

**Title of meeting:** Cabinet Meeting  
City Council Meeting (13 October 2020)

**Date of meeting:** 15<sup>th</sup> September 2020

**Subject:** **Leamington House and Horatia House - Update and Next Steps**

**Report by:** Director of Regeneration & Director of Housing,  
Neighbourhood and Building Services

**Wards affected:** St Thomas Ward

**Key decision:** Yes

**Full Council decision:** Yes

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**1. Purpose of report**

- 1.1. To provide Cabinet with a progress update including
- 1.1.1. Deconstruction Options Appraisal & Soft Market Testing
  - 1.1.2. Design Team Appointment
  - 1.1.3. Telecommunication re-siting
  - 1.1.4. Peregrine Falcons
- 1.2. Note the continued commitment to engage the wider community to explore the 'wider area improvements' and the incorporation into the design brief of all the feedback from the community engagement work undertaken in 2019 including the seven key themes that emerged from all the feedback;
- 1. Build appropriate homes
  - 2. Make better use of green space and space for children
  - 3. No more student accommodation
  - 4. Consider wider area improvements
  - 5. Better parking options
  - 6. No tower blocks
  - 7. Re-provide the social housing lost when the tower blocks go
- 1.3. To report back the initial financial viability assessment of a development on the 'foot prints' of the two tower blocks based on an overall development of 440 units and including 272 social housing units to be held within the Housing Revenue Account

- 1.4. To seek permission from Cabinet to tender and appoint a contractor to undertake the deconstruction of the two tower blocks
- 1.5. To seek permission from Full Council to proceed with the wider development (described in paragraph 1.3 above) at an estimated total cost of £120m subject to:
  - 1.5..1. the development remaining viable through the design stages and remaining within certain other financial parameters
  - 1.5..2. the development remaining sustainably within the administrations agreed principles (section 5)

## **2. Recommendations**

- 2.1. That the Cabinet:
  - 2.1.1 Notes the progress since the October 2019 Cabinet report.
  - 2.1.2 Notes the output of the soft market testing for the deconstruction of the tower blocks.
  - 2.1.3 Notes that the outline financial appraisal for an initial phase consisting of the two footprints is positive with the caveats noted in the financial implications.
  - 2.1.4 Approves a change to the Capital Programme for the use of the Housing Revenue Account's (HRA) Major Repairs Reserve (MRR) to fund the deconstruction and site preparation of the two towers up to a value of £10m.
  - 2.1.5 Delegates authority to the Director of Regeneration in consultation with the Director of Housing, Neighbourhood and Building Services and the Section 151 Officer to tender and enter into contract with the preferred bidder for the deconstruction work following full evaluation of the tender.
- 2.2 That City Council approves the following:
  - 2.2.1 That the full deconstruction and redevelopment scheme for the two tower blocks is added to the capital programme in the sum of £120m.
  - 2.2.2 That the scheme is funded by a suitable mix of HRA and General Fund Prudential Borrowing as determined by the S.151 Officer.
  - 2.2.3 That the scheme can only proceed, including through its procurement gateways, if a satisfactory financial appraisal which demonstrates viability is approved by the Section 151 Officer.

2.2.4 That, given the early stage of design, delegated authority be given to the Section 151 Officer to vary the overall scheme cost and borrow as required but subject to the Section 151 Officer being satisfied that the associated financial appraisal demonstrates continued viability and acceptable risk and that the gross cost of the scheme does not exceed £145m.

2.2.5 In the event that the scheme varies significantly from the design parameters (described in section 5) and/or the gross cost exceeds £145m, even if viability can still be demonstrated, the scheme will not proceed without further approval from the City Council.

### **3. Background**

3.1 Cabinet received a report on 8<sup>th</sup> October 2019 and following this it had also requested a further information report with an update on progress for the project. This was due to report to a special Cabinet on the 26<sup>th</sup> March 2020 however this meeting was cancelled due to the COVID-19 crisis.

3.2 Work on the project has been impacted by COVID-19 pandemic, as the City Council moved into a major incident business continuity setting. As the initial response phase settled work has resumed on the project and progress made which informs this report and the recommendations.

### **4. Update on the Progress of the Project since October 2019**

#### Deconstruction Options Appraisal & Soft Market Testing

4.1 Ridge & Partners LLP were appointed on the 17<sup>th</sup> July 2019 as principal consultant to provide a detailed options appraisal for the deconstruction of both blocks.

4.2 Reports were received in December 2019 that provide the detail on the method of deconstruction, timescales and estimated costs. In summary the findings support the proposed deconstruction method whilst giving confirmatory and detailed analysis of the two blocks. The reports have been used to inform the specification for the deconstruction of the blocks.

4.3 Ridge & Partners LLP provided a market appraisal feedback report in July 2020 that provides an overview of the Soft Market Testing (SMT) exercise and subsequent site visits undertaken with four leading deconstruction contractors for the proposed deconstruction works.

4.4 The market appraisal exercise reviewed key considerations with the contractors including procurement and tendering options, deconstruction methodology, tender and on-site programme, impact of COVID 19 together with general project risk factors.

4.5 The contractors were asked to provide high level estimates of the costs associated with deconstruction of both blocks. This provided a range of cost

estimates that has allowed the team to set a budget for the deconstruction of both blocks.

- 4.6 The Council Gateway Board approved the strategic business case and procurement strategy for the selection stage on 16<sup>th</sup> July 2020 for the deconstruction of the blocks including the establishment of a southern region specialist demolition (deconstruction) framework.
- 4.7 The programme for the deconstruction of the blocks will commence when the OJEU is published following Cabinet approval with shortlisting confirmed by the autumn 2020. Tenders will then be issued and evaluated by the end of 2020 with contracts being awarded early 2021. It is anticipated that a start on site to commence deconstruction will be spring 2021 and deconstruction will take approximately one year.
- 4.8 Ridge and PCC will conclude the tender package for the contractor procurement including all relevant surveys and documents produced to date. This will be assembled and the OJEU notice drafted in anticipation of the approval of funding and other recommendations in this report, by the Council.
- 4.9 The market appraisal feedback report which will be a key document in the procurement process, is included in Appendix 1 as a confidential item due to the commercial sensitivity of the information.

#### Design Team Appointment update

- 4.10 Cabinet approved the 8 October 2019 report which included the budget and delegations to appoint a design team with the budget to masterplan and develop options with local residents.
- 4.11 Eleven contractors responded to the expression of Interest (EOI) issued on the 14<sup>th</sup> February 2020 for the Horatia House and Leamington House Master planning.
- 4.12 The expression on interests were evaluated and 4 contractors shortlisted. The shortlisted contractors were notified on the 16<sup>th</sup> March 2020 and invitations to tender issued on the 9<sup>th</sup> June 2020.
- 4.13 Three of the four shortlisted contractors returned tenders on the 7<sup>th</sup> July 2020. The tenders were evaluated and interviews took place with the 2 highest scoring contractors on the 23<sup>rd</sup> & 24<sup>th</sup> July 2020.
- 4.14 The Council Gateway Board approved the final recommendations of the procurement on the 30<sup>th</sup> July 2020 and the contract was awarded on the 6<sup>th</sup> August 2020 to the successful supplier after a mandatory standstill period.
- 4.15 The cost of the RIBA stage 0 works was budgeted at £200,000 and the successful supplier costs came in slightly under budget. The planning work they will undertake will provide a basis for moving the project forward through the design stages and provide more certainty around the viability of the sites under consideration.

- 4.16 The Homes England Multi-Disciplinary Technical Services Framework that has been utilised allows the Council the option to use this supplier for RIBA stages 1 & 2 and beyond if required. Although it should be noted that their role will likely change and involvement diminish as we move towards the technical design and construction stages of the scheme.
- 4.17 A synopsis outlining the composition of the design team and approach is contained in Appendix 2
- 4.18 The design team will focus on the master planning of the development in line with the consultation results with the 'foot print' of the two tower blocks being prioritised whilst also continuing to explore with the local community, the 'wider area improvements' as noted in the 8<sup>th</sup> October 2019 cabinet report.
- 4.19 The design brief (see section 5) will include all the engagement feedback from the local community, stakeholders and wider community. Shown in Appendix 3 and available via an interactive report [www.portsmouth.gov.uk/ext/documents-external/hou-hi-community-engagement-report.pdf](http://www.portsmouth.gov.uk/ext/documents-external/hou-hi-community-engagement-report.pdf)
- 4.20 The 'foot print' of the two tower blocks is shown in Appendix 4
- Telecoms Update
- 4.21 The Council has commenced discussion with the two commercial interests with telecoms equipment situated on the roof of both blocks.
- 4.22 Under the terms of the existing agreements, the first has been terminated and is due to relocate by December 2020.
- 4.23 The second telecoms operator has a longer term interest and has initially objected to the council's request to vacate and has served a counter notice to protect their interest. They have also commenced preparations to vacate and are actively looking for sites in the area.
- 4.24 Site inspections and surveys by both parties and the Council surveyors have begun, more information has been requested from the companies to enable approval for the alternative sites to proceed. Both are working towards relocating in time to facilitate deconstruction.

## **5. Redevelopment**

- 5.1. The Somerstown and North Southsea area is strategically important within the wider city context. Its close proximity to: the city centre; main shopping areas; public transport network; centres of employment and education, leisure attractions and amenities make it a desirable and attractive place to live.

- 5.2. The extensive consultation that took place with residents and stakeholders identified a desire to consider wider area improvements beyond the development of the two tower blocks sites (see section 5.6).
- 5.3. The Council will be following the Royal Institute of British Architects (RIBA) stages of work for the delivery of the development of this area, with an estimated timeline as follows:
- |   |               |
|---|---------------|
| RIBA 0 – Strategic Definition           | (Winter 2020) |
| RIBA 1 – Preparation and Briefing       | (Spring 2021) |
| RIBA 2 – Concept Design                 | (Autumn 2021) |
| RIBA 3 – Spatial Coordination           | (Autumn 2022) |
| RIBA 4 – Technical Design               | (TBC)         |
| RIBA 5 – Manufacturing and Construction | (TBC)         |
| RIBA 6 – Handover                       | (TBC)         |
| RIBA 7 – Use                            | (TBC)         |
- 5.4. RIBA Stages 2, 3 and 4 are the main design stages of the RIBA plan of work. Stage 2 is 'Concept Design', and this is likely the stage at which the Council will receive the first visualisations or drawings of the design ideas developed from the project brief in line with the resident consultation and financial gateways.
- 5.5. In development of the plans the Council will consider 3 priority areas to guide decision making and ensure successful development of the site; environmental, social and financial factors.
- 5.6. The Council has undertaken consultation with the public regarding the Horatia and Leamington House sites. This consultation will aid the designers in creating a 'Community Engagement Strategy' which will build upon the consultation undertaken to date. The community engagement strategy will provide a voice for the community and stakeholders to feed into the design process. The design brief will incorporate the seven themes (Section 1.2) and the design team will have access to all the feedback (as shown in Appendix 3).
- 5.7. The Council will be supported by Arcadis, a cost management consultant who is part of the multi-disciplinary design team. Building Information Modelling (BIM) will be used to efficiently plan and design the buildings and at every stage of the programme cost together with financial viability will be monitored and reported to ensure best value and inform decisions before proceeding to the next stage. Throughout the programme the stage approval gates are at key milestones, these are reflected in the contracting arrangements and provide the Council with flexibility to terminate the contract with the design team if the programme or cost does not progress as planned.

- 5.8. It is anticipated the design team will develop the scheme up to RIBA stage 3 providing successful completions at each approval gate. At this point the design team will provide support to the Council if and when required as the programme moves into the technical design, construction and handover stages. There are already a number of potential options identified to deliver RIBA stages 3+ which will be explored to ensure the best outcome for the Council.

#### Peregrine Falcons

- 5.9. During the summer of 2020 reports were received regarding the nesting of Peregrine Falcons on Horatia House. These are a bird of prey and protected by the Wildlife and Countryside Act 1981.
- 5.10. The situation has been and continues to be monitored. Inspections in late August 2020 indicate that the birds are no longer nesting. This concurs with the preliminary advice sought that the nesting season is between March - July.
- 5.11. The city council recognises the importance of this situation and will commission expert support and advice to ensure compliance with the Wildlife and Countryside Act 1981.

### **6. Reasons for recommendations**

- 6.1. The recommendations contained within this report are proposed for the following reasons:
- The Council has rehoused 272 social housing households rented from the blocks, however there continues to be a demand for more affordable housing in the Somerstown area.
  - The strengthening works to retain the blocks is practically difficult and financially unviable. Since the residents have been rehoused the Council is incurring a substantial annual net loss of revenue whilst the blocks are not replaced whilst also incurring costs to ensure that the blocks remain safe and secure.
  - The two blocks dominate the local area and the impact on the neighbourhood of continuing to retain the empty blocks is that they will become unsightly and a potential risk for vandalism.
  - The engagement with the local community, stakeholders and wider community provided depth of feedback in relation to the replacement of the two towers blocks and wider area improvement with seven key themes emerging
  - A financially viable redevelopment has been identified but will remain subject to ongoing financial review

- To prepare a Master Plan and Outline Business Case in order to attract central government funding to contribute towards the overall costs of deconstruction and redevelopment
- To improve the overall financial position of the Housing Revenue Account across the 30 year Business Plan, providing continued sustainability to manage and maintain the Council's housing stock

6.2. At this early stage of design, the financial appraisal confirms the viability of a development on the foot prints of the two tower blocks. It is important to progress with the deconstruction as well as the detailed design works at this stage, without Full Council approval for the full redevelopment, in order to ensure that the timescales to replace the lost housing stock in the HRA and the disruption to local residents are minimised.

6.3. Furthermore, in the event that Full Council does not provide approval for the funding of the proposed redevelopment at this time, it is not anticipated that the deconstruction for cleared site would result in abortive costs since given the risks of retaining the blocks unoccupied and the overwhelming need for additional housing, it is inevitable that some form of development will take place in the future.

6.4. Should Cabinet proceed with the deconstruction but the Council decide not to provide funding for the full scheme re-development, the opportunity of the current tranche of external funding could be lost resulting in further delay and cost to the HRA.

6.5. In the event that the funding is not approved for either the deconstruction or the redevelopment of the two tower blocks the project has reached a point of pause until an alternative viable proposal is prepared.

## **7. Integrated Impact Assessment**

7.1. A integrated impact assessment is attached Appendix 5

## **8. Legal implications**

8.1. The proposed plan presents, at this stage limited legal risk given that the appropriate OJEU threshold is recognised and the intention as to process is set out in paragraph 4.6 through to 4.8. The proposed decision is recognised as being a key decision. In terms of challenge given the comments there is little challenge that cannot be justified as set against a need to deal with the destruction and contingent re-development of the site, indeed the fact that the sites remain unoccupied and as yet dealt with presents a wider risk in terms of challenge and ongoing cost.

- 8.2. It is noted that contingent risks (telecommunications) have been mitigated and even in regard to the one operator that has served a counter notice that this is being dealt with as against a back drop that at the very least the structures will be removed. Beyond some potential negotiation with this particular operator and having regard to the fact that the previous tenants are all re-homed there is a limited risk of any immediate functional challenge to this initial element of the proposed process.

## **9. Director of Finance's comments**

- 9.1. The Council has carried out an outline financial appraisal for the deconstruction and redevelopment to determine whether there is a reasonable expectation, with reasonable assumptions and modelling alternative risk based scenarios, that a financially viable scheme can be delivered.
- 9.2. A draft massing study was carried out that looked at the potential development that could be delivered on the site and it is estimated that 440 units could be delivered. Within those units, it is also assumed that 272 units would be Social Housing held within the City Council's own Housing Revenue Account (HRA).
- 9.3. It is anticipated that an overall development of this site could cost in the order of £120m in total including deconstruction of the existing structures. Given the current stage of design, the financial appraisal and scenario modelling (i.e. sensitivity analysis) continue to evolve in relation to costs, rental income streams and potential Government funding. Given the variables and uncertainty that exists at this early stage, it would be advisable to plan for costs to vary by up to £25m (scheme total of £145m) on the assumption, of course, that the overall scheme remains financially viable.
- 9.4. The Council have met with representatives from Homes England who have suggested that the Council could be entitled to a capital grant to help enable the delivery of the site, and an estimate of £10m has been assumed in the appraisal. The Council are unable to submit a full application for this funding until it has an outline business case and master planning document to inform the exact extent of the development.
- 9.5. The financial appraisal assumes that the properties tenure mix will be 272 Social Housing units let at affordable rent that is defined as the Local Housing Allowance rate less service charge. The remaining flats are assumed to be rented at Market rent levels and this level of tenure is crucial to the financial viability of the scheme.

- 9.6. In overall terms covering a 60 year life, the overall deconstruction and redevelopment is currently anticipated to have an overall Net Present Value (\* see note) of between £7m and £21m across alternative risk based scenarios which vary costs, income and levels of external funding. On that basis, it is proposed that the entire scheme is funded from prudential borrowing (HRA and General Fund).
- 9.7. As previously mentioned, it is proposed that the deconstruction works are approved in advance of the full re-development scheme since they are necessary for health and safety reasons, to avoid vandalism and blight to the area. Additionally, given the substantial housing need that exists, any expenditure incurred is unlikely to be abortive. This site is currently owned by the Housing Revenue Account and is estimated to have a negative land value because of the extensive cost of deconstruction of the existing structures, therefore it is appropriate to use the Major Repairs Reserve of the HRA as a source of funding to enable the site to be regenerated for homes.
- 9.8. It is proposed therefore to re-direct the use of the Major Repairs Reserves in the sum of up to £10m from the Housing Maintenance Programme to fund the deconstruction of the two tower blocks. In the event that Full Council approve funding for the full deconstruction and redevelopment scheme then the Major Repairs Reserve will be re-instated to its originally approved purpose.
- 9.9. Should Cabinet proceed with demolition but the Council decide not to provide funding for the full scheme re-development, the opportunity of external funding will be lost and the costs incurred on demolition will fall to the HRA to fund in the form of 'cash backed' funding (not borrowing) which would otherwise have been used to maintain the Council's housing stock.

**\* Note:**

Net Present Value is a recognised Capital Investment appraisal technique that measures all of the cash flows (both capital and revenue) over a relevant period of time and taking account of "the time value of money" (i.e. £1 today is worth more than £1 in the future as £1 today can be invested to make a return). This means that the comparison of different options which have differing cash flows across differing periods are made on a like for like basis.

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Signed by:  
Director of Regeneration

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Signed by:  
Director of Housing, Neighbourhood and Building Services

**Appendices:**

**Confidential** Appendix 1 - not for publication

Ridge & Partners LLP market appraisal feedback report in July 2020

Appendix 2

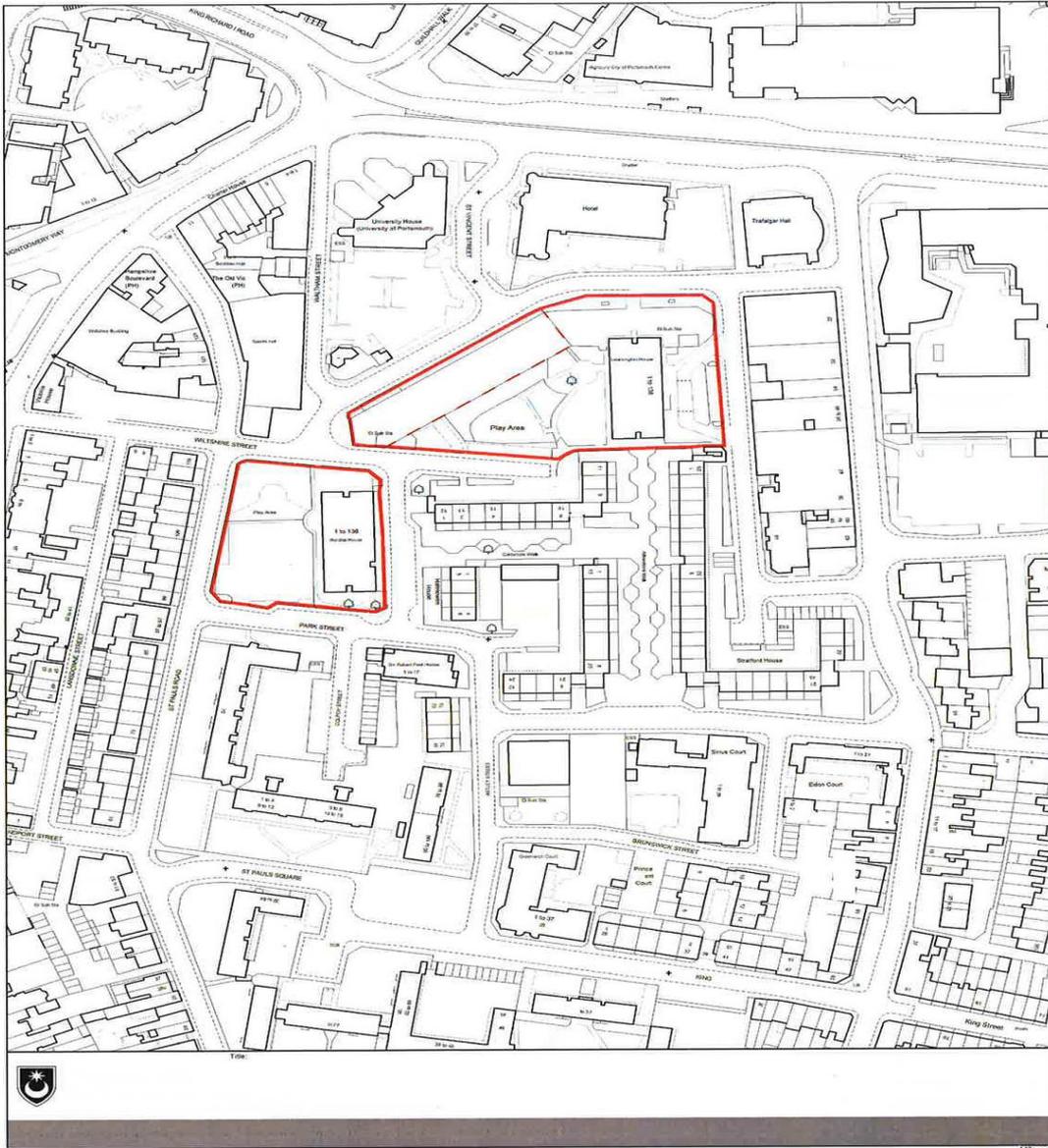
Synopsis outlining the composition of the design team

Appendix 3

H&L Community Engagement Report

Appendix 4

Development site - Horatia House and Leamington House



## Appendix 5

### Integrated Impact Assessment

#### **Background list of documents: Section 100D of the Local Government Act 1972**

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Leamington House and Horatia House Next Steps Cabinet Report 26 <sup>th</sup> February 2019	<a href="https://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=126&amp;MId=4212">https://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=126&amp;MId=4212</a>
Leamington House and Horatia House - Update and Engagement Next Steps 8 <sup>th</sup> October 2019	<a href="https://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=126&amp;MId=4337">https://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=126&amp;MId=4337</a>

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by

..... on .....

.....  
Signed by:  
Leader of the Council