

Cabinet

Date of Cabinet: 13 July 2015

Report title: Future Brixton: Somerleyton Road

Wards: Coldharbour

Report Authorised by: Strategic Director Delivery: Sue Foster

Portfolio: Councillor Matthew Bennett Cabinet Member Housing; and,
Councillor Jack Hopkins Cabinet Member for Jobs and Growth

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Report summary

This report updates members on progress of the Somerleyton Road project.

It seeks members' approval to continue the development manager contract with Igloo Limited and to commence the procurement of a build contractor.

These actions will move the project on to the next design stage in preparation for the construction stage, for which further approval will be sought from Cabinet in March 2016.

The Somerleyton Road project is a unique and ambitious new approach to the creation of housing and facilities of community benefit with a proposed partnership approach to delivery of a truly mixed community-led scheme in the heart of Brixton. The proposals include the transfer of ownership to a Council owned company, the granting of a long lease to the Ovalhouse Theatre. There is also a strong desire to create a new community body that will involve wide-ranging representation including the local community, residents and non-residential occupiers from the new development, and the Council, with the holding of the residential portion in a housing cooperative.

In November 2013, Cabinet authorised progression of the first phase of design development of the scheme and in 2014 Lambeth Council appointed Igloo Regeneration Ltd as the development manager for the project. Since their appointment and the creation of the partnership with Brixton Green and Ovalhouse, significant progress has been made and there are now five architectural practices in place, designing a scheme which reflects the aspirations as set out in the coproduced project brief.

The latest plans for the new development provides 301 mixed tenure homes for rent at a range of affordability levels, including 65 extra-care homes for older residents, the new Ovalhouse Theatre located adjacent to the retained and refurbished Carlton Mansions at the Coldharbour Lane end of the development site. Ground floor uses are likely to include

facilities such as a flexible community space, community gym, extra care homes, retail spaces, workspace, and children's facilities.

Finance summary

The scheme has been enhanced and extended considerably (Full details set out in Section 3 of this report. The proposal in this report would commit the council to the following expenditure at each stage in addition to the current commitment on development management and professional fees of £1.876m:

- | | |
|--|---------|
| • Up to RIBA stage D ^{Note 1} , expected November 2015 | £1.313m |
| • Up to RIBA stage E ^{Note 2} , + placing contracts, expected Mch/Apr 2016 | £2.684m |
| • Preconstruction and Construction phase, April 2016 onwards
(Subject to Cabinet approval to proceed) | £3.225m |

Note 1: Stage D is when the approach to the layout, design and construction of the development is clear and is sufficient for a planning consent.

Note 2: Stage E is when the technical design has been developed; including specifications and the approach to construction method, and cost of the project is known, sufficient so work can begin on the construction part of the project.

Recommendations:

1. To approve the continuation of the Igloo Regeneration Ltd contract to stage 2.
2. To approve the commencement of procurement of a build contractor.
3. To agree that a further review of the project take place in November/December 2015 to ensure the continuing viability of the scheme prior to the final stage of the procurement process, and that this and any necessary decisions prior to the project being laid before Cabinet for final approval to proceed (in March 2016) be delegated to the Cabinet Member for Jobs and Growth in consultation with the Strategic Director for Delivery.
4. To bring a further report to Cabinet in March 2016 for a final decision prior to entering into legal agreements and contracts for the construction of the development.

1. Context

- 1.1 London is facing a housing crisis and as a Council we recognise the need to build more homes of all types and tenures to meet the needs of our existing communities and the demands of Lambeth's growing population. We want to provide those homes so that people from all walks of life can live in our Borough.
- 1.2 On Somerleyton Road, the Council has made a positive intervention to use the land we own and to acquire land to provide new homes, work space, cultural facilities and community space all co-designed with local people.
- 1.3 The first stage of the project (as detailed in the previous report to Cabinet, 191/14-15) is well progressed. Igloo Regeneration Ltd was appointed as development manager.
- 1.4 A project brief was developed to reflect the aspirations of local people and this has formed the basis for the detailed specification of the site.
- 1.5 A planning application for the whole site will be submitted in August 2015.
- 1.6 The latest plans include 301 new homes, the Ovalhouse Theatre to be located at the Carlton Mansions end of the street. Ground floor uses are likely to include facilities

such as flexible community space, a community gym, extra care homes, retail spaces, workspace, and children's facilities.

- 1.7 The intention is that the entire development site will be transferred to a new wholly owned Council company to be established for this development. The wholly owned Council company, may in the future also be used for other similar developments. The transfer will be by way of the granting of a long lease.
- 1.8 It is then intended that the new wholly owned Council company will grant a long lease of the site occupied by the new theatre and the Carlton Mansions site.
- 1.9 The project will be paid by Council borrowing in line with the Prudential Code for capital finance in local authorities. The borrowing repayments will come from the rents paid by tenants of the housing and commercial stock.
- 1.10 Because of the unusually wide-ranging mix of community, social housing and commercial use, the structure of the financial model is necessarily complex.
- 1.11 The Council has therefore taken independent advice from Grant Thornton LLP, throughout these early stages of the development which has confirmed that the scheme as it stands is financially viable and that the potential rental and capital yield delivered by the scheme will be sufficient to fully fund the money the council will need to borrow.
- 1.12 In deciding how best to meet that borrowing requirement, the Council has a duty to balance its social policy objectives (in particularly the delivery of affordable social housing rented stock) with the need to get best value from its (land) assets and to assure itself that the project is both viable and that financial risk is both minimised and managed throughout the lifetime of the project.
- 1.13 The final decision on the scheme's funding and viability will be the matter of a report to Cabinet which is presently programmed for 7 March 2016
- 1.14 In line with the Council's co-production approach, the project team and the steering group are working on proposals for an over-arching community body to oversee the rest of the site, and a housing co-op, which will manage the residential properties through a long lease.
- 1.15 This report recommends that Lambeth Council initiate stage two of the Igloo contract. This means that Igloo will:
 - Continue to provide development advice for the scheme
 - Manage the various arrangements to establish a viable scheme meeting its established objectives and outcomes
 - Manage the on-going development of the design
 - Manage the procurement process of a construction contractor.

It is proposed that an assessment of on-going viability to be made in November/December 2015 and if the project is not considered viable, mechanisms exist within the development management agreement to halt the project.

- 1.16 Subject to further confirmation by Cabinet that the scheme will progress to contract it is proposed that Igloo would also:
 - Manage the contractor and construction process

- Act as client representative during development
- Monitor the quality of and oversee construction
- Hand over to Lambeth Council on completion who will in turn handover to the Council wholly owned company.

1.17 Previous decisions Cabinet (10.11.14 – report 85/14-15) agreed CPO strategy, Cabinet (04.11.13 – report 191/14-15) agreed development strategy, Cabinet (08.07.13 – report 86/13-14) agreed initial project costs.

1.18

2. Proposal and Reasons

To approve stage two of the Igloo Regeneration Ltd contract

2.1 Cabinet has already authorised stage one of the Igloo contract and is receiving development management services as set out in the Development Management Contract. Authorisation is now required to approve stage two of the contract.

2.2 The services as set out in the Development Management Agreement for stage two are as follows:

- Managing the tender process in procuring a contractor in accordance with the Framework Agreement and the Council's policies in a tender report recommending the appointment to the Council.
- Agreeing a final detailed development appraisal with the Council set out in a summary report, outlining – final agreed construction price (to be a fixed price contract unless agreed between the Manager and the Council to be otherwise), final agreed project team costs, final gross and net building areas, other costs (e.g. section 106 agreements, claw back by grant funders etc.) and any amendments to the Project Appraisal that may significantly affect the development profit or the project's ability to meet the Council's internal rate of return.

Subsequent to approval to proceed:

- Having responsibility for the management of all project consultants during the construction phase, including attending project team meetings at least monthly or more frequently (as requested by the Council), whether the project consultants are managed directly by the Manager or through the appointment of a project manager.
- Leading and coordinating design control, cost control, quality control and programme control during construction and where necessary managing a process to be agreed with the Council, for the agreement of revisions to the original designs.

2.3 The table below lists the outputs as set out in the Development Management Agreement for stage two:

Stage 2 Outputs

1	Completion of design of Project to RIBA Stage E (updated to Stage 4) together with updated financial model, both as approved by the Council
2	Manage the various arrangements to establish a viable scheme meeting its established objectives and outcomes
3	Provide development advice for the scheme* (<i>Services enhanced since stage 1</i>)
4	Procurement of a building contractor for delivery of the works approved by the Council
5	Practical Completion of the first phase of the project. (<i>Phasing plan to be agreed as part of discussions over the financial modelling.</i>)
6	Practical Completion of the second phase of the project
7	Practical completion of the third phase of the project

Notes: Items 5, 6, 7 would only be subsequent to further approval by Cabinet to proceed

Procurement of a Construction Contractor

- 2.4 A key output included within Igloo's commission is to advise the Council on the procurement strategy for tendering the Somerleyton Road project to achieve Lambeth Council and Igloo Regeneration Limited's requirements in terms of time, cost and quality management. Igloo has produced a report which outlines current and forecast market conditions and gives due consideration to this in the assessment of the appropriate route to procurement.
- 2.5 Detailed procurement strategy proposals will be submitted to the Procurement Board, but in view of the current market conditions it will be proposed to use the Greater London Authority's Delivery Partner Panel (DPP) framework, and procured through a competitive two stage tender as outlined below. It is recommended that the development is completed using a main contractor engaged under a single Joint Contracts Tribunal (JCT) Design and Build contract with phased sectional completions. The procurement approach will reflect our social value ambitions and for example have provisions around compliance with the London Living Wage and maximising use of local labour and creation of apprenticeships.
- 2.6 The two stage tender process involves at the 1st stage competitive procurement of a main contractor based on pricing a fee for the 2nd stage, and its site and office overheads and a profit margin for the main works, together with evaluation of the quality of its approach. The selected contractor then works at the 2nd stage with the development manager and design team to optimise the scheme and manages a competitive procurement process for a series of work packages that make up the various parts of the scheme. It is proposed following approval of recommendation 2 to begin the 1st stage procurement process, and after the review in recommendation 3 to move to the 2nd stage of procurement.

3. Finance

- 3.1 The cabinet report of November 2013 set out tentative development costs of £61.4m in a proposed scenario for a development scheme.

That original scheme has been enhanced and extended considerably since then, in particular through the following:

- An additional 21 units of residential accommodation being provided (301 homes, previously 280 homes)
- Increased residential areas of some 9,500 m² and commercial space increased from 2,000 m² to 4,026 m²
- The addition of 65 extra-care homes
- Fit-out of key commercial space (potentially chef's school, children's centre, flexible space, community gym) necessary to secure agreements with the relevant end-users of these spaces
- The introduction a fully fitted out children's centre and nursery.
- Demolition
- Substation provision
- Extensive structural works needed to protect the Victoria Line tunnels which lie under the development
- Provision of a centralised energy centre

The additions in the first five points have been introduced to improve the scheme and maintain financial viability overall. Current project costs reflecting these enhancements, the resulting increase in the project's construction cost and the inflation of construction industry prices, which have arisen in the last two years, are of the order:

- Construction Cost: £86m
- Development Costs: £129m

3.2 The proposals in this report would commit the Council to the following expenditure at each stage in addition to the current commitment on development management and professional fees of £1.876m:

- Up to RIBA stage D^{Note 1}, expected November 2015 £1.313m
- Up to RIBA stage E^{Note 2}, and placing contracts, expected March/Apr 2016 £2.684m
- Preconstruction and Construction phase, April 2016 onwards £3.225m (subject to Cabinet approval to proceed)

Note 1: Stage D is when the approach to the layout, design and construction of the development is at the point where the Council has the information it needs to give a fully considered approval to the outline proposals.

Note 2: Stage E is when all the decisions needed for planning, the proposals as to construction method, outline specification and cost of the project are known so work can begin on the construction part of the project

3.3 The current financial commitment and the proposed additional commitments for the development management and professional fees up to the end of the project (when the whole scheme will have been built) are set out above. These total £9.098 million but will be recovered by the Council (i.e. paid for) within the overall cost of the project.

3.4 In the unlikely event it were necessary to stop the scheme after stage D or stage E it is expected that the site would have increased in value with the benefit of a developed scheme and a planning consent by in excess of the expenditure to that point.

4. Legal and Democracy

- 4.1 This proposed key decision was entered in the Forward Plan on 29 August 2014 and the necessary 28 clear days' notice has been given. In addition, the Council's Constitution requires the report to be published on the website for five clear days before the proposed decision is approved by the Cabinet Member. Any representations received during this period must be considered by the decision-maker before the decision is taken. A further period of five clear days - the call-in period – must then elapse before the decision is enacted. If the decision is called-in during this period, it cannot be enacted until the call-in has been considered and resolved.
- 4.2 Any commencement for a works contractor will need to comply with the provisions of the Public Contracts Regulations 2015 and the Council's Contract Standing Orders.

5. Consultation and co-production

There has been significant consultation, engagement and co-production from the project's inception.

There have been many conversations with local people about Somerleyton Road. Some took place through formal routes i.e. consultations for the Future Brixton master plan (2008-09) and the Brixton area Supplementary Planning Document (2012). Other conversations came about through Brixton Green's ongoing community engagement and through Ovalhouse's work with the arts and cultural sector in Brixton.

The Council is committed to delivering the Somerleyton Road project in partnership with the local community. The process leading up to this Cabinet report has involved a range of people, learning, discussing and working out solutions together. The aim has been to run a transparent process where information is shared, different views are captured and there is a transparent process to decision-making.

The project itself is directed by a Steering Group chaired by the Cabinet Member for Jobs and Growth, including representatives from Brixton Green, Ovalhouse Theatre and the Council to ensure community input into what is a unique co-produced scheme.

Rather than going into partnership with a private developer, the council has chosen to act as its own developer. This means the Council and the community have more control over what is built and can focus on building affordable homes and a thriving local community rather than making a profit. Extensive consultation is still taking place, for example at the community event which took place on Saturday 27th June 2015 when all the emerging designs were shown and generally supported by the local residents. This dialogue will remain a key aspect of what makes the Somerleyton Road project unique and will continue until the project is fully complete.

6. Risk management

There are a number of risks associated with such developments, which are managed and regularly reviewed by the project team. Current key risks are summarised below.

Risk No.	Risk Description	Mitigations	RAG
1	The financial viability of the project is threatened either before construction or after building has commenced; for example, due to a commercial tenant pulling out.	Grant Thornton LLP has independently tested the overall viability of the scheme. However by developing the scheme and gaining planning consent the Council is enhancing the land value, which in extremis could be sold and would cover the Council's costs. If viability were threatened after construction had started, some of the commercial space within the scheme, could in extremis, be sold, so that the Council's overall investment and the scheme's viability was protected.	Green
2	Arts Council bid unsuccessful.	The Council is to provide both officer and Member assistance to Ovalhouse in their application to the Arts Council; The Council is in close liaison with the GLA to identify contingency funding should the Arts Council bid be unsuccessful; and, Ovalhouse will be required to fundraise.	Amber
3	A funding gap between the cost of building the new theatre and the value of the Ovalhouse contributions.	Heads of Terms drafted which include a cut off point.	Amber
4	Unable to deliver all the community's aspirations.	Open and transparent process as to how aspirations are tested and how the decisions are taken as to what can and cannot be included within the tender documents.	Amber
5	Not securing vacant possession of the whole site	The Council will seek to secure vacant possession of the site via negotiation however it will seek CPO powers as a contingency to be used if required.	Green
6	Delay in securing Secretary of State consent	Include SoS sign-off within project plan.	Green
7	Site constraints limit development on the site.	Initial structural engineers report produced; and, close liaison with Network Rail and TfL	Amber
8	Developer failure	The development agreement will include appropriate 'step-in' rights to protect the Council's position.	Green
9	Planning Risk.	Planning engaged and major cases to review tenders pre-submission.	Green

7. Equalities impact assessment

A full EQIA assessment has been carried out for the Future Brixton programme and the EQIA has informed the development of this project.

8. Community safety

Community safety is a key issue for the Somerleyton Road project and is one of the main drivers for change. Crime and anti-social hotspots have been identified and a joint approach between local stakeholders, the Council and the borough's Community Safety officer have resulted in a number of mitigation measures being included in the proposals. The partnership will continue to assess how development along Somerleyton Road could continue to improve community safety in this part of Brixton whilst also working closely with future development partners over site safety during the construction period.

9. Timetable for implementation

Target Date	Activity
30 July 2015	Procurement Board approval of stage 2 of the Igloo Regeneration Ltd contract.
End Aug 2015	Submit planning application
Nov/Dec 2015	Selection of a build contractor.
Nov/Dec 2015	Project Review prior to the final stage of the procurement process.
Mar 2016	Cabinet Report prior to placing build contract and entering leases etc.
April 2016	Conclude contracts and commence main construction works.

Audit trail				
Name/Position	Lambeth cluster/division or partner	Date Sent	Date Received	Comments in Para:
Sue Foster	Strategic Director, Delivery	03.06.2015	02.07.2015	Throughout
Rachel Sharpe	Commissioning Director	03.06.2015	30.06.2015	Throughout
Mike Pocock	Delivery Director, BGR	03.06.2015	30.06.2015	Throughout
Christina Thompson	Commissioning Director	03.06.2015	30.06.2015	Throughout
Guy Ware	Strategic Director Enabling	03.06.2015	02.07.2015	Throughout
Alison McKane	Head of Legal	03.06.2015	02.07.2015	4.0-4.2
Andrew Pavlou	Principal Lawyer Governance	03.06.2015	02.07.2015	4.0-4.2
Daniel Omisore	Strategic Finance	03.06.2015	02.07.2015	3
Andrew Sternberg	Commissioning	03.06.2015	02.07.2015	Throughout
Councillor Jack Hopkins	Cabinet Member: Jobs and Growth	03.06.2015	30.06.2015	Throughout
Councillor Matthew Bennett	Cabinet Member Hous	03.06.2015	30.06.2015	Throughout
Internal Officer Board	Date of meeting			
Procurement Board	30.07.15			
External				
Stephen Jordan	Brixton Green	02.06.2015	02.07.2015	Throughout
Deborah Bestwick	Oval House	02.06.2015	02.07.2015	Throughout
Report history				
Original discussion with Cabinet Member	02.04.1204			
Report deadline	01.07.2015			
Date final report sent	03.07.2015			
Report no.	40/14-15			
Part II Exempt from Disclosure/confidential accompanying report?	No			
Key decision report	Yes			
Date first appeared on forward plan	29.08.14			
Key decision reasons	Expenditure, income or savings in excess of £500,000 Meets community impact test			

<p>Background information</p>	<p>Cabinet Reports</p> <p>Cabinet, 10.11.14 – report 85 /14-15 http://moderngov.lambeth.gov.uk/documents/s69759/04SomerleytonRoadCPOFINAL.pdf</p> <p>Cabinet 8 July 2013 – report 86/13-14 http://moderngov.lambeth.gov.uk/ieListDocuments.aspx?CId=225&MId=8562&Ver=4</p> <p>Cabinet 04.11.13 – report 191/13-14 http://moderngov.lambeth.gov.uk/documents/s61050/08%20SomerleytonRoad_FINAL.pdf</p> <p>Cabinet 08.07.13 – report 86/13-14</p>
<p>Appendices</p>	<p>None</p>