



City of Westminster Cabinet Member Report

Decision Makers: Cabinet Member for Finance, Property and Regeneration

Date: 21 August 2019

Classification: General Release with confidential Part B

Title: Parsons North Development

Wards Affected: Little Venice

City for All: See below

Key Decision: Yes

Financial Summary: The Housing Revenue Account (HRA) business plan has currently budgeted £28.692m for the Parsons North scheme within The Housing Estate Regeneration Programme. A Full Business Case (FBC) review now identifies a required budget allocation of £35.416m to deliver the completed scheme, an increase of £6.723m.

Currently authorisation has been approved to spend £6.600m. This report seeks authorisation to increase the budget to £35.416m and spend the residual amount on the Main Works contract and professional services.

Report of: Barbara Brownlee

1. Executive Summary

- 1.1. The Council has now completed the second stage of a two stage design and build procurement with main contractor Geoffrey Osborne Ltd, and has an agreed contract sum for the main works of £27.324m.
- 1.2. An FBC has been produced, which includes the contract sum for the main works and an updated assessment of other project costs including historical costs to date. The FBC has been recommended for approval at Capital Review Group, confirming the project is providing Value for Money (VfM) and is considered financially viable from a capital and revenue perspective.
- 1.3. This Paper specifically seeks to obtain approval from the Cabinet Member:
 - To increase the budget of £28.692m by £6.724m to £35.416m and progress with the scheme based on the FBC
 - For WCC to spend against the entire budget to carry out the Main Works and complete the project
 - To authorise Legal Services to negotiate and execute the Main Works Contract as a deed.
- 1.4. The previous feasibility report for the 'Green Spine' works to Hall Place predominantly enhances the public highway. As a General Fund asset, the cost cannot be met from the HRA. The scheme will bid for General Fund capital budget in the next round of capital budget setting, and an application for Community Infrastructure Levy to fund it will be explored.

2. Recommendations

- 2.1. That Part B of this report be exempt from disclosure by virtue of the Local Government Act 1972, Schedule 12A Part 1, paragraph 3 (as amended), in that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
- 2.2. That Cabinet Member for Finance, Property and Regeneration give:
 - Authorisation to spend £35.416m, as detailed in Section 9 of this Paper
 - To approve the award of a contract for Parsons North Main Contract to Geoffrey Osborne Ltd for the sum of £27.324m
 - Authorise Legal Services to negotiate and execute the Main Works contract as a Deed

3. Reasons for the Decision

- 3.1. An FBC has been produced confirming the current proposals to self-develop the site at Parsons North is a Value for Money option that represents a viable proposal from both a Capital and Revenue perspective.

4. Background

- 4.1. The Parsons North scheme is for the self-development of a 60 unit housing development on land adjacent Parsons House. The scheme will provide 10 units for social rent, 9 units for intermediate rent and 41 units for private sale. Other benefits of the scheme will be enhancements to the public area outside Parsons House, a new entrance lobby and an internal residents area.
- 4.2. In November 2015 Cabinet Member for Housing approved entering into a Development Agreement with Bellway Homes to deliver a mixed tenure residential development on the Parsons North site.
- 4.3. Bellway subsequently declined to exchange contracts and withdrew their interest in the development. In June 2016, the Cabinet Member for Housing approved the proposal to proceed with a self-development by WCC via a Design and Build contract.
- 4.4. In September 2016 the Procurement Assurance Board approved Gate 1 of the procurement strategy for Parsons North redevelopment. The strategy recommended the works be undertaken via a restricted OJEU process tender to award a two-stage Design and Build JCT contract to a main contractor.
- 4.5. A CMR was presented to members in March 2017 identifying options for the affordable split. Members decided to progress a planning policy compliant split with 35% of the floorspace of the development to be affordable; of this 60% was to be social rent and 40% intermediate rent. The design has been progressed on this basis.
- 4.6. The Planning Application was made in July 2017. The proposed scheme was approved at the Planning Applications Sub Committee on 7 November 2017 subject to the satisfactory completion of a Unilateral Undertaking; This was completed in November 2018 and the planning approval formally issued.
- 4.7. In February 2018 members were updated on the budget and approved the execution of first stage Pre Construction Services (PCSA) and Enabling Works contracts with Geoffrey Osborne Ltd. Since then the design has been developed under the PCSA and the enabling works have commenced on site.

5. Recent Progress

- 5.1. Since May 2018 WCC have worked with Osborne and their designers to develop the technical designs for the scheme. In doing so a number of issues

have arisen. These issues include incorporation of sprinklers and non-combustible materials to the façade to reflect changes from the Hackitt Review; development of the structural solution, in particular the basement temporary works and phasing, the building services and the interior design requirements.

- 5.2. Due to the issues that have emerged in the development of the design and the current market conditions, the cost of the scheme has increased from previous estimates. A full Value Engineering (VE) process has been carried out to reduce the costs of the scheme whilst maintaining the key requirements and quality parameters.
- 5.3. A minor material amendment was formally submitted to Westminster Council's Local Planning Authority due to the nature of the changes that have developed. This is currently under consideration and a decision is expected in August.
- 5.4. Osborne prepared sub contract packages and tendered these to their supply chain. The tender returns have been checked and vetted by the Council's cost management consultant and a VfM report issued to confirm the Council is obtaining value.
- 5.5. The second stage tender is now complete and an FBC for the scheme has been endorsed at the Capital Review Group. This covers the Strategic, Economic Commercial, Financial and Management Cases for the development.

6. Strategic Case

- 6.1. The proposed development meets the requirements of City for All, in particular by providing 'opportunity and fairness across the city'. The buildings constructed will deliver a wide range of new homes for a variety of residents. The affordable flats will consist of 10 available for social rent and 9 for intermediate rent. In addition, there will be 41 new private units, the income from which will help fund the overall development.
- 6.2. The development will contribute to developing a greener city; one of the City for All objectives. The design includes a new courtyard garden for the residents and a biodiverse green roof. In order to encourage the use of electric vehicles, a number of the parking spaces will be provided with charging points. In addition, wider landscaping will be carried out to the entrance at Parsons House.
- 6.3. Parsons House will benefit from an improved entrance lobby and upgrading of the existing residents room.
- 6.4. As part of their tender offer Osborne made a number of quantifiable commitments in line with the WCC requirement to promote the social value of all procurement activities. These commitments are now incorporated in to an Employment and Skills plan that has been formally submitted via the discharge of a planning condition.

7. Economic Case

- 7.1. An updated financial appraisal has been prepared as part of the Red Book Valuation Report. This demonstrates that the preferred option to self-develop represents a value for money proposition, delivering the redevelopment of Parsons House which remains vital not only in terms of townscape but also as a key contribution to the provision of more housing in the area.
- 7.2. The cost of the development is estimated at £35.4m and is anticipated to generate a capital receipt of circa £35m from the sale of the 41 private residential units to cover the cost of the development. Knight Frank is currently appointed as sales agent for the development and has prepared an initial sales and marketing strategy for the units. It is anticipated that a quarter of the units will be sold off plan in the 2020/21 financial year during the build programme, with the remaining units sold within the 2021/22 financial year.

8. Commercial Case

- 8.1. The Delivery of the project via a two-stage design and build procurement route has been implemented as envisaged in the March 2017 CMR. This approach was chosen based on a detailed analysis of the current market conditions, delivery programme and risk transfer.
- 8.2. Osborne was appointed for the first stage of the procurement route through a pre-construction services agreement. This has enabled Osborne and their design team to develop the detailed design and agree works costs for Enabling Works and Main Works with the Council and their Professional team.
- 8.3. All of the Construction Costs within the development have been agreed on an “open book basis”, with the Contractor providing quotes for all elements of the works which are shared with WCC’s cost consultant, Potter Raper. Potter Raper has provided a Tender Analysis Report confirming that the agreed costs represent reasonable Value for Money for works of this scale and complexity.
- 8.4. The Contract Sum inclusive of the pre-construction services, enabling works and main works is £27.324m.

9. The Financial Case

- 9.1. The allocation for the Parsons North scheme in the Housing Estate Regeneration Programme that sits within the HRA Business Plan stands at £28.692m (inclusive of costs to date). The budget was established based on the estimates from February 2018 prior to the development of the designs and market pricing.
- 9.2. The updated FBC assesses the project’s on-going budget requirement at £31.447m, in addition to spend to date of £3.969m. Therefore, the overall project costs are estimated to be £35.416m.

- 9.3. Further details on the capital costs are given in Part B of this report, however some key reasons for the increase are:
- Enhancement to Fire Safety – the design has been upgraded to include a fully sprinklered building and to remove all combustible materials from the façade of the building.
 - Existing Utilities – site surveys revealed a number of utilities services that require diversion as part of the works to facilitate the build.
 - Basement Construction – a combined basement structure and highway retaining structure developed in detail requiring a secant piling solution.
 - Drainage Design – the sustainable drainage strategy has been developed in consultation with Thames Water.
 - Development of Specification - generic cost model provided by the cost consultant at feasibility stage required development of design.
 - Building Services Designs – increase in the costs of the building services package due to additional cooling requirements and specification increase along with general movements in the market conditions.
 - Community Infrastructure Levy payment – initial estimates by consultant significantly below the actual liability calculated by CIL officers.
- 9.4. The scheme has an Affordable Housing Fund (AHF) allocation of £4.750m approved in February 2018.
- 9.5. The scheme is also expected to generate capital receipts as set out in Part B of this report. The estimated capital receipt has increased since the previous Cabinet Member Report.
- 9.6. Taking into account the increase in capital costs and the additional receipt generated through sales, there is a requirement to increase funding for the scheme in the short term. The resulting net cost to the HRA will be funded through additional short term borrowing during construction. Having conducted the financial appraisal, this is deemed to be affordable within the HRA.
- 9.7. The project's financial position including this is summarised in Part B.

10. Management Case

- 10.1. The Project Board will remain in place and meet on a regular basis. The Construction Team will remain responsible for the day to day project management and will be responsible for ensuring the construction contract is delivered smoothly. The Development Sales Team will remain involved throughout the sales period ensuring that the scheme is marketed effectively and the receipts gained from the disposal of the private units are achieved. A number of consultants are commissioned to cover technical client requirements during the construction delivery stage.
- 10.2. A further CMR will be produced in due course to seek approval of the management strategy for the development upon completion of the build.

11. Project Risks

- 11.1. A full risk review has taken place on the project at regular intervals during the PCSA period. The risks identified have been mitigated where possible, risks that could not be mitigated have been reduced and passed to the contractor as part of the contract conditions where this is possible and commercially feasible.
- 11.2. There are residual risks held by WCC that are outside of the scope of the works. These are identified within the strategic case within the FBC and a budget is included to offset the financial impacts should risks be realised during the course of the project.

12. Main Works Contract

- 12.1. The works are to be let under a 2016 JCT Design & Build contract with WCC bespoke amendments. This contract seeks to place the risk for the designs with the contractor, thus mitigating the Council's risk exposure.
- 12.2. This is a fixed price contract and the Contract Sum is made up of preliminaries, design fees and overheads and profit fixed based upon the contractor's stage one tender submission. The subcontract works make up the majority of the price and have been procured through an open book process.
- 12.3. Due to the extended enabling works the duration of the Main Works contract is 19 months from executing the contract and is due to complete in March 2021.
- 12.4. In order to maintain progress against the current development programme it is requirement to enter in to contract by August 2019 after the decision on the current planning amendments has been received.

13. Legal Implications

- 13.1. The Contract Notice published in OJEU gave an estimated contract value for the works for the Parsons North scheme alone of up to £35m. The Council carried out a two-stage process - the first stage being for the appointment of a contractor to carry out the initial stage of the project to design the scheme based on an outline scope of work. The second stage of the procurement was completed with the result that the contract value is still within Contract Value set out in the OJEU notice. Therefore the increase in budget (as distinct from the Contract Value) to £27.3m from £20.8 which this report seeks approval for has no further legal implications.

14. Staffing Implications

- 14.1. All staff involved with the Main Contract works will be employed by Osborne. The various client consultant appointments will be employed by companies appointed by Westminster City Council to carry out specified and agreed scope of works.
- 14.2. The staffing implications for the Council is identified within the Management Case of the FBC.

15. Consultation

- 15.1. In preparing this Paper, we have consulted with the ward councillors for Little Venice. The councillors have agreed that the paper can go forward in its current form and that further review will take place in regards to the community benefits from the scheme.
- 15.2. A communications strategy has been drafted and issued for approval by the Cabinet member. Once agreed, the strategy will be implemented and the local residents and community will be updated on the scheme at regular intervals.

16. Next Steps

- 16.1. Subject to approval of this CMR the finalisation and execution of the main works contract will take place allowing Osborne to progress works as per the current programme, targeting a completion date for the works in March 2021.

For completion by the **Cabinet Member for Finance, Property and Regeneration**

Declaration of Interest

I have <no interest to declare / to declare an interest> in respect of this report

Signed: _____ Date: _____
**Councillor Rachael Robathan, Cabinet Member for Finance,
NAME: Property and Regeneration**

State nature of interest if any

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(N.B: If you have an interest you should seek advice as to whether it is appropriate to make a decision in relation to this matter)

For the reasons set out above, I agree the recommendations in the report entitled **Parsons North Development** and reject any alternative options which are referred to but not recommended.

Signed

Councillor Rachael Robathan, Cabinet Member for Finance, Property and Regeneration

Date

If you have any additional comment which you would want actioned in connection with your decision you should discuss this with the report author and then set out your comment below before the report and this pro-forma is returned to the Secretariat for processing.

Additional comment:

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If you do not wish to approve the recommendations, or wish to make an alternative decision, it is important that you consult the report author, the Director of Law, the Executive Director of Finance and Resources and, if there are resources implications, the Director of People Services (or their representatives) so that (1) you

can be made aware of any further relevant considerations that you should take into account before making the decision and (2) your reasons for the decision can be properly identified and recorded, as required by law.

Note to Cabinet Member: Your decision will now be published and copied to the Members of the relevant Policy & Scrutiny Committee. If the decision falls within the criteria for call-in, it will not be implemented until five working days have elapsed from publication to allow the Policy and Scrutiny Committee to decide whether it wishes to call the matter in.