

CABINET

24 MAY 2024

JOINT REPORT OF THE PORTFOLIO HOLDER FOR HOUSING & PLANNING & MONITORING OFFICER

A.6 Further Update on Spendells House and Review of Budget and Reference under Section 5 of the Local Government and Housing Act 1989

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

- To update Cabinet on progress with Spendells House being retained and reconfigured for the provision of temporary housing accommodation.
- To seek continued support for the project in the light of the options available and the ongoing need for the accommodation.
- To seek additional funding for additional work to address matters that were not within the specification and were brought to light in the course of the project.
- To inform Members of a breach of the Council's Financial Procedure Rules and legal decision making requirements with regard to variation of a contract without sufficient approvals in place and the actions taken in response.

EXECUTIVE SUMMARY

The Monitoring Officer is a co-author of the Report, only in so far as complying with the Section 5A of the Local Government and Housing Act 1989 obligations.

Background to bringing in new temporary accommodation to support the District's homelessness challenge

Spendells House is a 1960s constructed sheltered housing scheme with shared washing facilities and limited living space by modern standards.

By 2017 the scheme was under occupied, hard to let and suffering from a number of repair and maintenance difficulties.

At the same time the Council was (and still is) experiencing high and increasing demand to provide temporary housing for homeless people. At national level it is reported that homelessness has increased by around 13%. That demand has substantially exceeded the available accommodation in the stock and results in the block booking of hotel rooms.

Hotel rooms are costly and are unsuited to decent family accommodation for daily life. Cooking and laundry facilities are rare and hotel occupancy policies are not well suited to family life.

On 10 November 2017 Cabinet received the report of the then Housing Portfolio Holder and approved formal consultation on the future of two Sheltered Housing Schemes including Spendells House.

On 15 January 2018 Cabinet agreed waiver normal processes for allocating secure tenancies to enable the displaced and transferred tenants of Spendells House, Walton to be granted secure tenancies at alternative addresses

On 15 January 2018 the Service Development and Delivery Committee considered the future of the Honeycroft and Spendells sheltered schemes and supported the principle of closure of the schemes, subject to some supplementary recommendations.

On 26 January 2018 Reference from Service Development and Delivery Committee - Honeycroft and Spendells

On 16 February 2018 Cabinet considered a reference from the Service Development and Delivery Committee on the consideration of the future of the Honeycroft and Spendells Sheltered Housing Schemes. Cabinet noted the recommendations and welcomed the Committee's support.

On 23 March 2018 Cabinet received the report of the then Housing Portfolio Holder and decided on the Closure of two Sheltered Housing Schemes.

On 26 June 2020 Cabinet decided to bring Spendells House back into use as temporary accommodation - A.5 – minute no. 25

Officers arranged for the site to be stripped internally of all asbestos and a specification and a formal procurement process were completed.

The procurement process was completed, in accordance with the Council's Rules of Procedure and the lowest tender returned was in the sum of: £1.25m.

On 23 September 2022, a further decision by the then Cabinet was proposed in order to consider a report on the review of budget position and award of contract and agreed to Spendells House.

On 16 December 2022, the then Cabinet considered a report on the review of budget position and award of contract and agreed to continue to support the project subject to decision of the full Council to allocate revised budget ref: 10504

On 14 February 2023, the Full Council decided to allocate additional funding for the project as part of the HRA budget setting process

The project faced cost increases before commencement on site due to national construction inflation

On 03 March 2023, a proposal for further decision on the future use of Spendells House, Walton-on-the-Naze - Approval of financial business case was published.

On 13 June 2023, the Housing & Planning Portfolio Holder, Leader of the Council and Corporate Finance & Governance Portfolio Holder considered an update on Spendells House and Review of Budget. The Leader and Portfolio Holder noted the increased costs, to be financed through capital receipts, noted the updated business case and confirmed support for the project. ref: 11505

Renewed engagement with the lowest tenderer highlighted that since the submission of tenders costs had increased through inflation and that an additional £0.077m would be needed if the scheme were to be progressed.

On 21 July 2023, the Housing & Planning Portfolio Holder, Leader of the Council and Corporate Finance & Governance Portfolio Holder considered a further update on Spendells House and further review of budget and agreed to continue with the project proposing to finance additional costs by reallocating money from within the HRA capital programme ref: 11622

On 01 August 2023, the Corporate Director, in consultation with the Portfolio Holder with responsibility for Housing decided to appoint ARC to complete the work and to authorise the Head of Legal Services to enter into the construction contract.

Work on site started on 16 October 2023.

Additional works were required beyond the original specification and implementing them also caused delays, both of which further increased costs

During construction the need for additional work on a number of matters including:

1) Fire compartmentation was incomplete above ceiling level and additional partitioning is required in order to limit potential fire spread in the roof void.	Issue discovered after the start of the works when the contractor accessed the loft space.
2) The electrical supply was found to be inadequate for the new electrical heating system and it was necessary to seek advice and quotation from the utility company which took some time to secure.	Specific analysis carried out by the electrical contractor followed by advice from the utility company on their infrastructure capacity.
3) Water supply pipework was found to have a number of dead legs and sizing issues in relation to the new sprinkler system. Water heating to the laundry and shower areas had to be added to the works.	Partly caused by updated regulations but also erroneously not included in the outgoing specification.
4) Drainage at the site was discovered to be broken and defective in some locations and in need of repair works.	Issues discovered once the areas were opened up by the contractor.
5) Flat entrance doors and their fanlights and side screens were identified as not being fire rated.	An issue not recognised in the design stages.
6) Flushing in of wiring and ground floor suspended ceilings were added in order to reduce long term risk of damage to services that would otherwise have been surface mounted.	Late change by the project team aimed at reducing long term costs.
7) A balcony area at the rear of the building was found to have a defective roof covering and it was proposed to replace the area with a section of sloping roof to match the remainder of the building.	Late change by the project team aimed at reducing long term costs.

These additional works were not included within the original specification, for the various reasons identified above and therefore not priced for as part of the successful tender. Accordingly instructions for various additional works have been issued at a total estimated cost in the order of £0.525m. The financial effect of delays to the contract building up as a result of the additional work itself and awaiting the conclusions of the utility provider amounts to an estimated £0.175.

The breakdown of these extra costs is included in the Current Position section of this report. It is estimated that the final cost of the main contract will now amount to £2.1m, representing an increase in the contract sum of £0.77m, together with the previous expenditure of £0.149m and the inflationary effect on the contract before acceptance of £0.077m, amounts to a total cost of £2.25m. Additionally the estimate for the revenue cost of furniture and equipment has risen from £60k to £70k owing to the passage of time and inflation. Changes to contract costs are further expanded in the Current Position section.

The financial effect of these instructions issued is to increase the cost of the project beyond the authority granted and the budget established.

The Council has to take a value for money decision on the project now

Simultaneously the cost of temporary housing provision has also escalated.

The Council has a choice of whether to continue with the contract, increasing funding and confirming the additional works identified or negotiating and end to the contract and then either discontinue the project or seek a further contractor to complete the project. These options are expanded in the Other Options Considered section of the report. It is the view of officers that a negotiated termination of the contract would be costly, a cheaper completion of remaining work cannot be predicted and design and procurement timescales would incur property holding costs and an opportunity cost in terms of delayed opening of the accommodation and the cost savings that it is intended to deliver.

The primary purpose of the scheme is to provide accommodation for homeless people and families. The financial cost of hotel provision to meet these needs is unaffordable in the long term. There is also a social value to better local provision: keeping local people in their area, with their schools, jobs, support networks and family support.

Having got to this point the best value option from here is to continue with the project and the current contract.

- It is proposed that Cabinet continues to support the Spendells House site being retained and reconfigured for the provision of temporary housing accommodation
- It is proposed that an additional £0.850m capital and £0.01m revenue is allocated from reserves to facilitate the completion of the project.

Some of the additional project costs were incurred without proper authorisation.

The Council's financial procedure rules were not followed by project team by the seeking of funding for variations before commitments were made to the contractor. Accordingly, instructions have been given for which there is no authority and no budget.

This is a report issued under Section 5 of the Local Government and Housing Act 1989 to inform Members that Tendring District Council, has through contract management, varied the contract works beyond the scope of the approvals in place, through previous decision making and sufficient budget provision. The Council is required by law to consider this report and decide what action (if any) to take in response.

The Chief Executive and the Assistant Director (Finance & IT) & Section 151 Officer have both been consulted on this report, as required by the legislation.

The Portfolio Holder and the Management Team, in particular the Monitoring and s151 Officers, have raised significant concerns with the project team. The project team acknowledges that in order to limit the stalling of the project officers gave instructions to the contractor to proceed with works which will lead to the final cost substantially exceeding the contract sum and the approved budget without the relevant approvals in place.

As a result the Council has reviewed its implementation of financial controls

The Internal Audit Team has been asked to look at the Council's arrangements for project management including any learning that should be embedded in relation to the Spendells conversion. The Audit team's report will be completed in the future. Notwithstanding, there are some interim measures that officers propose to implement directly:

- Take a more measured and realistic approach to internal resources: Seek consultancy leadership in the delivery of major projects and factor those costs in from the start.
- Implement project review points in the development stages to ensure scope is not stretched and that financial review forms part of change processes.
- Ensure that realistic contingencies are included in all contracts and that realistic timelines are established at the early stages.
- Implement short term in-house development for staff in contract and project management.
- Identify appropriate staff to take part in formal project management training and potentially qualification.
- Include the importance of budgetary control and governance in one to one reviews.
- Hold monthly finance meetings between service and finance staff and formalise project review into monthly Portfolio Holder meeting agendas.

The costs and timeline of this project have increased substantially. There are a number of areas of learning to be drawn out of events. However, the fundamental reasons for commencing remain valid:

- Accommodating homeless people in more suitable facilities
- Reusing a redundant building
- Revenue cost saving

RECOMMENDATION(S)

It is recommended that Cabinet:

- a) receives and considers the Monitoring Officer's report and in response, notes the update on progress, increased contractual costs and additional budgets required to complete the project;
- b) continues to support, acknowledging the risks highlighted, the principle of the Spendells house site being retained and reconfigured for the provision of temporary housing accommodation;
- c) noting the financial implications incurred but that the most cost effective route forward is to complete the scheme and the contract in place;
- d) allocates an additional £0.850m capital an £0.01m revenue from reserves to facilitate the completion of the project;
- e) subject to the above, authorises the additional contractual works to be undertaken and recorded through contract management, as set out in the report;
- f) acknowledges that managers have been reminded of the internal control arrangements in place and the need for these to be followed in order to ensure such contract instructions are not proceeded with in future without the necessary approvals in place; and
- g) requests that the Portfolio Holder for Housing and Planning provides corporate oversight of the completion of the project within the approvals in place.

REASON(S) FOR THE RECOMMENDATION(S)

To progress the provision of council owned and managed temporary housing accommodation. In order to formally receive the Section 5 report from the Council's Monitoring Officer and to consider its contents and Cabinet's response thereto.

Approval from Cabinet is required for the contractual instructions and budget allocation, as variation orders have already been issued for the additional works, which are necessary to complete the project. There is a reputational risk associated with this decision, as the Council has not followed its governance arrangements in this instance but operational measures and all managers have been formally written to reminding them of the seriousness of over-expenditure and committing to unfunded expenditure. Managers are reminded of the robust internal controls in place and the absolute need to follow them in order to ensure that this event does not occur again.

ALTERNATIVE OPTIONS CONSIDERED

Costs expressed below are indicative estimates of additional or avoided costs.

Option	Detail	Financial effect
1. Discontinue the project.	A termination of the existing building contract would be necessary. Such a termination would have to be negotiated and would include a compensatory payment to the contractor. The Council would be left with a part finished project and a redundant building which would generate additional revenue costs. The full costs of	To terminate the contract: £0.5m Holding costs for the vacant site: £0.1m pa. Ongoing hotel costs: £0.27m pa

	alternative temporary accommodation would continue. Due to the rising cost of providing external accommodation and other abortive and unproductive costs associated with it this option has been discounted.	Less furniture costs: -£0.06m
2. Terminate the current contract and seek to reprocur remaining works.	A termination of the existing building contract would be necessary. Such a termination would have to be negotiated and would include a compensatory payment to the contractor. The Council would have to carry out a further procurement process in order to complete the works which would generate additional revenue costs and incur additional delay. The full costs of alternative temporary accommodation would continue meanwhile. Due to the rising cost of providing external accommodation and other abortive and unproductive costs associated with it this option has been discounted.	To terminate the contract: £0.5m Reprocured contract: £0.8m Holding costs for the vacant site: £0.1m (one year). Ongoing hotel costs: £0.27m (one year) Additional furniture costs £0.01m
3. Allocate additional funds, confirm variation instructions to the contract authorising the additional works and complete the project.	Although additional work has been found to be necessary the revisiting of the business case has found that to continue with the project is financially advantageous. Additional funding can be allocated from HRA reserves. It is proposed to progress this option.	To complete the contract: £0.805m Additional furniture costs £0.01m

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The Corporate Plan priorities include:

Pride in our area and services to residents

“We want to put residents’ first, by promoting clean and tidy communities, providing decent housing that everyone deserves...”

Financial Sustainability and openness

“... carefully planning what we do, managing capacity, and prioritising what we focus our time, money and assets on...”

OUTCOME OF CONSULTATION AND ENGAGEMENT

The decision to cease the use of the site as a sheltered scheme was made following consultation with residents. Planning and governance decisions were all made through the Council’s formal processes and therefore facilitated consultation and feedback. The Council’s Tenants’ Panel considers the capital programme on an annual basis and forms the cornerstone of ongoing tenant consultation.

LEGAL REQUIREMENTS (including legislation & constitutional powers)

This is a report issued under Section 5A of the Local Government and Housing Act 1989, which states that a duty of a relevant authority's Monitoring Officer shall be to prepare a report, if it at any time appears to them that any proposal, decision or omission by the authority, by any committee, or sub-committee of the authority, by any person holding any office or employment under the authority or by any joint committee on which the authority are represented constitutes, has given rise to or is likely to or would give rise to—

- (a) a contravention by the authority, by any committee, or sub-committee of the authority, by any person holding any office or employment under the authority or by any such joint committee of any enactment or rule of law or of any code of practice made or approved by or under any enactment; or
- (b) any such maladministration or failure as is mentioned in Part 3 of the Local Government Act 1974 (Local Commissioners).

The contract is formed using a Joint Contracts Tribunal (JCT) Intermediate Building Contract. This is a construction industry standard contract which includes standard provisions on issuing of instructions to vary the work. Variation instructions are common in all building contracts. They allow the team to react to changes in regulations, for previously hidden issues to be resolved and for client requirements to shift over time and for projects to begin while some matters are yet to be determined. The scope for contracts to be varied is not limitless, the nature of the project in general cannot change say from one type of building to another or to be fundamentally different in scale.

In the current case the contract is to convert a redundant sheltered scheme into temporary accommodation for homeless people. This remains the fundamental nature of the project. However, variation instructions have been given to address some work that was not set out in the specification, some matters where regulatory requirements have changed since the drafting of the specification, some matters that have come to light during the work such as failed drainage and an inadequate electrical supply as well as some matters that are changes in client requirements such as the concealing of pipes and wire in order to reduce the likelihood of damage in the future. A more detailed list of changes is set out in the Current Position section of the report. These changes are facilitated by the nature of the JCT building contract. The changes are more numerous and significant than would be ideal but they do not necessitate a revision of the contract documents.

Modification of contracts during their term under Public Contract Regulations:

Regulation 72 of the Public Contract Regulations 2015 describes a number of changes that can be made to awarded public contracts without triggering a requirement to conduct a fresh tender process:

The modification does not do any of the following:

- a) render the contract materially different in character;
- b) introduce conditions which, if part of the original procurement procedure, would have:
 - i) allowed for the admission of bidders other than those selected; or
 - ii) allowed for the acceptance of a tender other than that originally accepted; or
 - iii) attracted additional participants in the procurement procedure;

- c) change the economic balance of the agreement in favour of the contractor in a manner not provided for in the initial agreement;
- d) extend the scope of the agreement considerably; or
- e) result in a contractor replacing the contractor that was originally awarded the contract otherwise than provided for under ground 6 (below).

This ground effectively codifies the position from the leading case on material variations into the Regulations. If the modification falls foul of any of the limbs listed above, a contracting authority will not be able to rely on this ground. Care should be taken when applying these tests as an incorrect application could lead to legal challenge.

It is the view of the project team officers that all of the grounds for the application of this test are met:

- a. the contract began as the conversion of a specific building from one use to another and remains so,
- b. no conditions are varied or introduced,
- c. the economic balance is governed by the standard contract and remains so, fair payment for any additional works,
- d. the contract began as the conversion of a specific building from one use to another and remains so,
- e. the contracting parties are unchanged.

The regulation provides a further set of circumstances which have been considered:

For additional works, services or supplies by the original contractor that have become necessary and were not included in the original procurement where a change of contractor:

- a) cannot be made for economic or technical reasons; and
- b) would cause significant inconvenience or substantial duplication of costs for the contracting authority, provided that any increase in price does not exceed 50% of the value of the original contract.

This ground could prove useful in the case of necessary and unpredictable work, especially as it allows a substantial increase in the overall contract price. However, care should be taken when relying on it, particularly in determining and substantiating that change cannot be made for economic or technical reasons and that a change in contractor would cause significant inconvenience or substantial duplication of costs.

If a contracting authority wishes to rely on this ground it will need to publish a notice that it has done so, which will bring (potentially unwelcome) scrutiny to its decision to vary the contract without tendering. On a more positive note, this ground can be used repeatedly, and the 50% value test would be considered afresh each time the ground is validly applied.

The position considering this last ground, is that additional works that were not within the original specification are necessary or have become necessary.

- a. Instructions to the original contractor have been issued in line with the standard form of contract. If these instructions had not been issued the project would have been handed over partly complete and not compliant with current regulations.
- b. A further procurement exercise and contract to carry out additional work would have been necessary which would incur cost and delay to the authority.

The cost of variation instructions as listed elsewhere is below the 50% indicated although the function of the contract in terms of extension of time takes the overall budgetary change to greater than 50%. This latter point is a function of the contract rather than a variation of it.

Accordingly it is the view of the project team officers that the provisions of the last ground, could be applicable but the provisions of first ground considered are directly applicable to the circumstances and that the variation of the contract is compliant with Regulation 72.

Under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 there is a requirement for executive decisions to be recorded and published whether the decision is made by Cabinet, Portfolio Holder or Officers acting under delegations. Variation to contracts, which are not covered by the scope of initial decision making, should be recorded and published providing an audit trail of the matters taken into consideration and the financial implications of doing so.

Powers to carry out the scheme in general.

Under Part VII of the 1996 Housing Act (as amended) the Council has a duty to provide temporary accommodation to households who are homeless and have an apparent 'priority need' for accommodation according to the legislation.

The Homelessness (Suitability of Accommodation) (England) Order 2003 states that it is unlawful for councils to accommodate families with children in Bed and Breakfast (or accommodation with shared facilities) for longer than six weeks. In 2018/19 we had 31 families who were placed for over six weeks in bed and breakfast type accommodation.

The Spendells scheme would not be regarded as Bed and Breakfast because the Order does not include accommodation which is owned or managed by the local authority, a registered social landlord, or a voluntary organisation.

Provisions within the Housing Act 1985, sections 9 and 56, allow for the Council to designate the building as a hostel for the provision of housing accommodation and therefore, accounted for within the HRA. This means that conversion works, repair and maintenance costs can be funding through the HRA and there is no requirement to appropriate the use of the land for alternative purposes.

<p>Is the recommendation a Key Decision (see the criteria stated here)</p>	<p>YES/NO</p>	<p>If Yes, indicate which by which criteria it is a Key Decision</p>	<p><input type="checkbox"/> Significant effect on two or more wards <input checked="" type="checkbox"/> Involves £100,000 expenditure/income <input type="checkbox"/> Is otherwise significant for the service budget</p>
		<p>And when was the proposed decision published in the Notice of forthcoming decisions for the Council (must be 28 days at the latest prior to the meeting date)</p>	<p>General urgency procedure has been followed in this case to allow a key decision to be made without delay in order to allow the project to continue rather than to be paused pending decision.</p>

X	The Monitoring Officer confirms they have been made aware of the above and any additional comments from them are below:
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The Monitoring Officer is a co-author of the Report, only in so far as complying with the Section 5A of the Local Government and Housing Act 1989 obligations and has not been directly provided with information regarding the specification, contract and variations and requests Cabinet to rely on the assurances provided by the project team officers. The previous decisions have however, been reviewed.

In the previous decision section of this Cabinet report, the last decision made (recorded and published) in relation to the Spendells project was on 1st August 2023, to appoint the main contractor to complete the Refurbishment and Adaptation works, accept the revised tender of ARC Group London to carry out the works and to instruct the Head of Legal Services to enter into the contract with ARC Group London on behalf of the Council. The Tender Price was redacted but referred to in a previous decision of the Housing & Planning Portfolio Holder and the Leader of the Council and Corporate Finance & Governance Portfolio Holder on 13th June 2023, which referred to a contract price of £1.25million. A further decision by the Housing & Planning Portfolio Holder and the Leader of the Council and Corporate Finance & Governance Portfolio Holder on 21/07/2023 included the additional inflationary costs that had become apparent.

Whilst it is accepted that with JCT contracts, variations are permitted through contract management, the governance needs to be in place beforehand to ensure unauthorised spend is not committed. No further decisions have been made to authorise the variations to the contract to increase its cost, ensure the business case was still advantageous, value for money considerations and ensure the budget provision was in place. Any instructions issued seeking variations to the works are consequently unauthorised and this report is informing Cabinet that rectification is required.

Instructions were given by the project team to the contractor without following the Council's Financial Procedure Rules. The s151 officer will provide a further note detailing these rules and the breaches in advance of the meeting.

FINANCE AND OTHER RESOURCE IMPLICATIONS

Finance and other resources

The original estimate for the project was £0.600m as included in HRA capital programme for 2022/23. This was increased to £1.400m and it now appears that the final cost will be £2.250m.

The total budget within the 2023/4 financial year (excluding prior expenditure) is £1,327,170. Expenditure within that year was £1,084,337.99. A current interim application has been received which would bring total expenditure to £1,360,744.98, some £33,574.98 in excess of the budget.

A cost of £183,000 has been included in the financial predictions for works to fire doors. The extent and cost of these works is subject to ongoing review.

A cost of £175,750 has been included in the financial predictions for the financial effect of delays to the project. This is based on the projected revised completion date, which in turn is based on the delivery of the new power supply by the utility company.

Other works ordered (detailed in the Current Position section of the report) bring the total estimated cost to £2.25m, some £850,000 in excess of the approved budget, There is no authority or budget for this expenditure.

The increase can be partly attributed to inflationary pressures seen across the construction industry and is broadly consistent with higher-than-expected costs experienced with other high value construction projects the Council is involved with, as previously reported.

However, it is impossible not to have concerns about the management of the project at all stages. Recent cost increases (detailed elsewhere in the report) can be partly attributed to physical factors being uncovered during the course of the work but also partly due to items that should have been in the specification but were missed or design changes made by the team at a later stage.

The contingency sum included in the contract was inadequate given the nature of the work. The Council's financial procedure rules were not followed by the seeking of funding for variations before commitments were made to the contractor. Accordingly, instructions have been given for which there is no authority and no budget.

In addition to the additional works ordered there is a substantial cost generated by delay in the project related mainly to the identification of the inadequacy of the incoming electrical supply followed by the lead time to receive advice and pricing from the utility company and then consideration of options to resolve that situation. Under the contract the contractor is entitled to an extension of time and for payment for additional staffing, hire, security and other costs resulting.

The authority's Audit Team has been asked to review project management in general including considering lessons that may be learned from this project.

In light of this increase in costs, it is impossible to confirm that the financial appraisal / business case that was set out within the original report to Cabinet in June 2020 to determine if value for money can still be reasonably demonstrated owing to the potential for changing circumstances during an elongated pay-back period.

The options included later in this report include the termination of the contract, either then seeking a further contract or completely discontinuing the project. Although the business case as initially conceived can no longer be confirmed the Council has substantial commitment to the project already and from the current position the only course that can now be recommended is to allocate the additional funds from the HRA reserves and complete the project and the contract as quickly as it may now be achieved.

Allocation of funding from reserves affects the ability of the Council to respond to other issues.

Risk

All construction project carry uncertainty risks in this case a large number and value of items. It is the manifestation of these risks that necessitates the allocation of additional resources to the project. The construction of the project is substantially under way and officers consider that it is unlikely that any further unknown issues will be uncovered.

There is a risk associated with increasing homelessness costs. Halting or further delaying the development of this project also delays the opportunity to reduce spending on temporary accommodation.

There is a reputational risk associated with this decision, as the Council has not followed its governance arrangements in this instance but operational measures and all managers have been formally written to reminding them of the seriousness of over-expenditure and committing to unfunded expenditure. Managers are reminded of the robust internal controls in place and the absolute need to follow them in order to ensure that this event does not occur again..

The Section 151 Officer confirms they have been made aware of the above and any additional comments from them are below:

The Section 151 officer has not been able to provide comment within the timeline allowed for this report. A further written update will be provided by him in advance of the meeting as a published addendum report considering the financial implications and other matters arising within their remit.

USE OF RESOURCES AND VALUE FOR MONEY

The following are submitted in respect of the indicated use of resources and value for money indicators:

<p>A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;</p>	<p>The authority carefully prioritises its expenditure and considers investment against outcomes through its decision-making processes. In this case the cost of the project has expanded but the position under the business case shows that it would be more advantageous to continue with the process through to completion than to abandon it.</p> <p>There have been a number of formal decisions on this project, listed elsewhere in this report. Although progress has been checked on site by events the decision-making process throughout, up to the realisation of the cumulative effects of the issues encountered in physical terms, the decision-making and governance procedures have been robust.</p>
<p>B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and</p>	<p>Refer to legal requirements</p>
<p>C) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.</p>	<p>At the heart of the project lies the idea of reducing long-term temporary accommodation costs. These costs continue to increase and the review of the business case indicates that it is advantageous to continue with the project to completion.</p>

MILESTONES AND DELIVERY

Subject to Cabinet's decision, anticipated opening for the scheme is 15th August 2024.

ASSOCIATED RISKS AND MITIGATION

All construction projects carry uncertainty risks in this case a large number and value of items came to light in the course of construction. It is the manifestation of these risks that necessitates the allocation of additional resources to the project. The construction of the project is

substantially under way and officers consider that it is unlikely that any further unknown issues will be uncovered.

There is a risk associated with increasing homelessness costs. Halting or further delaying the development of this project also delays the opportunity to reduce spending on temporary accommodation.

There is a reputational risk associated with this decision, as the Council has not followed its governance arrangements in this instance but operational measures and internal controls have been amended and increased to ensure that this event does not occur again.

The increased payback period associated with the increased costs gives rise to a risk that circumstances change: that there will be reduced homelessness or that the cost of other types of accommodation will reduce. If these risks manifest themselves the return on investment will be reduced and the pay-back period further elongated.

EQUALITY IMPLICATIONS

The proposal does not impact on the protected characteristics of any individuals. Within the scope of the project it has been decided that the passenger lift to the first floor (previously decommissioned to allow reuse of parts elsewhere) will not be renewed. It is unlikely that there will be sufficient demand for accessible accommodation that the capacity of the specialist provision and other ground floor accommodation will be exceeded. A detailed rationale on this point has been prepared for building control purposes and the lift shaft and services have been retained as a precaution against future potential circumstances.

SOCIAL VALUE CONSIDERATIONS

The contract was let taking into account social value considerations as part of the evaluation process in line with national requirements. Inherently the project is socially progressive in that the provision is intended to be more suited to domestic residential needs than much hotel and other accommodation that is currently in use.

IMPLICATIONS FOR THE COUNCIL'S AIM TO BE NET ZERO BY 2030

The proposals include improved roof insulation, replacement windows and doors, new heating system and low energy lighting. Although the wall structure is not thermally efficient the project team has taken all practical and viable steps to minimise energy consumption in the finished building.

OTHER RELEVANT CONSIDERATIONS OR IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder	The project is likely to be progressive in relation to health inequalities and crime and disorder because the provision is intended to be more suited to domestic residential needs than alternative options for temporary accommodation.
Health Inequalities	
Area or Ward affected	Walton

PART 3 – SUPPORTING INFORMATION

BACKGROUND

- Following earlier review and closure decisions on 26 June 2020 Cabinet decided to bring Spendells House back into use as temporary accommodation.
- Officers arranged for the site to be stripped internally of all asbestos together with some other facilitating works at a cost of £149,000. This work was arranged by way of quotations and call off from previously tendered term contracts and a specification and a formal procurement and governance processes were undertaken culminating in a lowest tender received of £1,252,300.
- A review of the business case took place and the project was found to remain advantageous, a revised budget of £1.4m was set.
- During the reassessment and review of the project the nation was experiencing a period of high inflation and the contractor advised that the project had been affected by costs that could not be wholly absorbed. After consideration the contract was let at a sum of £1,330,035.12.

Work on site began on 16 October 2023.

CURRENT POSITION

During construction the need for additional work on a number of matters including fire compartmentation, electrical supply, water supply and drainage was identified that were not included in the specification and therefore not in the contract. Accordingly instructions for various additional works have been issued at a total estimated cost in the order of £0.525m. the financial effect of delays to the contract amounts to an estimated £0.175. It is estimated that the final cost of the main contract will now amount to £2.1m, together with the previous £0.149m amounts to a total cost of £2.25m.

Preparatory works costs	£149,000.00
Contract sum	£1,330,035.12
Less contingencies	£75,000.00
Replacement flat and corridor doors throughout (to meet current fire safety standards)	£183,000 (price still under negotiation)
Upgrade water supply pipework to units (to meet water regulations and provide additional water heaters to communal facilities)	£145,000
Financial effect of extension of time (additional duration of preliminary costs such as security, scaffolding and management)	£175,750
Builders work for new electricity supply (new trench for underground services and enclosure for intake positions etc)	£59,000
Chase electrical services into walls and replaster locally (reduces the long term cost by placing services out of reach of vandals)	£39,000
Renewal of a further area of flat roof covering (roof in a redundant balcony to reduce future costs)	£36,200
Fire compartmentation in the loft void (infill openings in the compartmentation found in the roof void)	£32,000

Suspended ceiling throughout the ground floor (reduces the long-term cost by placing services out of reach of vandals)	£28,000
Additional drainage works (various issues discovered in the underground system)	£28,000
Renew Soffit board to roof verges (part of the roofing works not included in the original contract)	£23,000
Cumulative effect of a number of smaller changes (various smaller items of work from furniture removals to additional power outlets)	£70,000
Allowance for UKPN direct order and some forward contingency	£27,000
Total	£2,249,985.12

Additionally the estimate for the revenue cost of furniture and equipment has risen from £60k to £70k owing to the passage of time and inflation.

Simultaneously the cost of temporary housing provision has also escalated. Officers have reviewed the business case and propose that it remains financially advantageous to complete the project notwithstanding the increase in costs. A rate of return of 12% and pay-back of eight years are indicated.

The project team will continue to seek ways in which to reduce the overall expenditure, but delay on the part of the authority at this stage is costly both in terms of contract payments for delay and the delay in realising the cost savings that are the driver for the project overall. The result of these factors is that it is important to keep the project moving at the same time as seeking ways to manage the additional costs.

The project is currently scheduled to complete on 15 August 2024, subject to UKPN installing the new electricity supply on schedule.

it is proposed that Cabinet continues to support the Spendells House site being retained and reconfigured for the provision of temporary housing accommodation

PREVIOUS RELEVANT DECISIONS

<u>Spendells House - Appointment of Contractor ref: 11649</u>	01/08/2023
<u>Update on Spendells House and further review of budget ref: 11622</u>	21/07/2023
<u>Update on Spendells House and Review of Budget ref: 11505</u>	13/06/2023
<u>Future use of Spendells House, Walton-on-the-Naze - Approval of financial business case</u>	03/05/2023
Full Council allocated funding for the project as part of the HRA budget setting process	14/02/23
<u>Cabinet Members' Items - Report of the Housing Portfolio Holder - A.4 - Update on Spendells House and review of budgetref: 10504</u>	16/12/2022
<u>Spendells House - Review of budget position and award of contract</u>	23/09/2022

<u>Future Use of Spendells House, Walton-on-the-Naze Cabinet - A.5 – minute no. 25</u>	26/06/ 2020
<u>Cabinet Members' Items - Report of the Housing Portfolio Holder - A.2 - The Closure of two Sheltered Housing Schemes</u>	23/03/2018
<u>Matters Referred to the Cabinet by a Committee - Reference from the Service Development and Delivery Committee - A.3 - Honeycroft and Spendells Sheltered Housing Schemes Review</u>	16/02/2018
<u>Reference from Service Development and Delivery Committee - Honeycroft and Spendells</u>	26/01/2018
<u>Waiver normal processes for allocating secure tenancies to enable the displaced and transferred tenants of Spendells House, Walton to be granted secure tenancies at alternative different addresses</u>	15/01/2018
<u>Cabinet Members' Items - Report of the Housing Portfolio Holder - A.16 - Formal Consultation on the future of two Sheltered Housing Schemes</u>	10/11/2017
BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL	
None	

APPENDICES
None

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