

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Executive Member for Policy and Resources
Date:	26 September 2018
Title:	Three Extra Care Development Opportunities in Gosport, Petersfield and New Milton – Outcome of Procurement
Report From:	Director of Culture, Communities and Business Services

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1. Recommendation(s)

- 1.1. That approval be given to accept the tender submissions, to include the payment of the required capital funding and the associated site transfers, on the basis set out in this report and appendices to support the development and operation of the three Extra Care schemes at Bulmer House in Petersfield, Addenbrooke in Gosport, and Fernmount in New Milton with the Director of Culture, Communities and Business Services (Strategic Manager – Assets and Development) authorised to settle the detailed terms and conditions to conclude the site transfers and to release this capital funding to meet any such grant shortfall and/or other unforeseen yet legitimate development costs;
- 1.2. That approval be given to obtain prior notification consent to demolish, and to fund the demolition of the buildings currently on each site, as set out in this report and appendices.
- 1.3. That approval be given to enter into any related legal or planning agreements deemed necessary and that the Director of Culture, Communities and Business Services (Strategic Manager – Assets and Development) be authorised to settle the detailed terms and conditions.

2. Executive Summary

- 2.1. The purpose of this paper is to secure Executive Member approval to three business cases to support the delivery of Extra Care Housing developments (including replacement Day Care services on one site) on three County Council owned sites following a recent procurement exercise to select development partners. Two of the sites were former care homes for older people, namely Addenbrooke in Gosport and Bulmer House in Petersfield

whilst the third at Fernmount in New Milton was a former day centre for adults with learning disabilities.

2.2. This paper seeks to:

- Provide the background to the Older Persons' Extra Care Housing programme and briefly update on its progress;
- Summarise the context of the use of the above three sites as potential locations for new build Extra Care Housing schemes;
- Set out the outcome of a recent tender exercise and identify the recommended delivery partners, including an assessment of the financial and legal implications of each choice.

3. Contextual information

- 3.1. In October 2011, a capital envelope of £45m was approved to deliver new build Extra Care Housing for older people and to allow the extension of two in-house nursing homes. This funding was intended to enable the delivery of schemes rather than fund the cost directly and would be made available either as a "top-up" grant or as a higher capital and/or in-kind land value contribution in relation to the development of a selected number of County Council owned sites. In relation to the latter mechanism, a partner framework was procured with 4 registered providers appointed with the intention of delivering 100% affordable rent schemes.
- 3.2. From this partner framework, initial mini-competitions were run on a number of County Council owned sites including the above at Addenbrooke and Fernmount (plus the former Nightingale Lodge/Master's House site, Romsey which was recently awarded a development contract by EMPR in December 2017). The site at Bulmer House was not initially submitted for development in this framework as an 'off market' negotiation with an adjacent Housing Association, which provides sheltered housing and had some access rights to the site, was explored further. These negotiations were eventually terminated when the Housing Association withdrew due to a change in their strategic direction and concerns about the Government's plans for future funding of supported housing.
- 3.3. The above concerns about changes to supported housing funding threatened the viability of all three developments locally as well as similar developments at a national level. The proposals were announced in November 2015 during the Chancellor's Autumn Statement. The Statement revealed plans for reductions in actual rents for three years plus long term proposals to potentially further reduce rents and remove them from housing benefit and into the emerging Universal Credit System. These proposals, plus a general reduction in capital grant subsidies from the then Homes & Communities Agency (now Homes England), passed further commercial risks onto providers who in turn required greater levels of capital grant from the County Council. As a result the framework bids for Addenbrooke and Fernmount were considered too costly to be taken further.
- 3.4. Consequently it was agreed that a new Extra Care Housing commissioning strategy be prepared and that both these two sites plus Bulmer House would

be re-procured under this new approach. A revised commissioning strategy was duly approved by the Executive Member at his meeting on 20th January 2017 (ref: 7905). The new approach saw the introduction of a mixed tenure policy to both expand choice and utilise private equity in return for reduced County Council capital grants. Changes were also made to further improve viability by introducing a greater ratio of one rather than two bedroom flats, reduced communal areas and an open procurement approach to increase competition from a changing provider market. This new policy proved successful in the re-procurement of Nightingale Lodge in Romsey and the lessons learnt from that have been further applied to these three sites.

- 3.5. Good progress can therefore be reported on the overall Extra Care Housing strategy as the 52 new apartments in the Chesil Street, Winchester scheme opened in July 2018 and the demolition works at Nightingale Lodge were also completed in the same month. The Government have also recently abandoned their above plans to review the way supported housing rents are funded. These will now remain unchanged and fully within the Housing Benefit system and a proposed cap on rent and service charge levels will not be introduced after all. This appears to have installed renewed confidence for providers to invest in such services as witnessed in the tenders submitted for the three sites covered in this report.

4. Summary of the Three Development Opportunities

- 4.1. Further details on each site and the development opportunities these presented are given in Appendices 1 to 3 attached to this report. However, all three sites presented similar characteristics which influenced the decision to procure them at the same time albeit as separate Lots.. These are summarised as follows

- Each site was tendered subject to meeting Design Principles prepared by the County Council as landowner and agreed informally with each Local Planning Authority. In addition to submitting design proposals each bidder also had to submit details of how they would build and operate each development.
- The Design Principles requested proposals for c.50 one and two bedroom flats, with a 2:1 ratio in favour of 1-bedroom units.
- A mixed tenure proposal was required with a minimum of 70% of flats being made available for affordable rent and a maximum of 30% being available for purchase, either as affordable shared ownership or outright market sale.
- A separate space to establish a Day Service facility for use by Older Persons in the wider Petersfield community was also required at Bulmer House to replace a former service previously operated at this site (known as Ramshill).
- A schedule of communal areas and gardens was also specified and advice on local planning and car parking policies was also provided.

- Bidders were informed of the higher care mix required at each site in order to generate revenue savings targets for Adult Health & Care. However, care provision was not part of this opportunity and bidders were informed that such services would be procured later by the County Council as a separate procurement.

5. Procurement Exercise and Outcome

- 5.1. Each site was procured as an OJEU compliant open market tender. The tender documentation provides that a selected partner would be granted a building lease of 250 years for a notional sum of £1. The County Council will also reserve rights to use the integrated Day Centre for its own or another providers' use at Bulmer House.
- 5.2. Bidders were asked to provide a detailed commercial assessment of their development costs and expected sources of income from rents, sales and other sources of capital grant assumed from bids to Homes England, other public bodies and their own sources of funding through Recycled Capital Grants. It was also made clear that any further shortfall in funding still required could be provided by the County Council as 'gap funding.' In meeting the criteria of 'Most Economically Advantageous Tender' for the County Council, the lowest capital request for HCC 'gap funding' would be scored the highest mark. The tender evaluation had a scoring ratio of 40% commercial / 60% quality. The design of the scheme and its probability of achieving planning permission at first attempt was a key weighting within the quality element of the evaluation criteria.
- 5.3. The procurement received a good level of interest with 36 parties obtaining the information pack that supported each Extra Care development opportunity. Details of the actual bidders for each site are provided in the confidential Appendices to this report.
- 5.4. It should be noted that each selected development partner would need to make a formal application to Homes England for their anticipated capital grant, plus a similar request for authority to direct any of their Recycled Capital Grant to each site. Should there be any reduced award this shortfall may also need to be met by the County Council. However, the risks to the Council of having to meet this full cost are considered low as Homes England have already indicated that it does have funds available to support developments on sites in public ownership which are 'ready to go' and within benchmarked subsidy levels. This also applies to their approval on bidders using Recycled Capital Grant.
- 5.5. Bids were also assessed with regards to the capacity of each developer to deliver the consented scheme on the individual sites and within acceptable timeframes. These timescales are set out in detail in the Appendices. It is currently anticipated by the bidders that the schemes will be completed with first occupation between December 2020 and July 2021, although experience on the delivery of these developments suggests first occupation may actually occur towards the end of 2021.

6. Finance

- 6.1. On the basis that bids are awarded as outlined in the Appendices, the total requested 'gap funding' grant from the County Council is £3,558,110 for the combined provision of c.150 flats across all three sites. This is considered a very positive outcome given that the level of required County Council grant is less than previously forecast for these sites when the new strategy was approved by EMPR in January 2017.
- 6.2. In the event that the anticipated Homes England grants are either not awarded or only at a reduced level, or the requests to divert Recycled Capital Grants are not supported, then in order for these projects to proceed it may be necessary for the County Council to meet a further additional funding shortfall. Given the experience of similar developments, it is also considered prudent to identify a capital provision to cover unidentified abnormal costs, together with a build cost contingency. The extent of the County Council's maximum potential financial exposure is set out Section 4 of each of the attached Appendices. However, as set out in paragraph 5.4 above, the risks of the County Council having to provide such additional funding over and above the requested "gap funding" is considered very low.
- 6.3. Awarding the contracts with the minimum requested 'gap funding' position of £3,558,110, the payback period for each site (set out in the respective appendix) based on a model 50 unit scheme and assumed annual revenue savings has been calculated in accordance with the revised extra care business model (which also assumes prudential borrowing).
- 6.4. The alternative use land value for each site is also set out in the Appendices. At the levels of value identified the Deeming Provisions relating to best value set out in the Local Government Act 1972 can be relied upon in respect of the proposed site transfers. In addition, there are appropriate claw-back mechanisms in the ground lease(s) which protect the onward value position of the land. However, It should be noted that the Fernmount site forms part of the Adults' Health & Care Learning Disabilities Transformation Programme, and therefore the assumed 'receipt' from the long leasehold sale of this site will need to be transferred to support this programme.
- 6.5. Approval is also sought to obtain prior notification consent to demolish, and fund the demolition of, the buildings currently on each site, if considered appropriate. Further details are provided in each Appendix. By demolishing the buildings, the level of grant payable by the County Council would decrease, although not by as much as the cost of demolition due to savings the developer can make demolishing whilst on site. However demolition in advance will de-risk the site, shorten the development timeline, as well as maintaining momentum and demonstrating progress on redevelopment.

7. Performance

- 7.1. This proposal accords with all 4 of the County Council's Corporate Priorities as follows:

- “Hampshire maintains strong and sustainable economic growth and prosperity” – the redevelopment of each site will provide temporary job opportunities during the construction of the building and will also support jobs in the care and support and housing management sectors going forward.
- “People in Hampshire live safe, healthy and independent lives” – the new facilities will provide residential accommodation with appropriate levels of care and support to enable older people to retain their independence and maintain their quality of life for as long as possible.
- “People in Hampshire enjoy a rich and diverse environment” – the new developments are designed, and will be built, to a high standard in accordance with the County Council’s Extra Care guidelines, Local Planning Authority requirements, and Building Regulations.
- “People in Hampshire enjoy being part of strong, inclusive communities” – the three schemes will provide Extra Care units to meet the housing needs of older people as well as providing enhanced community facilities in the form of the replacement day services (at Bulmer House) for access and use by local older people.

8. Consultation and Equalities

8.1. Please see the three attached Equalities Impact Assessments for each site.

9. Future direction

- 9.1. It is recommended that the County Council accepts the tenders as described in Appendices 1, 2 and 3. Legal formalities will include entering into a Disposal Agreement and 250 year Building Lease plus other legal documentation as required. The County Council will retain the freehold interest in the land, which will enable it as landowner to influence the onward use of the sites through the user clause and overage and repayment mechanisms.
- 9.2. In the event that the County Council is unable to proceed to contract award with the preferred bidder in compliance with the procurement regulations then approval is sought for the County Council to be able to revert to the runner-up bidder if available with a view to awarding the contract to them in accordance with the procurement regulations. Further detail is provided in section 4 of the Appendices.
- 9.3. Completion of the contract and disposal agreement (which will be conditional on obtaining planning permission as well as the outcome of applications for funding) will follow the requisite tender standstill period, after which the providers will be required to make applications for funding to Homes England and it is proposed that specific Project Boards are established to ensure all parties work together to achieve completion of the project as soon as practicably possible.

CORPORATE OR LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	yes
People in Hampshire live safe, healthy and independent lives:	yes
People in Hampshire enjoy a rich and diverse environment:	yes
People in Hampshire enjoy being part of strong, inclusive communities:	yes

Other Significant Links

Links to previous Member decisions:	
<u>Title</u> Strategy for the Older Persons' Extra Care Housing and Programme Update (Ref: 7905)	<u>Date</u> 20/01/2017
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;

Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;

Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;

Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;

Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

Please see the links below for the Equalities Impact Assessments relating to the closure of each of the three sites:

Lot 1: Bulmer House, Petersfield & Lot 2: Addenbrooke, Gosport – [Outcomes of Consultation EIA \(Community\)](#)

Lot 3: Fernmount, New Milton – http://www3.hants.gov.uk/councilmeetings/meetingssummary.htm?sta=0¤tpage=1&tab=1&date_ID=613 (see 'Transformation of In-house Learning Disability Services' report)

2. Impact on Crime and Disorder:

2.1. The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1998 to consider the impact of all the decisions it makes on the prevention of crime. The proposals in this report have no impact on the prevention of crime.

3. Climate Change:

- 3.1 The proposed development will be constructed to comply with the prevailing requirements of Local Planning Policy and Building Regulations in place for residential accommodation.