contract placement for the construction of the link road between Burnetts Lane and Allington Lane due for completion in summer 2024 ahead of first occupations.
13. As infrastructure delivery continues and full planning permission gained for the Lower Acre, work will move into the residential construction phase with more frequent reporting of the project to Cabinet to maintain good governance. The financial model has been developed to better facilitate detailed forecasting and monitoring of all aspects of the development and the new monitoring process is now operating as reported to Cabinet in October.

This model can be populated for each phase and can be used for sensitivity analysis as assumptions can easily be varied for flexible financial modelling.

14. In parallel to the progression of the planning, design and infrastructure works, a more analytical way of monitoring and reporting expenditure and performance against approved budgets across One Horton Heath, such as the Serviced Land, Overheads, and Sales and Marketing for the site has been developed. This has led to new workstreams being created for each of these areas, forecast for the entirety of the One Horton Heath development to ensure the full cost of these works can be allocated to each delivery phase as it becomes live. The updated appraisals and costings seen at appendices 2-5 show these various enabling works broken down into their workstream budgets and actuals, that will be monitored, and allocated to phases in line with Cabinet approvals for the progression of future phases. More information on the budget movements can be found in the financial implications section of this report.

Serviced Land, Overheads and Sales and Marketing for the One Horton Heath Development

15. Recommendation 1 in this report asks Cabinet to approve an additional capital budget of £115.8M to complete delivery of the Serviced Land, Overheads and Sales and Marketing for the whole One Horton Heath Development. The following paragraphs explain how this sum is arrived at and uses to which the funds will be put.
16. Whilst it is acknowledged that costs have increased, this needs to be considered as part of the overall business case which demonstrates a revenue surplus to the Council from first occupations.

Serviced Land

17. A breakdown of the Serviced Land costs can be seen in the below table alongside the change since the last full approval of estimates in December 2021. Significant variances are explained in the paragraphs that follow:

	Dec 2021	Dec 2023	Change	App 2
	£	£	£	Ref
Land Purchase Costs	100,820,64	101,212,88	392,246	1
Primary Infrastructure Works	84,722,530	151,030,09	66,307,569	2
Secondary Infrastructure Works	22,449,940	27,429,731	4,979,791	3
Contingency	3,017,270	3,361,313	344,043	4
Financing Costs	12,140,910	23,987,036	11,846,126	5
TOTAL	223,151,29	307,021,06	83,869,775	
Allocation to Lower Acre	(33,028,506)	(36,887,157)	(3,858,651)	6

18. An increase in Land purchase costs of £0.4M has been realised due to a corporation tax payment becoming payable post completion of the purchase of land contained within a company structure.
19. An estimated increase in primary infrastructure works costs of £66M is attributed to a £64M increase in Section 106 (s106) obligations and a £2M uplift in Land Management costs. These variances are covered in more detail over the following paragraphs.
20. S106 obligations are requirements from the Local Planning Authority (LPA) to provide sufficient mitigation of the development, and is informed through consultation with a range of stakeholders. Statutory and policy requirements of s106 change over time and are always based on latest guidance. Changes in guidance and legislation have led to increased s106 contributions being levied.
21. A key objective of the project is to provide community and social infrastructure as part of the development and securing a full s106 commitment is a large part of this aim. As developer, the Council is working hard to ensure that s106 requirements will be met in full, and not negotiated or significantly diminished as often happens on other major developments.
22. With the above in mind the key areas of gain, resulting in financial movement, delivered through s106 for the One Horton Heath project are summarised below:
 - i. 25% of the variance (£15.9M) can be attributed to changes in legislation for nutrient neutrality. The values attributed within the s106 equate to the currently calculated nutrient (nitrate & phosphate) load anticipated from development and the need to create or acquire credits to demonstrate nutrient neutrality and be compliant with legislation. The original budget of £7.9M was based on a requirement to mitigate nitrates using an earlier, but at the time most up to date, version of Natural England's calculator tool which also did not include a requirement to mitigate phosphates. This produced a significantly lower nutrient mitigation requirement than the version eventually required to be used for assessing the Outline Planning Application (OPA) prior to determination. The current budget allows for creation or acquisition of 4,993 nitrate credits at £3,000 per credit (£14.98M) and also 179 phosphate credits at £50,000 per credit (£8.95M).
 - ii. 23% of the estimated variance (£14.8M) relates to increased Education requirements from Hampshire County Council (HCC) compared to the 2017 planning permission. These include £2.3M to fund an onsite early years facility (not previously required), an extra £0.3M for providing serviced land without charge for the new onsite education facilities, £0.2M payable to HCC towards temporary transport and an extra £12M for provision of offsite secondary and onsite primary school facilities.

- iii. A variance of £5.1M is estimated in sums payable to the Council for future maintenance of on-site open space. The variance represents the impact of the increased open space and the anticipated cost of enhanced maintenance requirements which will deliver environmental improvements and have been subject to inflationary increases.
 - iv. The revised estimates include an overall increase in off-site highway improvements at an additional cost of £2.8M across 26 junctions, crossings and signalisation improvements.
 - v. An increase of £1.3M is included in the sum required to mitigate environmental impacts arising from development in the Solent area.
 - vi. There is an overall increase in cost of £1.3M to upgrade Public Rights of Way within and adjacent to the development.
 - vii. Numerous variances individually less than £1M have arisen due to indexation to date, changes in requirements or more detailed cost estimates for works where there is now more certainty of scope.
 - viii. A £7M allowance has been made for the potential addition of 350 dwellings across the current masterplan resulting from detailed design and ensuring most efficient use of land.
 - ix. An allowance of £12M has been forecast to take account of future indexation accruing from now to the date works or payment obligations are triggered.
23. An increase in Land Management costs of £2M has been included in the Primary Infrastructure element of the table above. The full business plan now forecasts the cost of land management for the entirety of the project. This budget is being refined in consultation with the Council's Neighbourhood Services Team to ensure where possible these costs can be internalised.
24. The £4.9M increase in Secondary Infrastructure Works includes an increase in project management costs of £0.1M and a £2.3M allowance for build cost inflation. The balance represents a reallocation of costs previously included as a s106 contribution.
25. An increase in the Financing Costs of Serviced Land of £11.8M is included in the December 2023 estimated costs. This increase reflects the forecasting of interest costs over the entirety of the development (for Serviced Land this is until 2029), as well as the increased financing costs of servicing the additional costs highlighted above. The interest rate used on the Serviced Land element is the Council's blended interest rate, which is forecast to average 3% for the life of the project.
26. To fully monitor the Serviced Land elements of the development, the serviced land forecasts are monitored separately from the development phases, and an appropriate proportion of the 'Serviced Land' cost is transferred into each

development parcel as it becomes live. By using this method, the charge for Serviced Land to the Lower Acre development phase has increased by £3.8M in line with the increases explained above. The impact of these increased costs can be seen in the Lower Acre Delivery section later in this report. This allocation method will also allow for future decisions to be made on a fully costed phase-by-phase basis to determine the best approach for delivery, either through self-delivery as with the Lower Acre or through the sale of parcels to a third party or through a partnership agreement.

Overheads

27. The reported cost of Overheads for the project has increased from £13.8M to £40.1M, an increase of £26.3M. This increase is a result of the Council now forecasting overhead costs until 2033 modelling self-delivery for the entire project, whereas previously overhead costs were approved with each new development phase, leading to a lower requirement for approval. "Overheads" primarily relates to the costs attributable to the in-house delivery team. By approving the estimated full cost Cabinet will enable resourcing plans to be developed effectively within a maximum sum. This resource plan will enable detailed annual budgeting which can then be allocated to each development phase of the project.
28. Detailed overheads budgets, include directly attributable staffing costs, are monitored quarterly in line with staffing monitoring for the rest of the Council. As with the rest of the Council, any variances will be reported through to Policy and Performance Scrutiny Panel and Cabinet where significant.
29. The capitalisation of overhead costs leads to a financing cost of borrowing. Over the life of the project this financing cost for Overheads is estimated to be £4.2M. The interest rate used to calculate the Overheads element is the Council's blended interest rate, which is forecast to average 3% for the life of the project.
30. The allocation of Overheads costs to the Lower Acre development has increased by £0.5M which is primarily reflective of general inflation in staff costs over the period. The costs for Overheads include an inflation allowance of 2% per annum, taking into account the long-term nature of this forecast.
31. A breakdown of the Overheads costs can be seen in the below table:

	Dec 2021	Dec 2023	Change	App 2
	£	£	£	Ref
Overheads	13,809,390	35,982,872	22,173,482	7
Financing Costs	0	4,186,500	4,186,500	8
TOTAL	13,809,390	40,169,372	26,359,982	
Lower Acre Allocation	(4,879,250)	(5,370,011)	(490,761)	9

Sales, Lettings and Marketing

32. As previously reported, the existing Lettings Team will be expanded into a Residential Disposals & Lettings team to manage the quantum of homes that the Council will be bringing forward under the marketing banner of “eastbrooke homes”. The function of this team is to manage the timely and professional disposal of the homes either for sale or to let for Council Housing or Private Rent.
33. This team will report through to the new Head of Housing who has been recruited and starts in January 2024 with first reservations expected in summer 2024. This postholder will coordinate all public facing enquiries for accommodation at One Horton Heath and future housing developments across the Borough.
34. Now that the core team has been fully approved and, in most cases recruited to, the next step is to purchase a sales system. A project team led by the Service Director for Finance, Improvement & Strategic Housing has been scoping a detailed specification and assessing potential system providers over the last six months with the aim of appointing a provider early in 2024.
35. A key feature of the system will be that it will integrate into the Council’s existing Salesforce platform. This will enable the Council to provide a more efficient customer journey for residents by linking together all Council services.
36. The Housing Sales System will cost approximately £350,000, inclusive of internal time, to purchase and implement and is the subject of recommendation 3 within this report. Over time the cost of this system will be financed by each Housing Scheme that uses it, however at the current time, to be prudent and not rely on the potential of future schemes, the full cost is included within the One Horton Heath appraisal.
37. Current negotiations with potential providers, (who will be sourced through the relevant framework) also suggest that the internal Council team will be able to undertake a large part of the development and implementation work meaning there is likely to be no external ongoing maintenance cost to the Council as this will be done in house. This development work is included in the sum above and the ongoing support work will be provided from existing resources.
38. The proposed structure of the Sales and Lettings team and the Sales and Marketing Strategy will be submitted for approval to the Corporate Leadership Board before the team formally goes live. Work is also underway to develop and provide a new Customer Relationship Management tool (CRM) to provide our customers with the information that they need, as well as ensuring we are able to manage our customer’s needs throughout their journey. This tool will be the basis of how the customer interacts from initial interest through to completion and after care.

39. The CRM system will need to ensure that all customers experience a compliant, flexible and easy customer journey. This is being designed to both deal with in-person (with a member of the Sales and Lettings team) and remote, web-based interactions. This will enable the Team to secure sales and lettings with prospective leads at the point when they are most likely to proceed. The appropriate assessments and limitations will be built within the system to ensure that the Council remains compliant with the New Homes Quality Code (NHQC), and will enable the ability to deal with all customers, including the vulnerable.
40. The need for a Sales and Lettings function was previously identified and allowed as a direct cost attributable to delivery of the Lower Acre. Planning for a comprehensive Sales & Marketing function will facilitate better long-term efficiencies and reduction in the cost apportioned to individual phases of the project going forward. The creation and running cost of this team will be allocated across several years and as part of the business plan will be offset by future income. The specific element relating to the Lower Acre can be seen in Appendix 3.
41. The estimated costs shown within the project business plan for Sales and Marketing have increased by £9.2M from £2.2M to £11.4M. This increase is a result of the Council now forecasting sales and marketing costs for the whole project until 2033, whereas previously sales and marketing costs were approved with each new development phase. This long-term budgeting will allow resourcing plans for Sales and Marketing to be developed effectively, as well as ensuring initial set up costs, such as sales and marketing suites that will contribute towards multiple phases can be allocated prudently to each development phase of the project. There is a resultant allocation of Financing Costs for Sales and Marketing of £0.7M based on the Council's blended interest rate, which is forecast to average 3% for the life of the project.
42. The allocation of Sales and Marketing costs to the Lower Acre development has decreased by £0.7M, as upfront costs have been spread across the entire development, rather than being costed to Lower Acre. As discussed in the Sales and Lettings Team section of this report, the sales and lettings team structure will be coming forward for approval at a later date. Should cost changes from this arise, this will be reflected and reported as part of OHH alongside approval.
43. The estimated costs for Sales and Marketing include an inflation allowance of 2% per annum, taking into account the long-term nature of this forecast. A breakdown of the revised Sales and Marketing estimated costs now spread over the life of the project can be seen in the table below:

	Dec 2021	Dec 2023	Change	App 2
	£	£	£	Ref
Sales and Marketing Delivery	1,932,780	8,869,407	6,936,627	10
Sales and Marketing Conveyancing	304,950	1,953,376	1,648,426	11
Sales Financing Costs	0	659,006	659,006	12
TOTAL	2,237,730	11,481,789	9,244,059	
Allocation to Lower Acre	(2,237,730)	(1,534,934)	702,796	13

Lower Acre Delivery

44. The methodology of the modelling previously seen, such as in December 2021, mirrored a typical developer appraisal wherein a transaction value is identified for each asset or group of assets contained in a project and assessed against cost to identify a developers 'day 1' profit. One Horton Heath is not a typical development and is driven by creation of high-quality infrastructure, places and homes, many of which are retained by the Council as operational assets generating long term revenue surpluses not day one profit.
45. Financial modelling going forward will be presented to identify retained cost (outstanding debt to be financed from rental income) of the assets retained by the Council within the relevant phase with reporting and approvals focused on affordability of retained cost not 'day 1' financial performance. The comparable details for the Lower Acre are presented in Appendix 3 where the surplus of £194K shown in December 2021 resulting from notional internal financial transactions is now represented as a retained cost of £52.9M, which can then be directly compared to the current estimated retained cost detailed in this report of £93.3M.
46. A summary of the material financial changes are shown in the table below:

	Dec 2021	Dec 2023	Change	App 2
	£	£	£	Ref
Staff Costs	7,116,985	6,904,945	(212,040)	14
Finance	4,740,000	8,099,718	3,359,718	15
Construction Costs	75,251,047	99,824,600	24,573,553	16
Fees & Contingency	6,390,213	13,237,568	6,847,355	17
Serviced Land	33,028,506	36,887,157	3,858,651	18
EXPENDITURE	126,526,751	164,953,988	38,427,237	
Sales/Grant	(73,551,250)	(71,604,700)	1,946,550	
INCOME	(73,551,250)	(71,604,700)	1,946,550	
RETAINED COST TOTAL	52,975,501	93,349,288	40,373,787	

47. The increase in staff costs is explained in the Overheads and Sales, Lettings and Marketing sections above.
48. Finance costs have increased by £3.3M as this appraisal now takes account the additional impact of the increase in the number of units for rent and the increased cost of works.
49. Variances between the budget approved in December 2021 and the current December 2023 forecast in the above table can be largely attributed to economic volatility in the UK, inflation and material shortages. This is evidenced by using BCIS (Building Cost Information Services) indices that are published by the Royal Institute Chartered Surveyors (RICS). These track and forecast the performance of the Construction Industry by the evaluation of tender prices of contracts tendered and awarded across various sectors and regions. The BCIS index for December 2021 was 362 and in December 2023 is 449 which represents a 24% increase in the overall construction cost heading tabled above. The variances of £24.6M, seeing the budgetary increases from £75.2M to £99.8M, are summarised in the following sections outlined below broken into basic build cost, external works, preliminaries (contractor overheads) and abnormal items.
50. The basic build cost has increased from £49.6M to £54.6M. The £5M overall variance is due to 24% uplift for inflation detailed above less movements out of the basic build heading to other cost lines e.g. external works, preliminaries and is felt to be reflective of the current position in the market.
51. External works has increased from £8.1M to £24.8M. The £16.7M variance is due to uplift for inflation detailed above and movement in from other cost headings e.g. basic build. The main inward cost movements relate to the following:
- £8.9M for the Tier 1 works
 - £5.2M for piling and ground floor slabs
 - £1.2M utilities and services
52. Preliminaries have increased from £5.7M to £11.5M. The £5.8M overall variance is primarily due to inflationary influences, transfers between costings and increased allowances for insurances, bonds and defects liability.
53. Abnormal items have decreased from £12.5M to £9.7M, a (£2.8m) decrease. The majority of the variance relates to the £3.9M reallocation of costs related to the ground source heat pump system. This is offset by modest increases in design fees, response to the design code and contractors' overheads and profit which is based on a percentage of build cost.
54. Professional design fees have increased from £2.5M to £3.8M, a £1.3M Variance. The overall increase is due to the development of a standard house pack for utilisation across the whole OHH site, production of the OHH design code and the impact of design ascetic variations to maximise sales and rental values.

55. Contingency has been increased from £3.8M to £9.4M, a £5.6M variance. In 2021 contingency was set at 5% of the projected cost. The new contingency figure is 9% of the projected cost which provides more prudent cover given recent changes in the micro economic climate and volatility experienced in the cost of construction and house price sale values.
56. The capital receipt from house sales has decreased by £2M as 33 units initially proposed to be sold have been switched to rented stock. Detailed market advice has been sought from respected local agents and this coupled with the design of a well-balanced, well specified market facing product has led to an overall increase in average achievable sale prices per home.

Tenure Split

57. Over the life of the project the tenure split of the housing will change to reflect the market and housing need. The table below shows a summary of the key anticipated movements to the tenure split from December 2021 to December 2023. The detailed plan of the Lower Acre showing the proposed tenures split across the site can be seen at Appendix 1.

Tenure	December 2021	December 2023	Change
Open Market Sales	157	124	(33)
Private Rent	98	123	25
Affordable/Social Rent	90	95	5
First Homes/ Shared Ownership	48	39	(9)
TOTAL	393	381	(12)

58. The affordable/social rent and First Homes/Shared Ownership numbers demonstrate the Council's commitment to the provision of 35% affordable housing across the site.
59. The overall reduction of 12 units was in response to the comments received during the consideration of the planning application resulting in a final layout that was approved by the Horton Heath Development Management Committee (HHDMC) in December 2022.
60. The main movement in tenure is the reduction of 33 open-market sales units predominantly moving to Private Rent. This is supported by advice from several local agents on the best mix for the market, and the rental market currently being stronger than sales. It is important to note that there is flexibility between the tenure types to ensure that the Council can switch tenure types and mitigate against a fall in each market and be flexible to meet the greatest need.

Procurement Routes

61. Now that the site wide infrastructure and enabling works, including 'cut and fill' of ground levels, installation of Foxwood Road, ground source boreholes and formation of sustainable drainage, is sufficiently advanced, the Council needs to invite tenders for the construction of the homes at the Lower Acre. This report requests delegated approval for the award of a contract to move forward with 'Tier 1' work. This work includes in-parcel infrastructure, services and associated groundworks and the coordination and health and safety management of the piled foundations contractor which the Council has already procured and directly appointed. The completion of this work will provide foundations on which the homes can be constructed.
62. Tenders have already been received back for this work and at the time of writing they are being assessed to determine which is the recommended appointment. If the assessment is made in advance of the Cabinet meeting, then Cabinet may be able to approve the specific award. However, if the final analysis has not been completed then Cabinet are asked to approve recommendation 5 which delegates approval to the Leader and Deputy Chief Executive to award with a financial limit of £8.9M.
63. The value of the contract has been estimated by the Council's Commercial Team based on BCIS (Building Cost Information Service), industry knowledge and experience. As the expected contract sum exceeds £5M, the constitution requires Cabinet approval and as timing of tender analysis and award of this contract did not fit with the committee timetable, this additional meeting is required to enable a decision (recommendation 5).
64. Further to the award of the Tier 1 contracts package, the next significant Invitation to Tender (ITT) will be for the residential main works tender. This will cover the superstructure, completion and finishing off the external and public realm and bringing the units into use ready for disposal and letting. The intention is to publish the invitation to tender during December 2023 with bids being sought for a single contractor to deliver all 381 dwellings in six defined sections.
65. Tenderers will submit a fixed price lump sum for section one (126 dwellings). The successful tenderer will then engage with the Council in a value management exercise to maximise the delivery of the contract for the most advantageous long-term cost to the Council. The outcomes of this exercise will be used to fix the cost in subsequent sections before these are instructed.
66. This is a major contract expected to exceed £70M which will present significant risks for the Council to manage and mitigate. (Due to commercial sensitivity the scale of the procurement is a broad estimate in order not to guide any potential tenderers.)
67. On 13 December 2023 the Procurement Executive Group (PEG) considered a paper setting out the procurement, contracting strategy and risks for the first phase of homes at the Lower Acre. The paper also set out mitigations afforded by the strategy which are summarised below:

- i. The approach gives the Council time to finalise and release construction information in stages over a 12-month period commencing March 2024 rather than needing it all at ITT stage.
 - ii. The Council is able to identify and secure best price on approximately 1/3 of the Lower Acre before agreeing and instructing sections 2-6.
 - iii. The approach stages the risk profile for the successful tenderer engendering greater response to the ITT and incentivising performance and collaborative working with the Council to ensure additional work.
 - iv. The approach allows to the Council to assess performance of the successful contractor on the first 126 dwellings before being committed on further sections.
 - v. The remaining 255 dwellings can be instructed in 3 or more sections over a 20-month period, so the Council is not committed on the whole until satisfactory progress and completion of substantial parts of the work and agreement to price for subsequent phases is achieved.
68. PEG considered the risks of the proposed procurement strategy; particularly the co-ordination and monitoring of three separate contracts and the appointment of one contractor for the residential main works which must be weighed against the number of suitable contractors operating in this geographical location, site logistics and pace of delivery. The suitability of the building contract is vital and external legal expertise has been employed to ensure contract terms are robust. PEG suggested no additional recommendations for Cabinet to consider. Cabinet are asked to approve the procurement and contracting strategy for residential main contract works on the Lower Acre summarised above (recommendation 4).
69. In order to ensure that the final contract award and associated risks are fully considered PEG will reconvene to evaluate the contract proposals, review the external legal advice and consider areas such as contractor insurances, bonds, retentions, parent company guarantees and contractor due diligence to understand the protections these could offer the Council. This evaluation will be carried out before the end of January 2024 in order that any changes to the published invitation to tender can be notified to the bidding parties early in the tender process.
70. With the significance of the main contractor award, the final recommendation will be brought to Audit and Resources Committee for scrutiny and Cabinet for approval in the new year.

Ongoing Asset Ownership

71. The business plan for the project continues to be supported by long term asset retention. When taking the decision to invest in the scheme, this was based on the model that retained costs would be serviced by future rental streams. The three models contained at Appendix 4 which model the retained stock for the Lower Acre, demonstrate the potential for immediate financial returns from the project. On letting of the homes, a revenue surplus will be provided to the Council even after significant assumptions have been made

for costs such as maintenance and voids. The surplus will also be after all annual debt and interest costs have been accounted for.

72. On completion of the Lower Acre, there will remain an element of cost relating to the retained rental stock; both private rented and affordable rent which will be repaid through the asset life. A 50-year appraisal has been completed representing the net cost estimates of each tenure type for the Lower Acre. The net residual cost on completion of units which is held in the Lower Acre Delivery model represents the outstanding borrowing relating to the phase, inclusive of the related serviced land cost. This has then been allocated across the individual business plans for Market Rent, (PRS), Affordable Housing, (AH) and Shared Ownership (SO) properties. It is important to note, the net cost for AH and SO includes an estimation of the level of Homes England Affordable Housing Grant which is likely to be achieved for the project.
73. The remaining total of outstanding borrowing is estimated to be £93.3M (Appendix 3), which is then allocated as: £57.1M(PRS), £25.2M(AH) and £11M(SO). The impact of repaying this retained cost has been modelled over 50 years to understand how estimated net rents will fund the associated cost of debt. The full appraisals are shown at Appendices 4a, b and c and all demonstrate a positive financial return to the Council either through the General Fund or through the Housing Revenue Account.
74. Following Cabinet approval in December 2021 each retained tenure type has been separately appraised to ensure individuals element are financially viable. Each appraisal makes prudent allowances to cover the items listed in the table below, based on performance of our existing housing portfolio and following discussion with industry experts. Initial rental levels have also been assessed against the market or calculated using the Social Rent Formula and legislation as set by Government.

	Market Rent	Affordable Rent	Shared Ownership
Management Cost	8%	10%	8%
Maintenance Cost	7%	8%	8%
Major Repair Allowance	15%	15%	15%
Voids & Bad Debts	6%	8%	6%
Rental Inflation	3%	3%	3%

75. The updated financial model demonstrates that the ongoing financial position for the market rent stock shows a positive position, with an annual surplus of approximately £200,000 from the first year after the phase is fully complete (Appendix 4a). This is in line with previous approvals and the principles of the One Horton Heath development objectives. Any resulting surplus will be available to support revenue services, new initiatives or contributions to reserves as the Council deems appropriate, and this will be the subject of future Budget reports for the year in which the surplus becomes available.

76. With regard to the future Housing Revenue Account (HRA) appraisals, any surplus will be ringfenced in the HRA for Affordable Housing and will have no impact on the General Fund Revenue Account in line with legislation. Furthermore, also in line with regulation, there is no requirement to repay debt within the HRA. The repayment of debt within the HRA is optional as the Council commits to hold any asset in the HRA in perpetuity; this is supported by a proportion of rent being used or reserved to fund maintenance and major repairs to ensure that the homes remain high quality for the long-term.

Sales

77. A key part of the next phase of the project will be disposal of the sales units on the open market. This will be done under the Council's housing brand "eastbrooke homes" with marketing beginning in earnest in Spring 2024. The current estimate of sales income is circa £54M from Open Market units and projected to be £5.8M from shared ownership based on a 20% equity sale. These estimates are based on realistic current market values, however at the point of sale the homes will be released at higher values, which the team will be targeted to achieve. The financial appraisal remains therefore prudent and is not reliant on either future sales inflation or an improvement in the market, neither of which are within the Council's control.
78. The sales values are additionally assessed against estimates provided by five external agents. Ensuring that values can be independently assessed provides an added layer of external scrutiny and independence and therefore comfort for the business case.

Financial Monitoring and Reporting

79. Appendix 2 summarises the financial budget and cost position on the One Horton Heath Project as at the end of October 2023. This shows the approved budget, additional approvals required, as well as actual costs to the end of October, and the remaining budget to be spent (Cost to Complete). The appendix is an extract from the overall financial modelling of One Horton Heath that has been developed based on a workstream model, allocating the costs of One Horton Heath across the following areas:
- Serviced Land
 - Overheads
 - Sales and Marketing
 - Development Phases (Lower Acre, Upper Acre etc.)
80. These costs are then forecast over the life of the development, including the use of cashflow modelling with Appendix 5 showing an example cashflow model for the Lower Acre development. This is shown in the appendix on an annual basis, but can be split down to monthly level to allow for accuracy of interest calculations. At an income level, the income due to be received from

sale properties for OHH is estimated on a monthly basis and cash flowed to ensure accuracy.

81. Whilst a great deal of work has gone into developing the model, there is acknowledgment that given the size and complexity of the financial modelling it will be prudent to purchase planning software to allow the Council to migrate to a purpose-built system to monitor costs and budgets in a time efficient manner, and reduce the impact of errors and mistakes. Initial market testing suggests a system should be available for an upfront fee in the region of £30,000 with a similar ongoing annual cost to allow for a number of individual user accounts which is included within the Overheads budget.
82. This system would use data from the Council's current Enterprise Resource Planning system, which produces reports on the Council's finances at a transactional level. The new system would allow medium term planning for One Horton Heath to become more efficient, and to embed data into the Council's decision making and scrutiny on One Horton Heath, at both team level as well as board and scrutiny level.

New On-Site Education Facility

83. Within the proposed revised budget for Serviced Land (recommendation 1) there is an estimated obligation within the s106 allowance of £18.6M to deliver a new three-form entry Primary School within the development. The Council has been in discussions with the Lead Education Authority over requirements for the new education facility to ensure it forms an integral part of the new community and is in keeping with the rest of the project and its Design Code.
84. Current expectations are that to ensure the education provision is in line with the design requirements of the Council, the in-house team will assume project management and full delivery responsibility for the new on-site education facility rather than transfer land and pay a Developer Contribution via s106 for Hampshire County Council (HCC) to deliver the new school.
85. Whilst this approach safeguards Council priorities for the new education facility, schools are highly specialist and by self-delivering there are increased risks to the Council. While final terms and implications for the Council to self-deliver the school are progressed with HCC it is essential that early specialist advice and capability is sought in order to avoid delays to the delivery of the new school in line with s106 obligations (the academic year commencing after occupation of 400th eligible dwelling – anticipated in September 2027) and potential to delay the occupation of new homes delivered from the development. As such, Cabinet approval is required to enable spend of up to £75,000 (recommendation 6) between now and March 2024 with the engagement of a specialist education Project and Cost management practice.
86. Once the initial scoping work has been carried out, more detailed approvals against the overall allowance of £18.6M included in the revised business plan

will be brought to Cabinet for approval.

Next Phases

87. In October 2023 Cabinet approved funding to progress planning applications for Council delivery of phases 2 and 3 of housing plus the Local Centre.
88. To maintain progress against the master programme and trajectory for delivery of housing from this major development Cabinet is asked to approve progression of the client brief for phases 4 and 5 of housing known as The Holme and the Homestal (recommendation 7).
89. These two phases are in the north of the site and expected to follow on from housing completions within Quobleigh Breach. It is proposed that preparation of the Brief for The Holme and Homestal consider in detail the merits of releasing these parcels as serviced land in exchange for a capital receipt rather than direct delivery by the Council. This approach would not preclude the Council from securing rented stock for its housing portfolio but could help accelerate the project and de-risk the Council with regard to housing market volatility, construction cost volatility, borrowing requirements during the delivery phase of the project, project management capacity etc.

Financial Implications

90. As previously reported the Affordable Housing elements of existing and future One Horton Heath business plans will become part of the Housing Revenue Account (HRA). A fully approved HRA business plan will be brought to Cabinet for approval in advance of the first OHH units being let in 2025. The HRA will also include housing from other development sites the Council has delivered/is delivering, and the final business plan will be an amalgamation of all social housing including but not limited to the One Horton Heath homes.
91. The revised programme referred to in this report has been updated to reflect prudent cost and income estimates based on the latest available information. This has been split over the three separate elements of the business plans: Serviced Land, Lower Acre Delivery and ongoing asset ownership. Each element of the business plan is reported in detail within the appendices along with relevant assumptions.
92. The Council's prudential indicators will need to increase to take account of the additional borrowing approved in this report. Against the approved Prudential Indicators there will be a forecast increase to the Capital Financing Requirement (CFR) of £9.2M to the end of 2025/26, as shown in the table below. A full revised Capital Strategy, Medium Term Financial Plan and Prudential Indicators will be brought for approval by Council in February 2024 alongside the annual budget.

	2023/24	2024/25	2025/26	TOTAL
Forecast Net Cost	£'000	£'000	£'000	£'000
Dec 21 Forecast Net Cost	24,973	48,324	47,551	120,848
Dec 23 Forecast Net Cost	29,749	51,677	48,677	130,103
Total Additional Cost	4,776	3,353	1,126	9,255

Risk Assessment

93. The Council's property portfolio and level of borrowing has drawn national attention, and it is recognised that a programme of this significance both in size and value presents several risks in relation to the Council's finances and reputation. The Council looks forward to the publication of the report recently commissioned by the Department of Levelling Up, Housing and Communities. Scrutiny of the project is welcomed and the Council holds a number of internal briefings and publishes a number of public papers to enable full transparency.
94. The Council has already seen an increase in interest rates which has been reflected in the Medium-Term Financial Plan with the impacts mitigated, as planned, through use of the Interest Reserve. Fluctuations in interest rates are factored in to the One Horton Heath financial models.
95. Despite the levelling of interest rates and reducing inflation there remain risks, albeit reducing currently, around the national economic picture. However, the assumptions contained within the Plan are based on prudent estimates arrived at in conjunction with independent advisors and for the first phase the Council's fixed rate borrowing has been used to minimise risk within the Business Plan.
96. As with any long-term forecasting, estimates become increasingly uncertain as the projections move out into future years. The delivery element of the project is forecast over 10 years and the rental appraisals over 50, with the inherent uncertainty being understood. This is mitigated as far as possible by using prudent assumptions tested in the market as detailed in this report. These assumptions are regularly reviewed to ensure that the Business Plans remain current.
97. As we move into the sales and lettings phase of the project, wider market fluctuations will present a risk to the current appraisal. Regular monitoring of the current market is key to maintain insight on the project financial position. The assumptions used for both sale and rental values have been assessed by five local agents to ensure expectations are prudent and reflective of the extra supply being created. To further ascertain ongoing movement, the OHH Board is considering the use of an online tool provided by a market data asset company that tracks up-to-date information regarding sales and rentals

values. This will enable the team to use the benefits of any upward trends as they present themselves, as well as provide caution with any negative activity.

98. The construction cost estimates within the appraisal have been based on industry standards and RICS indexes based on the detailed design knowledge of each element of the project. There is continued uncertainty in the construction industry which puts these estimates at risk, but the estimates are reviewed monthly to ensure they remain accurate and as contracts are let the level of certainty will increase. As tenders are awarded and fixed price sums achieved this will provide greater certainty and minimise risk of cost fluctuation. Appropriate contingency sums are built into the cost modelling to offset potential increase in costs above estimates and these can be released as cost certainty is gained for each stage.
99. The ongoing monitoring and updating of the Business Plan and Financial Appraisal, along with financial monitoring and scenario planning will assist the Council in responding to any potential future economic pressures. Robust and effective financial monitoring is essential to ensure that the Council can continue to monitor the progress of the programme. Regular monitoring will be brought to the Housing Working Group and also to Cabinet on a regular basis to enable full scrutiny and transparency.
100. Risks are monitored at a workstream level by Project Teams and reported to the Project Management Team who in turn summarise and escalate risks to the One Horton Heath Board. Significant risks are escalated to the Corporate Risk Register as appropriate. The Corporate Leadership Board is responsible for the review and maintenance of the Corporate Risk Register which is then presented to the Strategic Risk Management Group (SRMG) for review and discussion. Both Cabinet and the Audit and Resources Committee have appointed members to SRMG to oversee the risk management arrangements.
101. This report considers the construction elements of the Lower Acre in the context of the wider business plan. It is important that at each stage of the programme relevant approvals are sought along with an analysis of risk in order to enable Cabinet to make informed decisions. Upcoming approvals will include the Local Centre, the Primary School and Quobleigh Breach with proposed delivery routes being considered for each.

Equality & Diversity Implications

102. The Equality Act is not relevant to the decision in this report as the decision does not relate to eliminating discrimination, advancing equality of opportunity, or fostering good relations between different people. An Equality Impact Assessment has not been carried out.

Climate Change and Environmental Emergency

103. The content and proposals in this report do not lead to an increase in Greenhouse Gas/CO₂ (GHG) emissions, damage ecology or the

environment. The environmental impacts and net benefits of the One Horton Heath project are set out elsewhere. Through the planning process the development is committed to the highest environmental standards including net neutral impact on the environment and a net gain in biodiversity. In addition, the project is seeking to promote and enable many environmental initiatives such as:

- Houses designed with emphasis on reduced energy demand through a fabric first approach.
- No heat from fossil fuels, using GSHP & borehole technology to eliminate Carbon from the primary source of our heating strategy.
- Reduced reliance on private vehicle and greater opportunity for walking and cycling.
- Accelerated usage of clean fuel alternatives (large scale EV car club and 1:1 EVC to private homes and businesses).
- A Council-owned and managed procurement platform that requires our supply chain to reduce its Scope 1, 2, and 3 GHG emissions, in turn reducing a sizeable proportion of the Council's own Scope 3 GHG emissions.

Conclusion

104. This report updates Cabinet on the next stage of development for the One Horton Heath project. With the majority of the site wide infrastructure now in place the programme requires progress with tenders for the main house construction for the Lower Acre.
105. The report and associated appendices demonstrate the financial opportunity for surpluses that the Lower Acre business plan expects to be returned to the Council, net of associated costs, from first occupations. The principles behind the project remain sound with the business plan for the Lower Acre, and business planning for the site for a whole, delivering a net financial return for the Council, despite increased costs and delays arising from economic conditions including the Covid-19 pandemic.
106. The report contains requests for the approval of significant capital sums which are necessary to complete the infrastructure for the entire site and also enable houses to be completed. The costs requested will allow the Council to continue to plan resources accordingly to deliver the completion of One Horton Heath, but do not commit the Council to self-deliver the entire site, and allow a level of flexibility to change plans should it be required without incurring unnecessary expenditure.
107. Furthermore, the report discusses procurement routes to enable the tenders to be let in accordance with Contract Standing Orders and the requirements of the Public Procurement Regulations. This includes balancing risk against the need to progress with the construction of homes.

108. The split of tenure types across the Lower Acre is also presented which demonstrates the Council's commitment to affordable housing which will be held with the newly opened HRA.
109. Approval is also requested for the creation of briefs and initial design work to enable future phases of the education requirement, the Holme and Homestall to progress alongside the work on the Lower Acre, Quobleigh Breach, Upper Acre and the Local Centre.

SARAH KING
Deputy Chief Executive (CFO)

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Appendices Attached: 6

Appendix 1 – Lower Acre Plan with Proposed Tenure Split
Appendix 2 – Budgets and Costs Summary
Appendix 3 – Lower Acre Financial Comparisons
Appendix 4a – Private Rented Stock Income Appraisal
Appendix 4b – Affordable Housing Income Appraisal
Appendix 4c – Shared Ownership Income Appraisal
Appendix 5 – Lower Acre Cashflow
Appendix 6 – Prudential Indicators

LOCAL GOVERNMENT ACT 1972 - SECTION 100D

The following is a list of documents which disclose facts or matters on which this report or an important part of it is based and have been relied upon to a material extent in the preparation of this report. This list does not include any published works or documents which would disclose exempt or confidential information.

None

AUDIT AND RESOURCES COMMITTEE

Monday 29 July 2024

CABINET

Wednesday 31 July 2024

TENDER AWARD FOR ONE HORTON HEATH FIRST RESIDENTIAL PARCEL AND APPROVAL TO PROGRESS THE ON-SITE PRIMARY SCHOOL

Report of the Deputy Chief Executive

Recommendations:

It is recommended that Audit and Resources Committee:

- (1) notes the contents of this report and considers making recommendations to Cabinet as appropriate.**

It is recommended that Cabinet:

- (2) considers, based on the evidence, financial information and balance of risk set out within this report, whether to award the main residential contract for delivery of the Lower Acre to the sole bidder or resolve to progress a different option;**
- (3) approves an increase in the capital budget of £16,312,440, related directly to the tender and increased financing costs, to be funded by future scheme surpluses;**
- (4) approves £2,069,360 to fund the increased costs of the Electric Vehicle Strategy, to be funded by future scheme surpluses;**
- (5) acknowledges the intent, should the contract be awarded, to make post-contract variations that could realise savings from value engineering opportunities including varying Parcel 1A to facilitate redesign of apartment blocks A2 and A3; and to work towards agreement of price for parcel 2 (49 dwellings) by the end of October 2024 to ensure continuity of output;**
- (6) acknowledges that, should the contract be awarded, confirmation of the continuation with the selected contractor for future phases 2, 3, 3A, 4, 4A and the varied 1A will be dependent on a future Cabinet approval; and**

- (7) reallocates the developer contribution of £20,062,156 earmarked as part of the One Horton Heath outline planning application for primary school education needs as a capital budget to enable the self-delivery of the school to continue.**

Summary

As reported to both the Audit and Resources Committee and Cabinet in December 2023, with the majority of work on infrastructure for the wider One Horton Heath scheme either complete or under way, the Council is in a position to begin building homes at the Lower Acre. The delivery of this housing will demonstrate the Council's commitment to providing much needed multi-tenured housing in the Borough, in line with the national aspirations of the Government.

Cabinet approval was received in December 2023 to progress the procurement and contracting strategy for the residential main contract works on the Lower Acre (381 homes). This report details the outcome of the procurement process and the revised Business Plan for the Lower Acre if Cabinet awards the contract to the value of the sum included in exempt Appendix B comprising fixed-price lump sums for sections 1, 2, 3, contractors' design and preliminary costs for the whole project, and defined provisional sums for construction activity in sections 4, 5, 6, 7 & 8.

If Cabinet resolves not to award the tender, then an alternative preferred option needs to be decided upon which will then be progressed.

If the tender is awarded, the capital budget for the whole project will need to be increased by £18,381,800, including £2.1M for electric vehicle charging infrastructure, as detailed later in this report. The increase will be funded by future surpluses generated by the scheme. In addition, targets will be set for teams to reduce costs and increase income with progress being monitored regularly in reports to the Audit and Resources Committee.

The information within this report needs to be carefully considered. Despite carrying out a full procurement exercise, the Council received only one bid which, once the unfixed elements of the bid are in line with the fixed elements, is likely to exceed the approved budget. This creates tension with the Council's duty to consider value for money. The report aims to set out facts around the financial implications and identify potential risks and opportunities with the award or non-award of the contract.

Finally, in December 2023, Cabinet approved capital funding of £75,000 to start work on self-delivery of the new Primary School on site. This report details the progress to date and recommends that the developers' contribution included in the Serviced Land business plan for new primary education facilities of £20,062,156 is reallocated as a capital budget to enable the school project to continue, whilst acknowledging that the final delivery cost to meet the Council's aspirations beyond DFE Standards is likely to be higher. A detailed project execution plan including a budget update, will be presented to Audit & Resources Committee and Cabinet for approval in the Q3 24/25 reporting cycle.

Statutory Powers

Localism Act 2011, Section 1

Strategic Implications

1. Creating homes and communities is identified as one of the key themes within the Council's Corporate Plan (2023-26) and this includes ensuring that there is a planned housing supply to meet residents' requirements for new housing in the Borough. In addition, the Corporate Strategy for Housing (February 2018) also explains that the Council is a housing delivery enabler, and the Eastleigh Homes Delivery Strategy (December 2020) provided further direction for the Council's Strategic Housing Programme activity from 2021.
2. The One Horton Heath development also provides an exemplar proposal for creating communities at the heart of development as, for example, it is being developed with an 'infrastructure first' approach, which means that residents will have access to all the necessary services as soon as they move into their properties. This is one of the advantages of a local authority supported development, as viability issues mean that developers are unable to take this approach. As a result of developing the site in this way, One Horton Heath will offer access to a broad range of services including a mixed-use Local Centre, on-site jobs and a local authority-delivered primary school, to meet the needs of local residents, as recommended specifically within this report.

Introduction

3. This report is constructed in two parts and should be read in conjunction with the One Horton Heath update report presented to the Audit and Resources Committee on 11 July 2024. Part one of the report considers the next steps for Cabinet in determining how to progress the Lower Acre to begin the building of the first parcel of homes. Part two of the report details the recommendation to allocate funds for the self-delivery of the on-site education facility.
4. The report is comprehensive in order that Cabinet is able to take a fully informed decision on the next steps with this significant project. The report is to be presented to Cabinet after being scrutinised by the Audit and Resources Committee. Furthermore, an all-Councillor briefing is to be held on 25 July where staff will walk-through the report and be available to clarify any details.
5. For Lower Acre delivery, a procurement opportunity to secure a Residential Main Contractor was issued for the construction of the first 381 homes. Due to the scope and value of the main contractor works contract, the Public Contract Regulations 2015 (PCR15) apply to the contract award procedure, and the Council undertook a full procurement exercise in accordance with the PCR15. Despite interest from three potential bidders, only one tender was received prior to the tender deadline. Within this public report the name of the tenderer and the value of their bid has been redacted and will not be announced

publicly unless the contract is awarded. To enable decision-makers to have full information, details of the bidder and their contract sum analysis are available in exempt Appendices A and B.

6. This outcome requires careful consideration of the facts, potential risks and opportunities detailed within this report before Cabinet can determine whether the awarding of the tender is in line with the Council's best interests.
7. This report sets out the due diligence that has been undertaken, including the use of external legal and cost consultancy. It also comments on options for delivery plus the risks and benefits of awarding, or not awarding, the tendered contract. It also updates on the financial implications of the tender and more accurate Social Rent levels and the potential impact on the future Housing Revenue Account (HRA).
8. Regarding the on-site education facility, this report sets out the anticipated procurement approach, subject to due diligence around PCR15 and framework rules, to enable self-delivery of the primary school in line with planning triggers. It is recommended that the developer contribution of £20,062,156, as calculated in the draft s106 which supports the Outline Planning Application (with index linking), is reallocated as the capital budget for this scheme.

PART ONE: LOWER ACRE

Tender process for procurement of a Main Residential Contractor to deliver Lower Acre

9. An Expression of Interest (EOI) for Lower Acre (381 homes) was issued on the [Homes England Delivery Partner Dynamic Purchasing System \(DPS\)](#). The Homes England DPS was selected because it would provide the Council the broadest procurement platform for potential bidders in the region who could bid for projects of this scale and value. Furthermore, the selection process undertaken by Homes England under the DPS includes checks such as contractors' financial standing and experience with annual financial checks, turnover, insurance levels, acid test ratio greater than 1 carried out, credit safe checks, systems in place for PCR compliance and environmental management measures / carbon reduction plan in place prior to being admitted to the Homes England DPS. A large site contractor has to also demonstrate a track record of delivering sites of 70+ homes.
10. The EOI was open for 10 days which gave advance notice of market appetite for the main tendering opportunity to eligible Developers and Residential Main Contractors in the Southeast region on the "Large sites" lot. Of the eligible bidders, three main contracting companies formally registered their interest.
11. Following conclusion of the EOI process, an Invitation to Tender (ITT) for delivery of the Lower Acre was issued on 1 March 2024 via the DPS to the three bidders who had formally registered their interest. It is beneficial for the

final pool of Contractors to be between three and five because of the significant value and speculative nature of preparing tender bids. Often contractors will seek clarity on the number of bidders and potentially exclude themselves if this is considered to be a risk to them. Therefore, although the number of bidders was on the lower end of the scale, it was within a range that was sufficient to sustain appetite and interest to proceed with the ITT. This report outlines the procurement and tendering process, feedback and outcome of this tendering exercise.

12. One contractor formally withdrew from the tender opportunity on 11 March 2024. For full details refer to exempt Appendix C. Mid-tender interviews were held with the remaining two interested contractors to provide an opportunity for the bidders to seek clarifications on various aspects of the tender documentation.
13. During the ITT process all tender queries (TQs) received were responded to via the Homes England portal to ensure that all the bidding parties received the same information, which ensures transparency and equal treatment. After receiving feedback from both remaining bidders in relation to tender timescales, it was agreed that the tender deadline would be extended until 30 May 2024.
14. Following the mid-tender clarification interviews, a second bidder withdrew from the tender opportunity on 17 May 2024. For full details refer to exempt Appendix D.
15. One compliant tender was received, meaning there were no qualifications, caveats, or exclusions to prevent the bid from being accepted. Due to concern over receipt of only one bid, staff obtained specialist legal advice on a range of matters, including a definitive position on whether the Council could lawfully accept a single bid under Public Contracts Regulations 2015 (PCR15). The full advice received from the Council's external legal advisors on procurement compliance and the appropriateness of the building contract drafting is included in exempt Appendices E and F.

Tender Price Analysis

16. Prior to issuing the invitation to tender (ITT) the Council's Commercial team had estimated a build cost for the Main Residential contract works. The submitted tender price is included in exempt Appendix B. Whilst this appears to be very close to the estimated build cost, further work has been carried out to analyse the tender and this highlights a likely significant increase in the final cost of the completed work.
17. The Lower Acre consist of 8 parcels. The ITT asked tenderers to submit a fixed price for parcels 1 and 1A (126 dwellings) plus preliminaries (i.e. site set-up, staff and organisational costs), fees, overheads, and profit for the remaining 255 dwellings. The works element of the remaining 255 dwellings were included in the tender as Defined Provisional Sums set by the Council. This approach has provided firm cost data for our two- and three- storey

houses (prevalent in Parcel 1) and flatted units (prevalent in Parcel 1A). For details of the relevant Parcels and Sections of Lower Acre please refer to site plan included in Appendix K.

18. The contract is structured for the successful contractor to price each of these Defined Provisional Sums on an open-book basis, with instruction of the works only once the Council has agreed the fixed price and ongoing performance of the contractor. Prior to issuing the ITT, as part of ongoing due diligence, the form of contract used was assessed by external legal advisors as being in a form that was expected for works of this nature and is materially suitable. Even if the full tender is awarded, the contract has been structured such that the Council could omit sections 3-8 and retender these letting them to a different contract or contractors if concerns develop over price, quality, or transparency in this process. Given the scale and importance of this project, Contractor performance and contract delivery would be carefully monitored and reported regularly to Councillors with instruction of further phases subject to additional Cabinet approval.
19. The Commercial team carried out a tender analysis of the submitted price, looking in detail at the fixed-priced elements for parcels 1-3. When the build cost element was extrapolated and applied to Sections 4-8, the estimated final price from the bidding contractor for the Development was identified as likely to be significantly higher than the budget approved by Cabinet. It is important to note that the extrapolation exercise used fixed-priced data from Parcel 1 and 1A and is therefore an estimated assessment, undertaken by the Council to investigate the submitted tender price, and not a final contract price. The current bidder has carried out its own pricing exercise for the remaining sections of the Lower Acre. They have demonstrated a final estimated price closely aligned to the Commercial Team's own extrapolation assessment.
20. As part of the tender analysis, the Commercial team considered that priced items for Mechanical and Electrical installations, timber frame structures and insurances looked to be higher than the Commercial team would have assumed. These queries were raised with the bidding contractor, who then carried out a further analysis of their return to determine whether any errors occurred in their pricing. This is the standard approach to ensuring tender details are correct whilst analysing a tender return. Although no errors were identified, the bidder has agreed that the mechanical, electrical and timber frame pricing appear higher than other projects and a thorough review of these packages has been added to the Value Engineering (VE) exercise proposed for this contract.
21. Within the ITT was a requirement for the bidders to consider VE opportunities where changing designs or materials used can reduce construction costs or increase day-one or long-term value of the homes. Excluded from the tender price, but included in the bidder's proposals, is a £5M VE opportunity to work through. After an initial review it is considered that only 50% of this could be realised without diluting the quality of the development. However, this saving can only be confirmed as a saving post-contract award, working through the detail and agreeing this between both parties.

22. Additionally, since the ITT tender documents were issued, the team have been working on the rationalisation of the flatted units A2 and A3 to reduce the footprint of the apartments. It is estimated that this will reduce the final cost of the build by up to £1.8M and this will be treated as an additional VE opportunity.
23. The affordability of the bidder's extrapolated price and demonstrating value for money with only one tender are areas of concern. Considering this, external legal advice has been sought on the options available to the Council that could lead to an improvement in the price. The following paragraphs summarise the advice with full detail contained within exempt Appendix E.
24. The other options available to the Council can be summarised as:
- Option A: Abandon the current procurement process and re-procure (approximate 6-9 months' delay).
 - Option B: Rewind the current procurement process and invite updated bids against updated requirements from those contractors who expressed an interest (2-3 months' delay).
 - Option C: Switch to the negotiated procedure on the basis no suitable tenders have been received.
25. Option A would carry the least procurement legal risk but would lead to a significant delay in the delivery of Lower Acre and lead to additional interest costs on borrowed finance for six to nine months, which would potentially attract additional borrowing costs of circa £515,000 - £700,000 depending on the length of delay. There is also no guarantee that an alternative procurement route would deliver a better price.
26. Option B is not a recognised tendering procedure, but it is something external advisors have proposed could be developed. The time taken for this procedure would result in an estimated 10-12 week delay and would require all parties who expressed an interest to be approached to ascertain if suggested variations to the contract would change their interest in bidding for the tendering opportunity.
27. The reality of Option B is not likely to entice the two interested contractors as the proposed changes do not address their primary reasons for withdrawing, meaning that unless there is interest from existing or new suppliers on the DPS, the current bidder could again be the only bidder, still on a fixed-price basis and with potentially no overall betterment in terms of price. Furthermore, there is a risk that the current bidder could opt out based on further / protracted tendering exercises; and therefore, although procurement legal risk could probably be managed, option B is not a recommended option.
28. Option C is considered to hold the most risk of procurement legal challenge for the Council. The submitted bid is fully compliant and therefore to negotiate could be seen as detrimental to other contractors who have not been afforded

the same opportunity. The principles of public procurement mean that the Council needs to ensure that it demonstrates transparency, equal treatment of suppliers and non-discrimination.

29. Based on the above, it is considered that the only two viable options available to the Council are to either accept the bid as stated and work through Value Engineering and other cost reduction opportunities with the successful Contractor to bring outturn costs back in line with pre-tender estimates or lower, or to move forward with option A and retender either on the same basis (although potentially via a route other than a DPS) or by splitting the contract into smaller lots to aim at the SME market rather than at a tier 1 contractor. If Cabinet decides to award the contract, the Commercial team will use the mechanisms within the contract to vary, value engineer and firm up each element using open-book pricing and cost benchmarking. The tendering contractor has offered a full open-book exercise on all elements. This means that the Council will have the ability to review and influence all suppliers and costs suggested by the contractor during the contract period which drives increased transparency and confidence in the final price paid for the works.
30. The risk referenced in the point above, in retendering the same opportunity but to a different pool of contractors via an alternative platform, is that the market in this region has become relatively limited. Main contractors in recent years have either gone out of business or have had to diversify, consolidating activities and streamlining elements of their contracting business, focusing only on serviced plot developments for themselves as opposed to carrying out main contracting for clients. A retender would be likely to return the same level of interest from Tier 1 and 2 contractors in the marketplace to the tender opportunity advertised via the Homes England DPS. The risk of tendering smaller sections and parcels is covered in the Further Consideration section of this report but focuses on not being able to meet the housing trajectory (delivery) and the qualitative requirements of the Council.
31. As only one bid has been received, there is no competing set of bids to enable cost comparison. Therefore, Wellings LLP (a Quantity Surveying practice regulated by Royal Institute of Chartered Surveyors that has been providing cost consultancy support to the project since 2021) were instructed to carry out an independent appraisal of the bid received to provide an independent estimate of the range of bids that could be expected for the work. The detailed outcome of this review can be found at exempt Appendices G and N.
32. Wellings advise in their report that a client could expect a tender range of between -5% to + 10% of their estimate reflecting the different size and calibre of potential bidders. This would suggest bids ranging from £83.96M to £97.21M for the Lower Acre using a standardised approach and typical specification. The bidding contractor is a "Tier 1" contractor, which means that they are a national firm with a strong presence and excellent reputation in the sector. Typically, a Tier 1 contractor has an annual turnover more than £500M.

33. It would be anticipated that a Tier 1 contractor would be at the higher end of the range provided by Wellings and the estimates made by the technical team are within this range, but at the very top end.

Tender Submission – Qualitative and Technical

34. The bidding contractor's qualitative submission is included at exempt Appendix A.
35. Aside from price, the qualitative and technical elements of the submitted tender represent an exceptionally considered and robust submission. Their programme, sequencing and logistical considerations are comprehensive, explained in detail and are illustrated with a 3D model charted against a timeline. Furthermore, the received tender is unqualified, in that it represents a submission that explicitly reflects the contract terms and requirements specified.
36. The bidder's qualitative submission also demonstrates excellence in their approach to Health & Safety, reduction of Green House Gas emissions, sustainability practices, delivery of Social Value, quality control, customer journey and after care/defect response. These are all areas where the Council seeks to lead the way through its development activity and, while the commercial aspects of receiving a single bid at the upmost level of professionally advised cost is a concern, staff believe that should Councillors choose to award this contract, the bidder is aligned to the Council's ethos and wider aspirations for the project and will materially aid the Council's delivery of excellence in these areas.
37. As part of the due diligence process staff have visited several of the bidding contractor's sites to assess site delivery, safety, and culture. In visiting sites where the bidding contractor are delivering contracts for other Local Authorities, the team were impressed with how efficiently their sites appeared to operate in terms of trade and traffic management, cleanliness, and safety. During a post-tender interview with the current bidder, the bidding contractor made a commitment to the Council that they would be happy to provide references and arrange meetings with the relevant LA teams (without their presence) on representative scale developments, if this would be helpful to assist in decision-making.

Further considerations

38. When determining whether to award the contract, consideration should be given to other factors than just price and quality of the specific tender so that the full picture is understood. These factors can include:
- associated costs of financing;
 - impacts on other phases of the programme;
 - resource planning for the Council with a potential lull in activity if the contract is not awarded and then the need to scale up;

- reputational impact;
 - impacts on other income streams such as grants reliant on delivery;
 - delay in receipt of income from sales and rent;
 - likelihood of improving the outcome by moving forward with an alternative option
39. The monthly cost attributed to the £40.3M borrowed by the Council to date for the Lower Acre is approximately £74k per month. If delays are experienced in appointing a contractor this could increase the monthly financing cost attributed to the Lower Acre, due to spend incurred during the delay period, to £86k per month.
40. Depending on the length of delay, the trajectory for the remainder of the programme may be affected as it would be difficult to bring forward other phases at the same time. This would put additional pressure on the staff team, which may need to be expanded. Furthermore, the outcome could be excess stock coming to market at the same time, which may negatively affect sales and lettings values.
41. The Council has been clear in outlining the trajectory for the One Horton Heath programme, and a delay to the Lower Acre and subsequent phases will potentially be affected by this. This may have a negative impact on building the eastbrooke homes brand as the Council may not be seen to be reliable, despite the delay being due to a desire to achieve value for money.
42. Changing the procurement route could be achieved by splitting the tender into several smaller parcels aimed at attracting a wider group of small and medium-sized enterprises (SME) rather than just Tier 1 contractors. There is no certainty that there will be an increase in the number of contractors willing to bid and also no certainty that the combination of a number of contractors across smaller parcels will deliver a lower cost. There is also a risk that if the economy starts to grow and building activity accelerates as the new government intends then costs will start to increase in the construction sector.
43. Potential risks that need to be considered before adopting this approach are:
- a lower building warranty rating which would increase the Council's cost of providing the new homes warranty;
 - lower employment and social value credentials and outcomes;
 - less emphasis on environmental initiatives such as lower greenhouse gas emissions;
 - fewer dynamic site production teams available, leading to compromised coordination and management and increased number of issues to resolve, compromised supply chain, reduction in quality, handover procedures and regime, less experience in management of design;
 - a higher risk of contractor liquidation / administration;
 - potentially not being able to offer the insurance levels the Council's brokers have specified;
 - increased staff and overhead costs to run the higher volume of major procurement exercises;

- further frustrated procurement exercises due to a lack of suitable SMEs in the marketplace to handle the number of smaller contracts we would need to let to maintain our trajectory for delivery of the project.
44. The Council has secured £20.8M of Homes England funding as part of the (LAAC) Local Authority Accelerated Construction grant programme for the delivery of 1,400 new homes using Modern Methods of Construction. Delays from running additional procurement exercises will have an impact on the delivery of new home completions and may put this funding at risk.
 45. Delivery of the next two phases, Quobleigh Breach (c. 280 homes) and Upper Acre (c. 450 homes), could become bottlenecked, saturating market demand and leading to weakening disposal rates and reduction of income to achieve required sales and lettings rates.
 46. If the contract is awarded as tendered, any future variations will be instructed by way of a post-contract variation, within the tolerances permitted by the PCR15. This will enable the Commercial team, through an open-book process to interrogate whether pricing of unfixed sections in the future sections reflects market value and/or whether rationalisation of the Council's house type design and/or specification is required. It will also help the Council determine whether to re-tender future parcels rather than remaining with the successful contractor.
 47. If the contract is awarded, shortly afterwards the successful contractor will be required to firm up a fixed-price lump sum for the remaining five parcels. The requirements of the contract stipulate that this is to be carried out on an open-book basis where the Contractor shares with the Council its sub-contractor prices for each element of the works. This approach will enable the Commercial team to interrogate and challenge any anomalies including previously fixed priced elements and assess the appetite of the successful contractor for transparency in doing so. The Council will only be obligated for the contractor to deliver Parcels 1 and 1A. There is no obligation to award any subsequent parcels. Therefore, if the price point for the delivery of a future parcel was not achieved, or there were concerns relating to performance, contractual aggression, ability to sell / rent, it would be in the Council's control to award further works on Lower Acre.

Organisational Capacity

48. The organisational impacts of not only a development of this size but also the creation of a new Housing Service, the ownership and management of a range of new assets (e.g. houses, roads, green spaces, community facilities) and the creation and operation of a Housing Revenue Account (HRA) have wide-ranging implications on staffing and financial resources. This will require significant increase in staffing in some areas of the Council.
49. The impact of these changes on the Council cannot be underestimated and there will be an increase required in revenue costs as new services come on-

stream. Changes to the overall structure of the Council are underway to deliver the required for staffing and resourcing of new teams. In the first instance this will include the establishment of the new housing landlord function and the sales and marketing team, alongside additional resources for other corporate services such as planning, environment, neighbourhoods, greens spaces, customer services, IT, legal and HR.

50. It is intended that this will be funded from income from housing delivered by the One Horton Heath development, along with income from other housing schemes.
51. This will be a significant challenge alongside a continuing focus by the Corporate Leadership Board (CLB) on efficiency and budget savings to close future revenue budget pressures. At the current time business plans for new services and support functions are being drafted and will be approved by CLB and reported to Councillors through the Council's performance process. Where efficiencies of scale can be achieved by growing existing teams and expanding their remit, this approach will be taken.
52. The Council is currently considering the most appropriate approach to managing and maintaining assets and the outcome of these deliberations will be reported in due course.
53. Both the emergence of new services and the creation of new assets present challenges and risks to the Council and this area of work now requires focus and resources, including a detailed plan setting out the resourcing requirements for these areas (the plan will need to be responsive to changes in the programme and regular updates will need to flow from the OHH Board). This work has been initiated by the Corporate Director through the establishment of the eastbrooke Operations Working Group with a series of workstreams focused on sales and marketing; customer systems and processes; housing landlord services; estate management; HRA and finance. These workstreams will require appropriate resourcing in the coming months and this is the current areas of focus for the working group and workstream leads. The working group is about to commission an initial piece of work to identify appropriate operating models for the short, medium and long-term.

Sales and Marketing

54. Sales & Marketing activity is being managed through the Council's own Communications & Marketing function. All marketing posts have been appointed and will be in place by the end of July. In order to establish effective sales and lettings functions, the Council intends to use a mix of estate agency support and in-house resource. This mitigates the risk of not having a sales team in place, allowing the Council to rapidly establish a sales function to sell 'off-plan', whilst retaining a high degree of flexibility to adjust sales and marketing delivery plans (and therefore resource levels) according to project delivery rates and market conditions. An 'Expression of Interest', the first stage of procurement, for estate agency support has been published and closes on 23 July.

55. Testing of the sales and lettings elements of the Customer Relationship Management system, built on the Council's existing Salesforce system, is currently underway. Compliance checks are being undertaken to ensure the system records customer details and manages the sales and lettings in a manner that is compliant with the relevant legal and regulatory requirements. Integration with the new eastbrooke homes website is also under construction and currently being tested. The first sales and lettings policies are currently being reviewed internally and are expected to be submitted for approval by Cabinet in September.
56. The most significant risks that remain for launching sales and lettings are around delays to delivery of the show homes and sales complex, and the ability to appoint appropriate staff to deliver the off-plan sales activity. The former is addressed in the proposed approach by the contractor to dedicate specific staff to delivery of the show complex. The latter is mitigated by the hybrid approach to resourcing discussed above; and early expressions of interest provide some assurance that the tender process will secure the external support required.
57. Achieving the required sales and lettings rates is the most significant inherent risk. The Sales and Marketing team have recently commissioned an updated market analysis from economic and housing consultancy Three Dragons. This will review the tenure mix and product delivery against both local housing need and market demand (across all tenures). This will be used to review assumptions on sales and lettings rates in the first phase and to inform the ongoing development of subsequent phases.
58. By closely monitoring these factors and adjusting our strategies accordingly, the Council aims to mitigate risks and align the development with current and future market conditions.

Housing Landlord Services

59. The establishment of the housing landlord service is the first step in ensuring that a thriving community can be successfully established at Lower Acre; supporting and empowering residents to integrate into the existing communities and thrive in their new homes. By delivering a broad range of types, sizes and tenures of homes the development at Horon Heath will meet the identified housing need in the borough, while establishing a mixed and sustainable neighbourhood. The new housing will help to relieve pressure on the Council's housing waiting list and address current failures in the local housing market.
60. A staffing structure has been developed to ensure successful delivery of housing landlord services, meeting the required regulatory standards and corporate plan objectives. The proposed structure was initially approved by the Corporate Leadership Board (CLB) on 1 May 2024 and in line with the Council's organisational change procedure, staff consultation ends on 21 July 2024. Final decisions on the proposal, following any changes as a result of consultation feedback, will be taken by CLB by 26 July 2024.

61. This initial structure will provide the necessary resilience and staffing capabilities required in the short term to deliver a responsive, customer-focussed housing management service moving forward. The structure will be kept under review as the service develops, ensuring it meets statutory requirements and business needs. It is likely that this team will need to scale up over the coming years, as the new homes come on stream, and the Council has an increasing number of eastbrooke tenants to manage.
62. Recruitment to the new posts will be phased in line with the number of homes being completed throughout the development as outlined in the Lower Acre trajectory and as future phases come online. The aim is to recruit to two posts in August 2024: the Tenancy Services Manager and the Housing Maintenance and Contracts Manager posts. The addition of these two posts to the establishment will help to de-risk current concerns in relation to the ability to be service ready for the delivery of Lower Acre.
63. The need for a housing management IT system has also been identified and work has been undertaken to investigate the options available to the Council. A decision was made by CLB on 10 July to develop in-house support using the CRM system currently being developed in Salesforce, for sales and lettings purposes, as the preferred platform rather than purchasing an off-the-shelf product.
64. Work is also continuing to ensure the required governance, policies, processes and documentation are in place so that services are compliant with all relevant legal and regulatory requirements.

Financial Implications

65. The revised total forecast cost relating to current Cabinet approvals, assuming award of the tender, is shown below with a detailed breakdown provided at Appendix L.

	Budget £'000s
Approved Budget	481,803
Spend to 31 May 2024	163,505
Forecast Spend to Complete	336,680
Total Forecast Cost	500,185
 Increased budget required	 18,382

66. The main increases to the overall programme cost include £16.3M including £13.3M relating to the increased tender sum and the impact of £3M extra in reprofiled financing costs. Furthermore, there is an increased cost of £2.1M for additional Electric Vehicle charging infrastructure. All cost streams are under review, including the Serviced Land workstream and S106 package. Although it is anticipated that the overall cost will not change, the review will result in a reallocation of some costs from capital to revenue relating to

commuted sums and developers' contributions. The outcome of this review will be reported to Councillors later in the year.

67. There is an estimated additional cost of £2.1M for Electric Vehicle infrastructure to recognise the need for one charger per allocated parking space in the Lower Acre. The final strategy for the implementing EV charging across the OHH community is under consideration and will be brought to Councillors for approval in due course.
68. A revised business plan for the Lower Acre has been modelled based on the increased forecast cost outlined in paragraph 65. Exact levels of Social Rent for relevant units have now been calculated and these have reduced from an average over 50 years of £1.96M to £1.77M and now represent only 44% of market rent; a reduction of 20% compared to previous budgeted levels. The impact of this has been included within the updated business plan.
69. Sales and rental values are reviewed quarterly at a minimum and have been updated by the relevant specialist in this model. While sales and rental rates are ambitious, staff believe that levels used in the Business Plan are achievable; however, these will continue to be regularly reviewed
70. The revised Business Plans for the ongoing ownership tenures for units at the Lower Acre are shown in Appendices H, I and J. While recognising that future costs may move between capital and revenue, these Business Plans show that, despite the increase in costs, the Council can afford the residual debt related to delivery of these workstreams to be funded through the reduced rental income.
71. The retained debt position has been updated to reflect the increased cost of delivery and revised rental income levels. As the new total debt (£111M) associated with the Lower Acre exceeds the current total of fixed rate borrowing (£90M), the remaining balance (£21M) is funded in the model at the increased rates of borrowing. This is summarised in the table below along with the revenue surplus after 50 years net of all costs including debt:

Tenure	Peak Debt £	Debt after 50 years £	50 Year Net Revenue Surplus £
Market Rent	71,975,439	0	71,121,188
Affordable Housing	26,324,645	26,324,645	24,582,837
Shared Ownership	12,814,747	12,814,747	13,576,453

72. Due to the way costs are allocated between tenure types to enable the Council to charge lower rents to our most vulnerable residents, the most material impact is on the market rent model. Rather than showing a revenue surplus from year one as previously presented, revenue surpluses will now not materialise until much later; however, there will still be no revenue impact on services from the project.

73. The Council has committed to providing 35% affordable housing across the development, despite this being financially restrictive. It has always been acknowledged that for this to be achieved, government grant will need to be secured. The rent levels for Affordable Housing (Appendix I) are based on Social Rent levels using the nationally set rent formula and include a reduced capital cost due to estimated grant of £125,000 per unit. This grant level is based on the current Affordable Housing Grant programme which ends in March 2026. As part of the Wayfarer investment partnership, the Council is in regular contact with Homes England, who have advised that the Council should not bid under this programme as units will not all be completed by March 2026 and therefore this may result in a reduced grant level. This presents a risk for the Council as there is currently no new grant programme in place from March 2026. Recent announcements from the new Government and the Ministry of Housing, Communities and Local Government (MHCLG) strongly suggest there will be a funding programme available in the future although details are not yet known. In readiness for this grant programme, the Council will be preparing likely information required for to enable a bid as soon as the funding programme becomes available.
74. Until such time that there is a new funding programme formally announced there is a risk that the Council will be unable to provide Affordable units directly as it would not be financially viable; however, the Council could potentially work with a partner who had access to existing funding to do this. As details of the new Affordable Housing Programme are announced, the business plans will be updated, and Cabinet approval sought to enable a bid for the most appropriate and financially viable tenure type.
75. The Social Rent and Shared Ownership units will be held in the Housing Revenue Account (HRA) as shown in Appendices I and J. The appendix shows that the Social Rent model with an assumed grant level of £125,000 per unit, has a maximum annual loss of £815,791 and Shared Ownership demonstrates a maximum annual loss of £494,251. These levels of losses would currently be unfunded and would put pressure on the housing reserve.
76. The Council could provide these units at Local Housing Allowance (LHA) levels of rent, which is more commonplace and would result in higher rents. These rental levels would likely still be covered by benefits available to the majority of tenants and the level of grant from the current scheme would reduce to approximately £70,000 per unit. As with Government grant for social housing, this grant level cannot be guaranteed until the new grant scheme is announced. The ongoing business plan for LHA levels of rent is shown at Appendix M and reduces the £815,791 maximum annual loss to £304,722.

Tenure	50 Year Net Revenue Surplus £	Peak Debt £	Debt After 50 Years £
Local Housing Allowance Rent	49,088,655	31,483,145	31,483,145

77. Until such time that there is a new funding programme formally announced there is a risk that the Council will be unable to provide Affordable units directly as it would not be financially viable; however, it could potentially work with a partner who had access to existing funding to do this. As details of the new Affordable Housing Programme are announced, the business plans will be updated, and Cabinet approval sought to enable a bid for the most appropriate and financially viable tenure type.
78. Sales and rental values are reviewed quarterly at a minimum and have been updated by the relevant specialist in this model. Whilst sales and rental rates are ambitious, staff believe that levels used in the Business Plan are achievable; however, these will continue to be regularly reviewed.

PART TWO: ON-SITE EDUCATION

Procurement of professional services for School self-delivery

79. In December 2023 Cabinet approved a capital budget of £75,000 for feasibility works to produce a client brief, programme, project execution plan and budget for the self-delivery of the new primary school. MACE, a global Project Management, Cost Management consultancy and a lead consultant for the Department for Education were appointed under the Southern Construction Framework (SCF) to develop this piece of work.
80. Following on from delivery and approval of the Client brief, programme and project execution plan and budget, it is proposed to appoint MACE based on their extensive experience in the education sector for project management, cost management and ancillary design services via the SCF for the delivery phase of the project. The contract value for these services is estimated to be £760,000. This specialist professional service is required because the internal team does not have sufficient experience in this sector. Using the SCF framework to appoint MACE will be subject to PCR15 requirements and mitigates risk to the delivery of this major element of the development in line with project requirements.
81. In addition to the above services, consideration is being given to the appointment of all other the design team inputs through MACE who would then provide a full design and project management service to the Council. This is likely to be the most expedient procurement route for prompt commencement of the developed design. There would be an overhead cost which MACE would pass on to the Council for managing these appointments and accounts however without this the Council would need to employ appropriate additional resources to manage the process and inputs. The team are working through details with MACE and external solicitors and will revert with proposals for the Procurement Executive Group to consider once finalised.
82. The procurement strategy for the delivery of the school is still being developed. The Outline Planning application requires a two-form entry (FE) school to be open in the September after occupation of the 400th eligible

dwelling (excludes one bedroom and older persons accommodation). On current forecasts this means the new School facilities will need to be complete by May 2027, so the school sponsor has sufficient time to mobilise and commence delivery of education services in September 2027.

83. If the Council allows occupation of new housing beyond 400th eligible dwellings it will be liable for the cost of temporary classrooms. Considering the limited timescales to deliver the school, a two-stage Design and Build process is proposed. This would see the early appointment of an experienced School's Main Contractor by way of a competition under the SCF. The Main Contractor would then, under a Pre-Construction Services Agreement, be responsible for securing detailed planning permission, detailed design and development of the specification, Furniture, Fixtures & Equipment and market testing within an approved budget envelope.
84. Provided the Main Contractor had met obligations and was prepared to agree contractual terms, the Council would be able to award the contract for the delivery phase or re-tender the opportunity as required.
85. Final recommendations on the procurement route for the school will be reported to a future meeting of the Procurement Executive Group before being taken to Audit and Resources Committee for scrutiny and Cabinet for approval.

Financial Implications

86. The s106 drafted to support the Outline Planning Permission includes a developers' obligation for on-site education calculated at £18,620,941. This represents the non-index linked sum of creating the school site and funding construction of the new education facilities excluding any early year's provision which will be dealt with separately.
87. It is recommended that the full capital allowance of £20,062,156 including indexation to July 2026 included in the approved business plan is allocated to the self-delivery project for the on-site education facility. It is important to note that until the scheme is designed and costed, the final budget for delivery cannot be known, but it is foreseeable that the Council's aspiration to deliver an exemplar facility with excellent environmental credentials will mean outturn costs may exceed the current approval which is based on a DFE standard specification in line with HCC requirements.
88. A detailed project execution plan including a budget update, will be presented to Audit & Resources Committee and Cabinet for approval in the Q3 24/25 reporting cycle.
89. When full costs are known, and prior to award of the construction contract, a report will be brought to Cabinet for decision after scrutiny by the Audit and Resources Committee.

Risk Assessment

90. As with any project, there are a number of risks and in line with other projects, a comprehensive risk register is maintained for the programme. The following paragraphs summarise the most significant risks which have been detailed throughout the body of this report.
91. Key risks related to the Lower Acre include:
- Only one tender being received for main contractor with the bid being higher than anticipated. This has a negative impact on the business case and needs close scrutiny to determine value for money.
 - The market response to the DPS has necessitated a risk assessment on compliance with the PCR15. External advice was taken on specific procurement issues raised by officers as set out at Appendix E.
 - If the tender is not awarded through the current procurement exercise, there will be a delay in the delivery of the Lower Acre which is estimated at 6-9 months.
 - Any delay will result in additional costs of finance, and these would need to be considered against the additional tender award cost.
 - Any delay will also impact on the current sales and marketing plans requiring launch and roll out to be delayed further; potentially impacting eastbrooke's reputation in the market and delaying certainty about income generated through both sales and lettings.
 - If an alternative procurement route, or a re-running of the current process through a different framework is the preferred option, there is no guarantee that the outcome will be more advantageous to the Council.
 - Delay could lead to loss of grants already received as these are conditional upon delivery.
 - There is currently a lack of certainty over the future affordable homes grant regime, and that levels assumed in the business plan can be secured.
92. Key risks related to the school project include establishing suitable parameters and delivery proposals at pace and securing suitable resources capable of delivering the new on-site school facilities in time for September after the occupation of the 400th eligible dwelling (anticipated 2027). Any delay could result in additional costs being incurred by the Council in providing a temporary classroom solution. Furthermore, there is a likelihood that the final cost of self-delivery of the school will exceed that calculated in the s106 agreement and this will need to be managed through the business plan and subsequent approvals given by Cabinet.
93. Risks associated with the overall programme continue to be monitored and the Cabinet should note that these risks include:
- Lessons have been identified during the process of planning for and procuring the Lower Acre. It is crucial that these lessons are learned from in order that future phases can benefit from a more efficient approach both in terms of delivery time and cost.

- Delays in granting the Outline Planning Consent could affect the speed of planning for future phases of the development. Completion is being actively managed with an aim to conclude by the end of the calendar year.
- Currently, Council structures do not have enough resources to manage a development and retained asset base at the scale and complexity of OHH. The eastbrooke Working Group is the mechanism in place to drive this forward and progress will be reported regularly to Councillors.
- Lack of internal resources to support the sales and lettings function will affect the ability to achieve the income targets included within the business plan; mitigation of this risk relies on the successfully appointing to the posts identified in the new structure
- Delay in delivery will affect the Council's five-year Housing Land Supply, potentially resulting in greater risk or aggressive and undesirable planning permission being granted across the Borough.
- Sensitivity of the Council's financial approach to external factors e.g. house price and rent inflation, limits on income for affordable tenures, affordable housing grant regimes, interest rate changes and the like.

Equality and Diversity Implications

94. The Equality Act is not relevant to the decision in this report as the decision does not relate to eliminating discrimination, advancing equality of opportunity, or fostering good relations between different people. An Equality Impact Assessment has not been carried out.

Climate Change and Environmental Implications

95. The environmental impacts and net benefits of the One Horton Heath project are set out elsewhere. Through the planning process the development is committed to the highest environmental standards including net neutral impact on the environment and a net gain in biodiversity. In addition, the project is seeking to promote and enable many environmental initiatives such as:
- Houses designed with emphasis on reduced energy demand through a fabric first approach.
 - No heat from fossil fuels, using ground source heat pump (GSHP) & borehole technology to eliminate Carbon from the primary source of our heating strategy.
 - Reduced reliance on private vehicle and greater opportunity for walking and cycling.
 - Accelerated usage of clean fuel alternatives (large scale electric vehicles (EV) car club and 1:1 electric vehicle charging (EVC) to private homes and businesses).
 - A Council-owned and managed procurement platform that requires our supply chain to reduce its Scope 1, 2, and 3 GHG emissions, in turn reducing a sizeable proportion of the Council's own Scope 3 GHG emissions.

96. A review will be carried out over the coming months to determine whether the climate change and environmental objectives in the OHH Brief remain relevant or should be reviewed with new areas of focus sought e.g. embodied carbon, whole life carbon, energy use intensity, revised objectives for sustainable travel and emerging Eastleigh Movement Strategy etc.

Conclusion

97. The award of the contract for the main contractor for the first 381 homes on the One Horton Heath development is a key milestone for the Council. However, the decision can only be taken based on full information on the costs, quality and any associated risks and opportunities. This report provides Cabinet with this information in order for the decision to be taken.
98. Additional budgetary commitments are recommended to enable to continuation of the programme including the funding of a budget of £2.1M for the infrastructure related to electric vehicle charging infrastructure across the Lower Acre.
99. This report also recommends that Cabinet approves the allocation of the developers' contribution for education, as calculated as part of the outline planning permission s106 document, to enable the ongoing planning for delivery of the on-site primary school.

SARAH KING
DEPUTY CHIEF EXECUTIVE

Date: 17 July 2024
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Appendices Attached: 14

Appendix A*	MC Tender submission (exempt)
Appendix B*	MC CSA (Contract Sum Analysis) Summary (exempt)
Appendix C*	MC 1 Withdrawal Letter (exempt)
Appendix D*	MC 2 Withdrawal Letter (exempt)
Appendix E*	External Procurement and Legal Advice (exempt)
Appendix F*	External Building Contract Advice Revised (exempt)
Appendix G*	External cost consultant report (exempt)
Appendix H	Revised Lower Acre Business Plan – Market Rent
Appendix I	Revised Lower Acre Business Plan – Social Rent
Appendix J	Revised Lower Acre Business Plan – Shared Ownership
Appendix K	Lower Parcel & Section Plan
Appendix L	Detailed Cost Budget
Appendix M	Revised Lower Acre Business Plan – Local Housing Allowance
Appendix N*	Wellings vs EBC cost analysis (exempt)

Appendices marked with (*) are not permitted to be publicly published or circulated as they contain commercially sensitive information

LOCAL GOVERNMENT ACT 1972 - SECTION 100D

The following is a list of documents which disclose facts or matters on which this report or an important part of it is based and have been relied upon to a material extent in the preparation of this report. This list does not include any published works or documents which would disclose exempt or confidential information.

- One Horton Heath Update paper - Audit and Resources Committee 11 July 2024.
- Services Land and Lower Acre Financial Update and Operational Approvals – Audit and Resources Committee 21 December 2023

GLOSSARY OF TERMS

DFE	Department for Education
DPS	Dynamic Purchasing System
EOI	Expression of Interest
EV	Electric Vehicle
EVC	Electric Vehicle Charge
GHG	Greenhouse Gas/CO2 emissions
GSHP	Ground Source Heat Pump
HRA	Housing Revenue Account
ITT	Invitation to Tender
LLP	Limited liability partnership
MHCLG	Ministry of Housing, Communities and Local Government
OHH	One Horton Heath
PCR15	Public Contract Regulations 2015
PTE	Pre-tender estimate
S106	Section 106 agreement
SCF	Southern Construction Framework
SME	Small and medium-sized enterprises
TQ	Tender Queries
VE	Valuation Engineering