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## Report of Housing Growth Team

### Report to Director of Resources & Housing

Date: March 2019

**Subject: Authority to Procure a Contractor to design and build General Needs Housing: Bundle One.**

Are specific electoral Wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, name(s) of Ward(s):  Killingbeck and Seacroft, Gipton and Harehills,		
Are there implications for equality and diversity and cohesion and integration?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information?  If relevant, Access to Information Procedure Rule number:  Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

### Summary of main issues

1. The Council House Growth Programme is an ambitious programme aiming to deliver a new generation of new build council housing for the city of Leeds, in order to meet housing needs for our residents. The target is to deliver circa 300 new units of social housing over the next five years.
2. This report seeks approval for the recommended bundled procurement route to provide new build council housing in the Tarnside Drive (including Mardale Crescent), Amberton Terrace and Seacroft Crescent areas of the city. The sites form part of the Council Housing Growth Programme (CHGP) and will be procured through the YORBuild2 framework using a two stage tender process.
3. The funding for the Council Housing Growth Programme currently stands at £203.6m as of February 2019. This has been approved by the Executive Board. Authority to spend will be sought for each scheme on the completion of designs therefore allowing greater cost certainty.
4. The contractor will be procured to design and build the housing through the YORbuild2 framework.

## **Recommendations**

1. It is recommended that the Director of Resources and Housing:
  - a. Approves the decision to procure a contractor to deliver new build council housing on Tarnside Drive (including Mardale Crescent), Amberton Terrace and Seacroft Crescent through a two stage procurement process using the YORbuild2 framework.
  - b. Approves the Evaluation Criteria to be used for General Needs Housing Bundle One in line with CPR 15.1

### **1. Purpose of the report**

- 1.1. This report seeks approval for the bundled procurement of a contractor who will deliver new build council housing on Tarnside Drive (including Mardale Crescent), Amberton Terrace and Seacroft Crescent. A two stage procurement process will be undertaken using the YORbuild2 framework.
- 1.2. In line with the Contract Procedure Rules (CPR) 3.1.6, a decision to undertake procurement should be undertaken at the point the procurement route is chosen. The approval of the Director of Resources and Housing is required to enable procurement to progress in line with the proposals set out within this report.

### **2. Background Information**

- 2.1. In November 2018 an update paper regarding the Delivery of New Build Social Housing was presented to the Council's Executive Board. The paper detailed progress across the Council Housing Growth Programme and set out proposals for delivery of further new council housing across the city. The scope of the new council housing scheme proposals were approved by Executive Board including the use of the sites referred to in this paper.
- 2.2. The report also highlighted the abolishment of the Housing Revenue Account (HRA) borrowing cap, and how this represents a significant opportunity for the Council to build future generations of Council Housing at a scale and pace which would not have been possible previously.
- 2.3. The Council Housing Growth Team have an ambitious target of delivering this first phase of new council housing, which totals ~358 new units of housing by 2022.
- 2.4. Six schemes have already been delivered under the Council Housing Growth Programme (CHGP). Railway Close, The Plantation, Wharfedale View, Broadleas, The Garnets and Red Kite Row have all been completed.

- 2.5. A further scheme, Meynell Approach is being developed through a two stage procurement process.
- 2.6. The Beeches and Nevilles schemes are currently under construction.
- 2.7. This first general needs housing bundle will deliver three further new build sites. These will be Tarnside Drive (including Mardale Crescent), Amberton Terrace and Seacroft Crescent.
- 2.8. An initial capacity study has been carried out to identify the potential number and mix of units on the sites which reflects the housing need in the area. This mix has been agreed by housing management. The capacity study indicates that 134 units can be delivered for general needs housing bundle one, as set out below:

<b>Property Type</b>	<b>Minimum Number of units</b>	<b>Notes</b>
Tarnside Drive (including Mardale Crescent)	42	Tarnside: 2 x 1 bed Flex Bungalow 14 x 3 bed House 20 x 2 bed House Mardale: 2 x 1 bed Flex Bungalow 4 x 2 bed Bungalow
Amberton Terrace	58	31 x 2 bed House 21 x 3 bed House 4 x 4 bed House 2 x 1 bed Bungalow
Seacroft Crescent	34	6 x 2 bed Bungalow 4 x 2 bed Houses 4 x 3 bed Houses 10 x 1 bed Apartment 10 x 2 bed Apartment
Total	134	

- 2.9. All units will be built to M4(2) Accessible and Adaptable dwelling standard.
- 2.10. For the purpose of the tender evaluation bidders will be asked to submit their tender based on 42 units on Tarnside Drive (including Mardale Crescent) as the exemplar scheme.
- 2.11. New council homes will be delivered to the Leeds Standard, which requires high quality homes to be designed to meet current and future demand and support the wellbeing of tenants through good use of space and energy efficient designs which reduce running costs for tenants.
- 2.12. The Council Housing Growth New build output specification which incorporates the Leeds Standard, will be used. This has been developed to reflect lessons learned from earlier schemes and has been updated to reflect changes to design standards. This specification will form part of the tender

package and sets out the standards and quality requirements to be met by the successful contractor.

- 2.13. The specification includes a requirement for the successful contractor to deliver grounds maintenance services for the communal grounds during the 12 month defects liability period. This is to avoid any disputes with the contractor which could arise by another party maintaining their landscaping works.
- 2.14. NPS Leeds have been commissioned to provide technical advisory and quantity surveyor services throughout the procurement and contract management services during the construction period. NPS have supported in developing the output specification and tender documentation.

### **3. Main Issues**

#### **3.1. Housing Growth Procurement Strategy**

- 3.1.1.The Council Housing Growth Team are proposing to undertake a bundled procurement strategy for the General Needs Housing schemes. This is the first phase of an ambitious project, and a bundled procurement will enable us to achieve this efficiently and move forward at the required pace. Bundling our schemes will increase efficiency in procurement processes and prevent saturating the market at a time when effective delivery is crucial.
- 3.1.2. Bundle one will include three schemes and 134 units. These schemes include Tarnside Drive (including Mardale Crescent), Amberton Terrace and Seacroft Crescent . It is being proposed that bundle one will be procured using the YORbuild 2 Lot 7 Framework.
- 3.1.3.The bundled approach will require contractors to design the exemplar scheme which will be Tarnside Drive (including Mardale Crescent) as part of their tender submission. Bidders proposals and designs for the exemplar scheme will then be evaluated. It is anticipated that the design processes for the subsequent schemes will commence following the exemplar scheme being submitted for planning.
- 3.1.4.The YORbuild2 framework provides a procurement route for public sector bodies within the Yorkshire and Humber region. YORbuild2 is the Council's approved framework for new build construction work. The framework has two specific new build housing lots which contain contractors who have been assessed on their ability and experience to deliver new build housing schemes and who have committed to adding value by delivering employment and skills outputs. Opportunities advertised through the framework should be made available to regional contractors and supply chains.
- 3.1.5.Initial capacity studies have been undertaken, however no design work has taken place as this will enable the contractor and their design team to use their expertise and experience to design the schemes.

3.1.6.A market sounding exercise was undertaken in August 2018 with contractors from YORbuild 2, Efficiency North and Delivery Partner Panel 3 to gauge interest in the scheme and obtain feedback on the project. Sixteen contractors responded to this market engagement and the feedback on the proposed programme was positive.

3.1.7.Further market engagement was carried out in December 2018 in the form of a bidders day. We consulted bidders on the updated bundled procurement strategy, programme, a potential enabling works strategy and allowed time for any bidder questions to be answered. The feedback from this event was overall very positive, with bidders keen to submit tenders for this and subsequent bundled schemes.

## **3.2. Procurement Process**

3.2.1.It is proposed that the project will be delivered using a bundled strategy through the YORbuild2 Lot 7 Framework, utilising the two stage tender process option.

3.2.2.Tenders will be evaluated against price and quality criteria, which include their designs. A ratio of 60% quality and 40% price is proposed.

3.2.3. Bidders will also be required to submit costs for landscaping, highways infrastructure. Bidders will be required to provide an indicative cost for foundations (based on given assumptions).

3.2.4.The quality element of the tender evaluation will include the submission and evaluation of tenderers' designs. Bidders will be required to submit floor plans, elevation drawings, a site layout plan and method statements for their quality submission.

3.2.5.The quality evaluation criteria are based on the criteria specified through the YORbuild2 framework agreement. Questions have been drafted to explore the contractors chosen team, their supply chain and resources, their proposed programme, risk mitigation strategies and their employment and skills provision. Minimum thresholds will apply to all questions: if a bidder scores less than 4 on any question, averages 70% on the design criteria element or averages 50% in their overall score; the Council will reserve the right to disqualify any bid that cannot meet any minimum quality threshold

3.2.6.The indicative timescales for the procurement are below, improvements in the delivery timescales will be achieved made where possible.

- Invitation to tender issue- March 2019
- Tender submission date- May 2019
- DSA Contractor appointed- July 2019
- Planning Submission – October 2019
- Planning Approval – February 2020

- NEC Contract Award – April 2020
- Start on site- April 2020
- Scheme completion- June 2021

### **Evaluation Criteria**

3.2.7.The evaluation criteria will be signed off by the Director of Resources & Housing in line with CPR 15.1

### **Quality Evaluation Criteria**

3.2.8.The current output specification, since the introduction of the Leeds Standard (c2015), has so far been used to build approximately 160 units successfully across the Leeds region.

3.2.9.A lessons learnt exercise has taken place following the bid stage evaluations of the Beeches and Nevilles and Meynell Approach schemes. A full review of the quality method statements, design criteria and associated weightings has been undertaken by all project, technical and procurement staff

3.2.10.Following this review, updated method statements, design criteria and associated weightings have been reviewed by the project team, the project's Project Manager and Head of Council Housing Growth.

3.2.11.The YORbuild2 method statement headings can be seen below. Individual method statement questions, design criteria and associated weightings can be seen in the attached Appendix 1.

<b><u>Criteria</u></b>
The Suppliers Proposed Team
The Suppliers Resources and Supply Chain
The Notified Completion Date
The Notified Estimate for the Works
Potential to Deliver Added Value (This is where the design criteria are)
The Suppliers Initial Assessment of Contract Risks and Proposals to Mitigate these
Employment and Skills

### Price Evaluation Criteria

3.2.12.The price evaluation criteria has been reviewed by the Council's technical advisors and NPS Leeds Quantity Surveyors, the criteria was then reviewed by the Project Manager and Head of Council Housing Growth.

3.2.13.Full details of the Price Evaluation Criteria are attached in Appendix 1

<b>Price Criteria</b>
The Fee Percentage (Overheads and Profit) – Note: The Fee percentage on this Option A Contract should be prices in accordance with those previously tendered for the framework in Volume 4. The Fee Percentage shall be assessed on the basis of that described at 3b above.
Preliminary costs for the proposed call off project – Note: Preliminary costs will be checked for consistency against those previously tendered for the framework in Volume 4. The combined total for Preliminaries shall be assessed on the basis of that described at 3b above.
Design Fees – Note: Design fees are to be priced within the relevant sections of the Activity Schedule for each scheme. Design on-costs are to be identified within the relevant sections of the Activity Schedule and these should reflect those tendered for the framework in Volume 4. The combined total of Design Fees and Design on-costs shall be assessed on the basis of that described at 3b above.
Measured Works – Note: The Measured Works within the Activity Schedule shall be assessed on the basis of that described in 3b above.

### Stage 1 Exemplar Scheme Evaluation and Award

3.2.14.The tender evaluation will be carried out in accordance with the published criteria, and the scores awarded will determine the results of this process. The tenderer which achieves the highest overall score will be appointed to develop

their designs in Stage 2.

- 3.2.15.This contractor will be awarded a Design Services Agreement (DSA) relating to the exemplar scheme, which will set the terms for the Stage 2 tender period until the contractor is ready to start on site and the construction contract is entered into. An appointment letter will also set out the process for the non-exemplar contracts to be entered into.
- 3.2.16.The DSA will enable the Council to pay for designs and surveys during stage 2. The amount the Council will pay for designs will be capped at the level bid by the contractor at tender stage. The Council will not pay for design work by unsuccessful bidders.

#### Stage 2 – Exemplar Scheme (Tarnside Drive [including Mardale Crescent])

- 3.2.17.The Council will use a gateway process to manage the design development period, with approvals taking place at key milestones. These key stages include planning submission and the award of the construction contract and will provide LCC with assurance that the contractor has met its requirements before moving to the next stage. The DSA will allow the Council to withhold payment of fees and/or terminate the DSA and subsequent schemes if the contractor's performance during this period is not satisfactory.
- 3.2.18.Following stage 1 appointment, the contractor will further develop the design to RIBA Stage 3 and submit a planning application. The contractor will then develop their design to RIBA Stage 4. Accurate below ground costs will be worked up during this stage. Once planning approval has been granted and the detailed design has been developed, the contractor will be invited to submit their stage two tender. A NEC4 (Option A) Engineering and Construction Contract will be awarded.

#### Stage 2 - Non-Exemplar Schemes (Amberton Terrace and Seacroft Crescent)

- 3.2.19.Once the Council are satisfied with the completed exemplar scheme designs, and these have been submitted to planning, DSA's will be entered into with the contractor for the non-exemplar schemes. It is at the Council's discretion to award non-exemplar schemes to the contractor.
- 3.2.20.The contractor will then design both Amberton Terrace and Seacroft Crescent up to a RIBA Stage 4 standard. They will be responsible for design, stakeholder consultation and the planning process. The Council will use the gateway process as identified above to manage the design development stages for these schemes.
- 3.2.21.Once planning approval has been granted and the detailed design has been developed, an NEC4 (Option A) Engineering and Construction contract will be awarded each for Amberton Terrace and Seacroft Crescent.

## **4. Corporate Considerations**

### **4.1. Consultation and Engagement**

4.1.1.A communication strategy for the Council Housing Growth Programme has been developed which outlines the process for consulting and engaging with key stakeholders in relation to individual schemes and which will be applied to all the new build schemes delivered under the programme. People in neighbouring properties will be consulted appropriately as will other local residents/stakeholders through the life of the project.

4.1.2.To support the delivery of this scheme, the Council Housing Growth Team will engage with local members at the following points in the scheme development/ procurement process:

- Design Brief- Briefing on the design brief for the site and any constraints
- Design Development- Site specific briefings will be arranged with the contractor's architect upon appointment of the successful bidder and prior to planning submission
- Contract Award(s) - Briefings will be held to inform local members about the decision
- Construction phase- Local members will be informed of the start on site date and briefed on progress regularly throughout the construction phase.

4.1.3. Pre-planning meetings will be held with officers from Planning, Highways and building control prior to the submission of the planning application.

4.1.4. A local consultation event will be arranged prior to submission of the planning applications.

4.1.5. Opportunities for involving tenants and local tenant groups in the design development and detailed design process are being explored.

### **4.2. Equality and Diversity / Cohesion and Integration**

4.2.1. An Equality, Diversity, Cohesion and Integration screening has been undertaken for the Council House Growth Programme and has determined that the proposals have a positive impact in terms of Equality and Diversity and that a full assessment is not required.

4.2.2. The screening document has been updated for this scheme and sets out how the requirements of certain groups have been considered in the specification. The screening document is attached.

### **4.3. Council Policies and City Priorities**

- 4.3.1. The development of new council housing will address priorities within the City Priority Plan to provide additional affordable housing and to support housing growth.

#### **4.4. Resources and Value for Money**

The total funding injected and available for the Council Housing Growth Programme as of 19th February 2019 is £112.7m. Full Council will inject a further £90.9m in February 2019 taking the total funding envelope for the programme (across both phases 1 & 2) to £203.6m. The second phase of the general needs new build housing programme was approved by Executive Board in November 2018, with an indicative investment estimate of c£54.84m to deliver c358 units. Of this, the initial feasibility cost estimate for Bundle 1, comprising Tarnside Drive (including Mardale Crescent), Amberton Terrace and Seacroft Crescent represented c£21.6m. Authority to spend will be sought for each scheme upon completion of designs therefore allowing greater cost certainty.

- 4.4.1. The programme and budget is managed through the Council Housing Growth Team in conjunction with Corporate Resources and Housing Finance Teams.
- 4.4.2. There are a number of strategies the project team is implementing to manage costs following the initial tender submissions, through to stage 2 and the award of a NEC4 construction contract.
- 4.4.3. The first of these involves exploring using affordability thresholds for above ground unit costs that are based on individual property types which have been developed with reference to actual prices paid in previous schemes across the Council Housing New Build programme. These will need to be met across all the schemes in this bundle. Failure to comply with the thresholds could lead to a bidder being disqualified or a scheme not progressing to the award of the construction contract, and it will be at the Council's sole discretion.
- 4.4.4. The second is that the rates submitted for other elements in their pricing submission are capped at these tendered levels. These are typically areas where bidders will be unable to completely fix exact quantities until further surveys and design development are undertaken during the second stage. These will need to be met across all of the schemes in this bundle.
- 4.4.5. The Council acknowledges that there is a lot of uncertainty in the market at the moment, both with the time which will pass during the design development stage with and in particular with the subsequent schemes in this bundle. Through extensive market engagement the project team have ascertained that there is not an appetite to fix costs for an indefinite time period, and if even if we were to do so, it would add a lot of risk to the prices submitted.
- 4.4.6. With this in mind the project team are putting in place a couple of measures to evaluate increases after an initial fixed period. This initial fixed period will cover the first scheme as it progresses to the award of the construction contract, barring any unforeseen delays.

- 4.4.7. Following this fixed period the Council will only permit increases which are in line with a BCIS index. BCIS indices are produced by the Royal Institute of Chartered Surveyors (RICS) and are the industry standard manner of taking into account inflation and the passage of time in the construction industry. Contractors would also have to ensure that adequate evidence is supplied to enable the Project Manager, in conjunction with the Council's technical advisors, to assess whether or not they are acceptable. The decision to accept an increase will be at the sole discretion of the Council.
- 4.4.8. There are some areas where the market is particularly volatile at the moment and this is a trend across the industry as a whole. With this in mind, the project team is also going to retain some flexibility. Particularly if there was to be a situation where a change in price is due to market conditions which were so unprecedented that no organisation could have reasonably taken them into account. Contractors would have to evidence such conditions and provide appropriate supporting information, and any decision to accept an increase would be at the sole discretion of the Council.

## 4.5. Revenue Effects

- 4.5.1. There are no revenue implications associated with this report.

## 4.6. Legal Implications, Access to Information and Call In

- 4.1.1. This report details a subsequent decision of a previous Key Decision and is therefore a Significant Operational Decision which is not subject to call in.
- 4.6.1. The legal and contractual obligations of the Council and bidders will be managed through the YORbuild2 framework and a DSA that will be drafted by colleagues in Procurement and Commercial Services. The legal and contractual implications of this project are set out throughout this report particularly in section 4.7 (risk management) below.

## 4.7. Risk Management

- 4.7.1. A risk log for the programme is managed by the Council Housing Growth Programme Board.

- 4.7.2. Risks specific to this procurement route / scheme are as follows:

- 4.7.3. **Unknown ground conditions / site services.** There is a risk that there could be unfavourable ground conditions or underground services that are found as the project progresses which we are currently not aware of. The NEC construction contract has a clear process which is followed in the event of this risk being realised. Generally, where ground conditions are unknown and could not have reasonably been covered or spotted by an experienced and skilled contractor this is a cost that the Council would need to bear (however more detailed risk allocation is specified within the tender and contract documents). The Council has minimised this risk by undertaking a comprehensive set of site surveys which will be issued as part of the stage 1

tender package. Additionally, in the event of unfavourable ground conditions any proposals would need to either use rates which are included in contract or evidence market testing to ensure that value for money is achieved wherever possible.

- 4.7.4. **There is a risk that not enough compliant bids are received from tenderers, causing a lack of competition.** This could mean value for money and the quality standards Leeds City Council require are not achieved. To mitigate this, the market has been engaged with to ascertain interest in the opportunity. YORbuild2 is our proposed procurement route and the use of frameworks helps towards ensuring sufficient tender responses are submitted. Appropriate measures have been included in the tender to ensure a flexible and reasonable approach in terms of cost and design requirements to avoid the risk of putting tenderers off from bidding.
- 4.7.5. **There is a risk that designs aren't compliant with our Output Specification.** This could lead to disqualified bids or retendering the opportunity. The impact of this could be financial and time loss as well as reputational damage. The project team is implementing a range of strategies to reduce the likelihood of this risk being realised. During the Stage 1 tender process clarification sessions are run to give bidders the opportunity to raise any queries in relation to their designs. In Stage 2 technical and progress meetings are held to ensure regular supervision of design progression. This is managed using the Gateway Process meaning that the contractor has a clear understanding of what is expected of them at each stage
- 4.7.6. **Cost control measures could prove ineffective and this could lead to increasing scheme costs.** The impact of this would mean schemes are not viable and do not demonstrate value for money. To mitigate this, the Council will be implementing a number of measures including an affordability threshold, as outlined in section 4.4. The Council to reserve the right to reject any bids submitted above the affordability threshold.

## 5. Conclusions

- 5.1. The project team is seeking approval from the Director of Resources and Housing to deliver new dwellings at the Tarnside Drive (including Mardale Crescent), Amberton Terrace and Seacroft Crescent sites using a two stage tender process. This two stage tender process will be delivered through the YORbuild2framework. The use of this framework is compliant with Contract Procedure Rules and is in line with other projects within the Council House New Build Programme.

## 6. Recommendations

- 6.1. The Director of Resources & Housing is recommended to:
- Approve the decision to procure a contractor to deliver new build council housing on Tarnside Drive (including Mardale Crescent), Amberton

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- b) Terrace and Seacroft Crescent site through a two stage bundled procurement process using the YORbuild2 framework.
- b) Approves the Evaluation Criteria to be used for General Needs Housing Bundle One in line with CPR 15.1

## **7. Background Documents**

7.1. None