

Summary Sheet

Name of Committee and Date of Committee Meeting

Cabinet and Commissioners Decision Making Meeting – 9 July 2018

Report Title

Modern Methods of Construction Pilot to Build Affordable Homes

Is this a Key Decision and has it been included on the Forward Plan?

Yes

Strategic Director Approving Submission of the Report

Anne Marie Lubanski, Strategic Director of Adult Care, Housing and Public Health

Report Author(s)

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Ward(s) Affected

Hoover
Valley

Summary

This report requests Cabinet approval to deliver 12 bungalows for older people through a pilot to test alternative modern construction methods. Funding for the pilot will come from the Housing Revenue Account (HRA) and subject to confirmation, grant funding from the Sheffield City Region's Housing Fund.

'Modern methods of construction' (MMC) is a generic term used to cover several different types of homes that are manufactured in a factory environment and either fully or partially assembled in the factory, or the component parts are assembled on site. MMC can provide an efficient alternative to traditional construction methods for the following reasons:

- Increased pace of delivery
- Quality and energy efficiency can be higher
- Some providers claim the costs are lower than traditional construction

The MMC project will achieve the following outcomes:

- 12 new Council bungalows for older people to rent
- Making the best use of HRA small sites to deliver new Council homes

- Testing of modern methods of offsite construction to deliver high quality, energy efficient homes at a faster pace – which if successful could be scaled up to make a significant contribution to the borough's housing growth target
- Diversification of the local construction industry by offering opportunities to small and medium sized builders

The report explains that these technologies are new to Rotherham and, until the procurement exercise has been completed it is not possible to analyse property lifespan and lifecycle costings. A robust appraisal will be carried out by officers in finance, repairs and maintenance, asset management and housing services, to ensure the proposals demonstrate long term value for money to the Council.

Recommendations

1. That the use of the identified sites to deliver affordable housing using modern methods of construction be approved.
2. That a further report be submitted to Cabinet in November 2018 to:
 - detail the Outline Business Case
 - recommend contract partners and
 - seek approval for use of Housing Revenue Account capital resources for the pilot up to a maximum of the amount set out in exempt Appendix 2, following a procurement exercise.

Background Papers

Appendix 1 Summary of modern construction methods

Appendix 2 Exempt financial information

Consideration by any other Council Committee, Scrutiny or Advisory Panel

Overview and Scrutiny Management Board – 4 July 2018

Council Approval Required

No

Exempt from the Press and Public

While the main report is an open item, exemption for Appendix 2 is requested under paragraph 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Part I of Schedule 12A of the Local Government Act, as it contains sensitive commercial information with regards to the Council's contracts.

Modern methods of construction pilot to build affordable homes

1. Recommendations

- 1.1 That the use of the identified sites to deliver affordable housing using modern methods of construction be approved.
- 1.2 That a further report be submitted to Cabinet in November 2018 to:
 - detail the Outline Business Case
 - recommend contract partners and
 - seek approval for use of Housing Revenue Account capital resources for the pilot up to a maximum of the amount set out in exempt Appendix 2, following a procurement exercise.

2. Background

- 2.1 This report requests Cabinet approval to deliver 12 bungalows for older people, through a pilot to test alternative modern construction methods. Funding for the pilot will come from the Housing Revenue Account (HRA) and, subject to confirmation, grant funding from the Sheffield City Region's Housing Fund, as outlined in exempt Appendix 2.
- 2.2 'Modern methods of construction' (MMC) is a generic term used to cover several different types of homes that are manufactured in a factory environment and either fully or partially assembled in the factory, or the component parts are assembled on site (see appendix 1). In recent years the MMC products on offer have diversified and increased significantly and as the Council has not commissioned any MMC construction projects in recent years now is the ideal time to test the market.
- 2.3 MMC could provide an efficient alternative to traditional construction methods for the following reasons:
 - Increased pace of delivery
 - Quality and energy efficiency can be higher
 - Some providers claim the costs are lower than traditional construction
- 2.4 Several private sector organisations including small and medium enterprises have approached the Council in recent months, requesting opportunities to showcase their MMC products.
- 2.5 Organisations offering MMC typically require a larger 'order-book' of 200+ units to achieve the economies of scale required to set up a local factory in the area. Rotherham Council is participating in a working group with other colleagues in the Sheffield City Region (housing associations and local authorities) to explore options for a more substantial programme through collaborative procurement.
- 2.6 However in the meantime, it would be helpful to be able to test the market and evaluate the costs and quality of different MMC products, to identify whether they can meet the specific local requirement for new high quality, affordable bungalows.

2.7 To this end, the Strategic Housing and Development Service is undertaking an open procurement exercise, which will conclude in August / September 2018.

2.8 Organisations have been invited to submit designs and costings for one or more of the sites. The evaluation process will focus on quality and value for money. Returned Tenders will be evaluated against agreed criteria and compared with each other. If there are several strong bids then more than one contractor could be appointed, which would allow the Council to compare speed of delivery, quality of the end product and costings.

2.9 It is essential that the proposals demonstrate value for money, not just at the construction phase but over the lifetime of the home and therefore the procurement brief sets out the requirement for robust and evidenced lifecycle maintenance costings. Submissions will be evaluated and scrutinised by the Council's repairs and maintenance service and finance officers, and no contracts will be awarded unless the Council is confident that the strategic objectives can be met and value for money achieved.

2.10 The proposal for each site is set out below.

- Symonds Avenue, Rawmarsh – eight bungalows
- Hounsfield Crescent, East Herringthorpe – two bungalows
- Hounsfield Road, East Herringthorpe – two bungalows

2.11 The bungalow sites are either low demand garage sites or undeveloped HRA land, which have varying degrees of nuisance issues. If this pilot proves to be successful this could provide a delivery route for many of the other 200-300 HRA owned small sites in the borough. Whilst groundworks and the construction of foundations are still required, the homes can be delivered to the site as completed units (depending on the specific product). Consequently the number of traffic movements to and from site is reduced as there are fewer large delivery vehicles.

2.12 It is anticipated that the build cost per property will be similar to traditional construction, due to the small numbers and the nature of the sites selected. The maximum total cost of the project has been estimated on this basis, and this has been set out in exempt Appendix 2. It is proposed that the whole of the scheme is to be HRA funded. This has been built into the new HRA business plan (approved by Cabinet and Commissioners in January 2018) although the amount provisionally identified for the MMC pilot will need to be increased. The Council has also submitted a business case to the Sheffield City Region (SCR) Housing Fund for a grant contribution to the project and the outcome should be known by late July.

2.13 The MMC project will achieve the following outcomes:

- 12 new Council bungalows for older people to rent – which is important as Rotherham has an ageing population and requires more level access accommodation suitable to meet people's changing needs, as set out in the Housing Strategy.

- Making the best use of HRA small sites to deliver new Council homes – and as these sites are often located within or in close proximity to existing neighbourhoods, these are particularly suitable for older people.
- Testing of modern methods of offsite construction to deliver high quality, energy efficient homes at a faster pace.
- Contribution to the Council's housing growth target.

2.14 The new bungalows will be added into the Council's stock and allocated via Key Choices to people aged over fifty or with an assessed medical need.

3. Key Issues

- 3.1 It is important to note that these technologies are new, and as yet untested in Rotherham. Until the tenders are returned, with details about property lifespan and lifecycle maintenance costings it will not be possible to ascertain whether they will deliver value for money. It is therefore essential that finance and repairs and maintenance colleagues are involved in scrutinising the tender returns, and that contracts are not entered into unless the scheme will represent value for money to the Council.
- 3.2 The Council has ambitious housing growth targets and needs to increase the delivery of new homes by around 50% per annum. A range of different delivery methods and approaches will be required to achieve the target and ensure local needs are met. The MMC pilot will achieve a relatively modest number of new homes (12) but if successful could lead to a much more extensive programme as it will allow MMC concepts to be tested.
- 3.3 The Council's own housing stock is reducing at a rate of between 150 and 200 per annum due to Right to Buy sales, and as demand and Housing Register figures continue to increase, it is important that the Council builds new Council homes to ensure the needs of Rotherham's most vulnerable residents can be met. Delivery of new homes via MMC could be much quicker than through traditional methods of construction.
- 3.4 Rotherham has an ageing population and there is an increasingly high demand for Council bungalows. Older people often wish to stay living in their existing communities and small, HRA owned sites can provide an ideal location for older people accommodation. The MMC project includes sites that are close to existing communities and where housing data reveals a high demand for level access accommodation. This will help older people to remain living independently for longer thus reducing the number of people entering residential care or hospital.
- 3.5 The MMC project will provide the opportunity for small and medium specialist companies to work in partnership with the Council, which will help to diversify the local construction industry.
- 3.6 Homes delivered by modern methods of construction typically achieve high levels of quality and energy efficiency. Industry experts state that due to the superior airtightness achieved by precision engineering and factory conditions the homes cost 20% less to heat than conventional properties, which will help to reduce fuel poverty.

- 3.7 It is likely that a separate maintenance agreement will need to be agreed with the Council's contract partners and this is being considered in the retendering of the repairs and maintenance contract. It will be a condition of the contract award that these new homes will be covered by a one year's defects liability warranty as well as a ten year structural warranty. During the one year defects liability period a firm maintenance agreement will be established with either an existing partner or another provider or the supplier of the units. The costs of all proposals will be benchmarked against the Council's ongoing maintenance contracts and industry standard information.
- 3.8 This pilot is also strategically significant for housing providers across the Sheffield City Region as a group of local authorities and housing associations are researching MMC products and preparing a joint / programme approach to procurement, to achieve the economies of scale required to merit a major programme. Rotherham will participate in this wider scheme and will share the experience from this pilot scheme.

4. Options considered and recommended proposal

- 4.1 Delivering these sites via traditional construction: At the present time manufacturing off-site is not proven to be less expensive than traditional construction, but the requirement to accelerate housing delivery along with the increasing shortage of skills have forced the housebuilding industry to look at change. Product information suggests that as the manufacturing process evolves, MMC products should be cheaper to build than traditional properties in the long term. This is an ideal time to pilot these methods in Rotherham. Traditional construction is therefore not recommended, to allow MMC to be trialled.
- 4.2 Sell the sites for development: The Council could opt to sell these sites on the open market to encourage small builders or self-builders to develop the sites. The Council's Asset Management Service has estimated the following site values – Hounsfield Crescent £30,000, Hounsfield Road £25,000, Symonds Avenue £100,000. These are relatively low values and selling the sites on the open market would not generate a significant income to the HRA. The Council has identified HRA funding which may be contributed to by SCR New Homes funding to make these new developments more viable, and there is an identified need for more housing specifically for older people. Therefore it is more beneficial for the Council to develop the sites for new Council homes. This approach is therefore not recommended.
- 4.3 The recommended approach is to undertake the MMC pilot to allow these methods and the delivery route to be tested, for the longer term strategic benefits this would deliver.

5. Consultation

- 5.1 Ward Members have been briefed on the proposals and will be kept up to date as the projects develop.

- 5.2 These are small sites and public consultation will be carried out via the planning application process, which has nationally prescribed regulations regarding informing local residents and the wider public.
- 5.3 Health Action Plan groups will be consulted, particularly those dealing with the needs of older people.
- 5.4 Households who are immediate neighbours of the site will be sent letters to inform them of the proposals and timescale for the development of the sites.
- 5.5 The Strategic Housing Forum was briefed on the MMC proposal as part of the overall housing growth plans for the borough. All members were supportive of the proposal.
- 5.6 The SCR “More New Homes” steering group has been consulted on the proposal, and the benefits of sharing information between the Rotherham small sites pilot and the wider SCR collaborative programme were confirmed. This is one of the principles underpinning the Council’s funding bid to the SCR Housing Fund.
- 5.7 The Strategic Housing and Development Services will engage with other relevant partners and teams to establish the detail around allocation of the single person household homes.

6. Timetable and Accountability for Implementing this Decision

- 6.1 The timescale for the commencement of construction is subject to Cabinet approval of a comprehensive business case later in the year. However, some site works can be undertaken ahead of this, including site investigation works and the procurement exercise to engage contractor/s. Indicative scheme designs can be worked up. Planning colleagues have already been consulted and have confirmed that all of the sites are suitable for residential development. The project will be completed during summer 2019.
- 6.2 The table below details the key milestones associated with the project:

Dates	Key milestones
April – June 2018	Site investigation works and topographical surveys
April – June 2018	Procurement tender to be finalised
9 th July 2018	Report to Cabinet and Commissioners
July – end of August 2018	Tender sent out to prospective contractors via an open procurement exercise
September 2018	Return of tenders and evaluation
September 2018	Production of detailed outline business case and Cabinet report
November 2018	Cabinet and Commissioner report seeking approval of business case and tender acceptance
November 2018	Award of tender to successful contractor/s and legal contracts to be agreed and signed
November – January 2019	Planning approval gained for the sites

January 2019	Start on site
Summer 2019	Completion of the units

- 6.3 The project will be overseen by the Affordable Housing Co-ordinator who will work closely with Asset Management and other council services.
- 6.4 Overarching progress will be overseen by the Housing and Regeneration Programme Delivery Board / Officer Group and the overall accountable officer will be the Assistant Director of Housing and Neighbourhoods.

7. Financial and Procurement Implications

- 7.1 The estimated project costs are set out in exempt Appendix 2.
- 7.2 The new HRA Business Plan includes funding for the MMC project, although the amount provisionally allocated will need to be increased as set out in appendix 2. More than £50m of HRA capital resources have been identified in the business plan for housing growth over the next five years. The amount allocated in the HRA Business Plan is not an approved budget and a detailed outline business case will be produced and reported to Cabinet in November, which will set out the HRA resources required and formally request a capital budget. If approved, funding of this initiative will be via HRA Revenue Reserves and SCR funding as per 7.3 below if awarded.
- 7.3 SCR funding may be granted to cover a proportion of the project costs, this is also set out in appendix 2. Any grant received will form part of the funding for this initiative.
- 7.4 The properties will generate New Homes Bonus and council tax income which will contribute to the achievement of financial planning assumptions within the Council's Medium Term Financial Strategy. The new bungalows will also generate approximately between £58K and £60K per annum of rental income to the Housing Revenue Account. According to the literature available the long term management and maintenance costs of these new bungalows should be no different to traditional build properties but they will be subject to a separate maintenance agreement with the Council's maintenance partners.
- 7.5 Many of the SME contractors who provide MMC are relatively new entrants to the housing market. Therefore they are not on current procurement frameworks such as Yorbuild as these frameworks are only updated every five years or so. In order to have the greatest scope and attract a maximum number of tender returns the procurement process will run as an open tender via YorTender to allow all possible contractors to submit tender bids, which will then be evaluated and compared against pre-determined criteria. Up to two contractors could be appointed to develop the sites.

8. Legal Implications

- 8.1 All contracts in respect of this project will be managed by the Council's Asset Management Team, and will follow industry standard form. The Council will retain 'step in' rights to complete the works should any contractor fail to finish the project. Further contractors will only be paid in staged payments following the completion of works, therefore the Council will never pay for works that have not been completed.

9. Human Resources Implications

- 9.1 None identified.

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 The main groups to benefit from the new homes will be older people requiring level access accommodation, which will help people to live independently for as long as possible.

11. Equalities and Human Rights Implications

- 11.1 None identified.

12. Implications for Partners and Other Directorates

- 12.1 The programme will be delivered by the Strategic Housing and Development Service, but essential roles will also be played by officers in Asset Management and Planning services within the Regeneration and Environment directorate.

13. Risks and Mitigation

- 13.1 Some of the SME companies developing these projects may be relatively new companies with a short trading history. Consequently, on paper, they may be deemed as 'high risk' partners. The Council will have legal 'step in' rights to appoint other contractors to finish any works that are outstanding should a company go into administration.
- 13.2 Inspection of the ongoing project will be carried out by the Council's Clerk of Works, who will only authorise payments once he / she is satisfied that all the works have been completed to the correct standards. This system reduces the Council's exposure to financial risk.
- 13.3 The new bungalows will not be exempt from Right to Buy applications. Due to national Government Policy the Council cannot exempt these homes. At the point of a Right to Buy application if the 'cost floor' (build cost plus all the fees and additional project costs) of the property is higher than the tenant's purchase price (after the discount has been applied) then the tenant will have to purchase at the cost floor amount – i.e. the level of discount is reduced. In circumstances where the open market value of the property is lower than the cost floor then the Council will have to sell at the open market value and write off the difference between the cost floor and the open market value.

- 13.4 The long term maintenance costs associated with some of the MMC build types is not yet known. However this information will form part of the evaluation process for the procurement Tenders and will be compared to the standardised maintenance costs for all other Council properties. This will form part of the Value for Money exercise. However, a stand-alone maintenance contract may be required for the units and this will be taken into account in the repairs and maintenance contract re-Tendering process.
- 13.5 Overall the risk of not undertaking this pilot is that the Council will not have a clear understanding of the benefits of MMC and the opportunity to deliver a major housebuilding programme on other key sites, at a faster pace than through traditional methods. The report explains that robust evaluation and scrutiny will take place of all proposals prior to contracts being signed to ensure that the new homes will provide value for money over the lifetime of the homes, not just at the point of construction.
- 13.6 There is a risk that the grant funding request is not approved, and even if it is, the full details of the terms and conditions are currently unknown. However this will be taken into account in the detailed business case.

14. Accountable Officer(s)

Tom Bell - Assistant Director of Housing and Neighbourhood Services

Approvals obtained on behalf of:-

	Named Officer	Date
Strategic Director of Finance & Customer Services	Judith Badger	22.06.2018
Assistant Director of Legal Services	Lesley Doyle	May 2018
Head of Procurement (if appropriate)	Karen Middlebrook	May 2018
Head of Human Resources (if appropriate)		

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This report is published on the Council's website or can be found at:-

<http://moderngov.rotherham.gov.uk/ieDocHome.aspx?Categories=>

Appendix 1 – Summary of modern construction methods

Mode of delivery	Description
Open Panel	A structural frame using panels constructed in the factory and assembled on site. Services, insulation and internal finished are installed on site.
Closed Panel	Similar to open panel but with more factory based fabrication with some internal finished and often doors and windows being pre-installed.
Volumetric	The most factory-based form of production. Three dimensional models are used in isolation or in multiples. Can be pre-finished with all fixtures and fittings.
Hybrid	A combination of volumetric and panelised systems. High value areas (kitchens and bathrooms etc) are formed in a pod and the rest uses panels as a frame.
Sub-Assemblies	Major structural elements are manufactured off site but are not part of the primary structure, e.g. foundations
Components	Non-structural elements are manufactured off site. Less common but can include mechanical or electrical services.