

# Birmingham City Council

## Report to Cabinet

06 September 2022



**Subject:** **CONTRACT AWARD – DEVELOPMENT OF HOUSING AT HIGHGATE ROAD (P0763)**

**Report of:** **Paul Kitson, Strategic Director, Place, Prosperity & Sustainability Directorate**

**Relevant Cabinet Member:** **Cllr Ian Ward, Leader**  
**Cllr Sharon Thompson, Housing and Homelessness**  
**Cllr Yvonne Mosquito, Finance and Resources**

**Relevant O & S Chair(s):** **Cllr Sir Albert Bore, Co-Ordinating**  
**Cllr Mohammed Idrees, Housing and Neighbourhoods**  
**Cllr Akhlaq Ahmed, Resources**

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Are specific wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s): Sparkbrook & Balsall Heath East		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 010365/2022		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential: Information relating to the financial or business affairs of any particular person (including the authority holding that information).		

## **1 Executive Summary**

- 1.1 To provide details of the outcome of the procurement process undertaken for the construction and development of 60 new homes for social rent at Highgate Road, Birmingham and seeks approval to the acceptance of the preferred tender.

## **2 Recommendations**

- 2.1 Approves the award of a contract for the construction and development of 60 new homes for social rent at Highgate Road (See Appendix A Site Plan) to Jessup Brothers Ltd for a construction period of up to 80 weeks commencing 30 September 2022.
- 2.2 Notes the commercial information contained in Exempt Appendix B.
- 2.3 Authorises the Interim City Solicitor & Monitoring Officer (or their delegate) to agree and complete all documents necessary to give effect to the above recommendation.

## **3 Background**

- 3.1 The relevant background and chronology of key events was contained in the “Building Birmingham Highgate Road Development” report which was approved by Cabinet on 21 June 2021. The report approved the Full Business Case (FBC) for the development together with the procurement strategy to commence the tendering activity using the Homes England Delivery Partner Panel 3 ((DPP3) Framework Agreement, Midlands Lot.
- 3.2 It should be noted that the FBC approved a scheme of 61 units. However, since this approval it was established that one of the units could not be built as it would have resulted in a new road not being able to be adopted as Highway Maintained at Public Expense.
- 3.3 The report also delegated authority to the then Acting Director, Inclusive Growth in conjunction with the Assistant Director, Development and Commercial (or their delegate), the Interim Chief Finance Officer (or their delegate) and the City Solicitor (or their delegate) to approve the award of the contract which is the subject of this report. However, the contract award exceeds the value approved within the Cabinet Report of 21 June 2021 and therefore this report is being presented to Cabinet for an executive decision. The details of the reasons for the increase are in paragraph 7.3.1 of this report.

## **4 Options considered and Recommended Proposal**

- 4.1 Not to award the contract – this would not support the delivery of housing growth across the city and this option not considered.
- 4.2 To award the contract - the delivery of this scheme will support the key Council priority of delivering housing growth across the city. This is the recommended proposal.

## **5 Consultation**

5.1 None.

## **6 Risk Management**

6.1 The key risk is cost increases during the contract period which will be mitigated by a fixed price contract and robust contract management to ensure compliance to the terms and conditions.

## **7 Compliance Issues:**

7.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

7.1.1 The recommended decisions contribute to the Council Plan objectives / outcomes by:

- A Bold Prosperous Birmingham; the Council is committed to the development of enough high-quality new homes to meet the needs of a growing city, and the proposals within this report to accelerate housing growth in the City by providing new homes for rent and will help ease pressure on the housing register.
- A Bold Green Birmingham; the new homes will be built to a high standard of energy efficiency by using the latest technologies and use a range of measures to improve the environment and tackle air pollution by using cleaner technologies such as Fabric First and building energy efficient homes.
- A Bold Inclusive Birmingham; the new homes will be available to any applicant on housing register.
- A Bold Healthy Birmingham; the links between health and housing are well recognised. New thermally efficient, economical to run new homes which are designed to high standards of quality and internal space standards will be more affordable for residents and offer a higher quality of life leading to better health outcomes.
- A Bold Safe Birmingham; new homes will be developed which will provide a safe, warm, sustainable, and connected neighbourhood in which all communities can thrive.

7.1.2 Birmingham Business Charter for Social Responsibility (BBC4SR)

Jessup Brothers Ltd is an accredited signatory to the BBC4SR and has produced an action plan with commitments proportionate to the value of this contract. The commitments will be managed and monitored during the contract period.

7.2 Legal Implications

7.2.1 As the Housing Authority, the relevant legal powers relating to the discharge of the Council's statutory function to provide for its housing need are contained in Section 9 of the Housing Act 1985.

7.2.2 Section 111 of the Local Government Act contains the Council's subsidiary financial powers in relation to the discharge of its functions.

### 7.3 Financial Implications

7.3.1 The reasons for the differential between the pre-tender estimate and the contract award values are as follows:

- Prior to issue of the Invitation to Tender, the project scope was increased to include the re-construction of an existing private road to bring it to adoptable standards. This additional work added further cost to the project.
- The increase in the construction cost is based on unprecedented inflationary factors as a result of a significant rise in raw materials and wages, labour shortages, supply chain disruption, as well as significant increases in fuel costs and energy prices, and demand with major local construction developments.
  - This is demonstrated by Building Cost Information Service (BCIS) data. In May 2021, it was presenting negative inflation and current revised fixed data is now showing a significant increase, in accordance with the above factors. Further evidence regarding price inflation based on BCIS housebuilder and material indices is summarised below:
  - Housebuilders' costs are up 15% in the past year according to the BCIS Private Housing Construction Price Index (PHCPI) and is the highest increase observed since the initiation of the series in 1988. The resultant 1Q2022 PHCPI figure shows an increase of 15% in the year from 2Q2021. The increase in construction costs, with specific noting plasterboard, insulation, bricks, steel, concrete and timber as key materials experiencing price rises.
  - Further evidence of the significant rise in material costs is from the BCIS Materials Cost Index which has also increased at an unprecedented rate, with the annual growth in excess of 20% since 1Q2021, up from a low of -1.1% as recently as June 2020. The last time materials inflation was this high in 1980 it had built up gradually. At the end of 2021, BCIS reported that the annual growth in its material cost index reached a 40-year high.
  - In addition to the above, the scheme is a mix of 2, 3, 4, 5, and 6-bedroom properties with just under a third (18 properties) being larger housetypes; 4 x 4Bed, 8 x 5Bed, and 6 x 6Bed houses.

- 7.3.2 The additional funding required has been identified within the BMHT 10 years programme and has been reported in the latest quarterly returns forecast.
- 7.3.3 The scheme will be funded from HRA revenue contributions and Right to Buy 1-4-1 receipts. The cost of development is included in the HRA Business Plan 2022+.
- 7.3.4 The financial viability of the scheme proposal is based on the Government's social housing rent policy that rents will increase annually by the Consumer Price Index (CPI) + 1 % over a 5-year period from 2020/21.
- 7.3.5 The new Council rented homes will be subject to the Right to Buy cost floor regulations, which mean that for the first 15 years following the completion of the new homes, any tenant purchasing their Council property through the Right to Buy will be obliged to pay the Council the full construction cost of the property, irrespective of any discount to which they may be entitled under the Right to Buy legislation.
- 7.3.6 The construction of the new Council homes should not be liable to VAT; however, VAT may be payable on other project costs. The letting of HRA homes is non-business; as are sales of such homes under Right to Buy. The Council can reclaim VAT incurred on the development and management of HRA homes, including sales under Right to Buy. Therefore, VAT should not be a cost to the project.
- 7.3.7 Further financial details of the contract award are contained within Exempt Appendix B.

## 7.4 Procurement Implications

### 7.4.1 Expressions of Interest Stage

- 7.4.2 Expressions of interest were issued on the Homes England portal on 20<sup>th</sup> July 2021 to the 39 framework providers giving an overview of the scheme requesting a response by 28<sup>th</sup> July 2021. Three framework providers expressed an interest in tendering for the opportunity.

- 7.4.3 As there were less than 6 expressions of interest received, there was no requirement for the Sifting Stage to be undertaken.

### 7.4.4 Invitation to Tender Stage (ITT)

ITT documentation was issued on 26 October 2021 to the three organisations that expressed an interest in tendering for the opportunity.

- 7.4.5 During the tender period, two of the tenderers withdrew from the tender process citing resource issues. A tender was received by the deadline of 21 December 2021.

### 7.4.6 Evaluation and Selection Summary

7.4.7 Details of the evaluation, including the criteria for selection was set out in the Building Birmingham Highgate Road Development report to Cabinet and outlined that tenders received would be evaluated using a split of 40% quality, 20% social value and 40% price.

7.4.8 The evaluation was undertaken by officers from the Housing Development Team (Place, Prosperity, & Sustainability Directorate), Capita Property & Infrastructure Limited (the scheme's Employers Agent) and supported by Corporate Procurement.

7.4.9 Quality Evaluation (40% Weighting)

The result of the Quality evaluation is shown in the table below:

Company	Bidder A
Score (out of 100)	71.50
Adjusted Score (Max 40)	40.00
Rank	1

Bidder A scored above the threshold of 60% and proceeded to the price evaluation stage. There were no other issues with the quality evaluation.

7.4.10 Social Value Evaluation (20% Weighting)

The result of the Social Value evaluation is shown the table below:

Company	Bidder A
<b>Quantitative</b>	
Score (Max 14)	14.00
<b>Qualitative</b>	
Score (out of 100)	84.00
Adjusted Score (Max 6)	6.00
Total	20.00
Rank	1

7.4.11 Price Evaluation

The result of the Price evaluation is shown in the table below.

Company	Bidder A
Adjusted Score (Max 40)	40.00
Rank	1

7.4.12 Overall Evaluation

The overall results of the evaluation are summarised below.

Company	Bidder A
Quality	40.00
Social Value	20.00
Price	40.00
<b>TOTAL</b>	100.00

#### 7.4.13 Recommendations

It is recommended that the contract be awarded to Jessup Brothers Ltd based on their submission being the only tender response received. This submission provides value for money with the quality response being over the threshold of 60%. The Council's employer's agent for the scheme, Capita Property & Infrastructure Ltd, has confirmed that the price represents value for money when the costs are compared with similar schemes of this nature. Further details are shown Exempt Appendix B.

#### 7.4.14 Service Delivery Management

The contract will be managed operationally by the Principal Housing Development Officer, Place, Prosperity & Sustainability Directorate.

#### 7.5 Human Resources Implications (if required)

7.5.1 The project will be staffed by the Housing Development team internally with support from the scheme's Employers Agent, Capita Property & Infrastructure Ltd.

#### 7.6 Public Sector Equality Duty

7.6.1 The requirements of Standing Order No. 9 in respect of the Council's Equal Opportunities Policy will be incorporated into the Contract.

7.6.2 The requirements of the Equality Act 2010 will be specifically included in the Contract to comply with, the Act.

### 8 **Appendices**

8.1 Appendix A – Site Plan

8.2 Exempt Appendix B

8.3 Appendix C – Environment & Sustainability Assessment

### 9 **Background Documents**

9.1 Building Birmingham Highgate Road Development report to Cabinet on 21 June 2021.