

**REPORT TO: OSC****DATE: 3 April 2019****REPORT TITLE: Lessons Learnt from the Enfield Small Sites 1 Project****REPORT AUTHOR/S: Paul White****Email: [paul.white@enfield.gov.uk](mailto:paul.white@enfield.gov.uk) Phone: 020 83793933**

**PURPOSE OF REPORT:** To highlight lessons learnt from the issues experienced in the Enfield Small Sites 1 project and to make recommendations for the future small sites programme so that the same issues may be avoided and to make delivery more successful.

**SUMMARY:** The original strategy for the Small Sites 1 project was a worthy one but the Council took on risk when signing up to the Development Agreement. Small sites have many extra challenges and are less attractive to larger developers. Economies can be achieved by packaging sites together but decisions must be made on how this is done and how risk is managed. The strategy for small sites development can be improved using the lessons highlighted below and the recommendations going forward embodied in an Action Plan.

**1. BACKGROUND**

- 1.1 Enfield Council commenced with the construction phase of the Small Sites programme in 2014 after several years of preparation for the first sites to be developed including the decanting of a number of underused elderly sheltered housing schemes, a tendering process and a demolition phase. The Small Sites programme was seen as strategically important in the battle to combat the Borough's housing crisis and to tackle homelessness issues by making use of under used or redundant sites and bringing back into use for housing including affordable housing. Cross subsidisation from private tenures to affordable tenures was part of the solution.
- 1.2 The Council has a forward programme of approximately 200 potential units across about 30 sites in the pipeline but many of the lessons learnt can be applied to the whole pipeline for larger sites too. There is a list of small sites contained within the GLA 'Building Council Homes for Londoners' funding programme with 43 units across 5 sites at Gatward Green, High Road and Newstead, programmed for 2019/2020 and the rest for later delivery between 2020 – 2022. There is still work to do on the viability and design proposals for many of these sites. The GLA grant for these is £2,168,000 in total.
- 1.3 In the first phase 7 small sites delivering 94 homes were packaged up with a view to offer better economies of scale, with planning permission gained by HTA Architects and tendered to the market with EC Harris appointed by the Council to run the procurement process. Demolition was carried out by the Council up front under a separate contract to reduce risks. After tendering a

great deal of effort was put into negotiations with the winning tenderer, Kier Property Investments, and significant work was done to put in place the Development Agreement with Enfield Innovations Ltd (EIL) as the delivery vehicle for 57 PRS homes cross subsidising 37 affordable homes. However, in order to include the innovative elements of the project (EIL and Climate Energy Homes) post tender the Council had to take on a greater balance of risk if Kier were to remain on board.

- 1.4 There are always risks in every construction project – one of the most significant risks being the possibility that a main contractor or supplier might go out of business, which can happen with alarming speed. This is what happened to Climate Energy Homes (CEH) in December 2015 on the Small Sites 1 project after the parent company (Climate Energy Ltd) became unviable in large part due to a sudden, unexpected change in central government policy after the May 2015 General Election. This was the main cause of all the many problems as reported in the Cabinet Reports of July 2017 and January 2019.
- 1.5 The Small Sites 1 project originally promised to be an exemplar project and much expert advice was sought and received to make it happen yet it still failed largely due to some misfortune. Even so there are significant lessons that can be learnt from what happened.

## **2. ISSUES AND CHALLENGES**

- 2.1 There is always a risk of contractors ceasing to trade (particularly relevant in the current climate) and accepting this risk not only requires prevention by financial checks but also having mitigation strategies in place should the risk unfortunately be realised. Swift governance is needed to combat these circumstances and minimise any inevitable negative impact.
- 2.2 In delivering a programme of small sites it must be accepted that small sites provide their own special challenges. They are often difficult to access with many neighbours and usually with as many challenges as much larger sites but without the same economies of scale. Hence the reason for their unattractiveness and why they are often left undeveloped.
- 2.3 The challenge is how to structure projects to make them more attractive to contractors. The solution is often to package sites together to make economies of scale better whilst identifying all key technical and legal risks with difficult to access, dispersed sites, often odd shaped with lots of boundaries. These all impact disproportionately on small sites in terms of design, cost and delivery.
- 2.4 Packaging small sites up to offer greater numbers is a sensible strategy but contractors then have management diseconomies in terms of coordinating transport between dispersed sites, insufficient room for deliveries and parking, getting site accommodation onto the sites and having insufficient room for storage of materials and for site machinery to operate. These factors have been significant not only for Small Sites 1 but also for the further small sites recently developed (Ordnance Road and Perry Mead, Padstow and Hedge Hill (known as the PPH sites) also referred to in this report).

- 2.5 The challenge is also to find the right contractors to tender to and work with and to offer the right size and numbers of units for any packages accordingly to suit those identified contractors. It appears that the strategy of packaging up so many units (94) meant that larger developers were required to deliver the project, resulting in the desired level of interest at tender stage not being achieved.
- 2.6 This suggests smaller packages of sites tendered to smaller SME contractors with direct JCT contracts rather than Development Agreements may be a better approach. Suitable contractors need to be identified and supported perhaps with training and possibly funding such as the GLA's Homebuilding Capacity Fund. This could be very beneficial to local employers and the local economy as well as the delivery of much needed affordable housing in the area.
- 2.7 When the main sub-contractor went into liquidation on the Small Sites 1 project it exposed the Council to the risks that the Council had taken on which were realised with all the unavoidable extra cost and delays that ensued. Risk management is a central issue for all contracts. It also meant loss of continuity of key team members meaning designs were left undeveloped or information lost causing extra challenges once work restarted. Value engineering was attempted but planning conditions meant this had little benefit and needed extra liaison with planning staff.
- 2.8 For the Small Sites 1 the project utilised an offsite manufactured timber frame system added extra complications to the delivery of the project especially when difficulties arose. The delay meant that suitable storage had to be found to store the timber frame panels that had already been manufactured and paid for. Furthermore, although it has much to recommend it, offsite construction needs repetition of design to maximise efficiencies which were not inherent in the project designs it was applied to.
- 2.9 A further issue related to design consultants' understanding Sustainable Urban Drainage Systems (SUDS). It was discovered once on site during Small Sites 1 and on Ordnance Road that it was difficult to meet the Council's SUDS policy requirements with the designs for which the architect had obtained planning permission (the responsibility of the designer and not the planners). Delivering SUDS on any small site going forward will be a challenge and needs early engagement with the SUDS team. On these projects it has also taken time for contractors to understand how the Council's Transport & Highways departments operate and who to contact.
- 2.10 The Council originally took a partnering approach with Kier and jointly used their Employers Agent (Airey Miller Partnership). Ideally the Council should always have its own consultant representative. Mott MacDonald were appointed in October 2016 when a review took place of work done until that point.

### 3. RECOMMENDATIONS / LESSONS LEARNT

- 1) Working with SME contractors on smaller packages of sites and supporting them with funding (such as the GLA Homebuilding Capacity Fund) with traditional contracts is more appropriate going forward. Where projects include sales by developers for cross subsidy purposes the land price could be delayed until point of sale to further support partner contractors.
- 2) The brief and procurement route should be kept simple in terms design and construction type and with detailed information on which to tender to minimise risks to contractors to offset small sites challenges with an aim to achieve best quality but at a value for money cost. A Council 'design champion' for small sites should be considered.
- 3) Tried and tested components are inherently less risky and innovative offsite construction is usually less efficient on small sites where there is not enough repetition of unit design or that have not been designed with it in mind. Contractors are often best placed to choose the most suitable solution. If there is a way to achieve early contractor involvement this would help.
- 4) Procurement, legal and governance processes need to be better aligned to the needs of development teams.
- 5) A legal risks report summary should be produced for every project which must be a concise and allow senior managers and staff to quickly understand the risks of the project and ensure the necessary authorisation is in place.
- 6) The Council needs to be prepared to draw a line in negotiations if certain risk requirements are not met even when there may be political pressure to proceed. Introducing extra items post tender is a dangerous strategy.
- 7) There must be a mitigation strategy against contractors ceasing to trade and appropriate financial checks on key or 3<sup>rd</sup> party suppliers particularly when using off site manufacture products and innovative technology.
- 8) The Council must require designers to confirm that any designs are compliant with all key design requirements according to the Council's own design guidance (and not just GLA guidance) particularly relevant in the case of Sustainable Urban Design Systems (SUDS) for the small sites projects.
- 9) Value engineering decisions during the construction phase to reduce costs should not be made without the input of a planning officer where it is relevant to any planning permission.
- 10) The Council should not use any consultants jointly with the developer in order to avoid any conflicts of interest.
- 11) The red lines for the land included in contracts must be checked against Council land ownership and with highways to ensure there are no areas of land not included in any contracts which require extra costs to deal with.

- 12) When contracts and Development Agreements are drawn-up they must not be done solely by solicitors but must also be checked by project management consultants and/or CMCT to ensure the Council is protected in practical and technical terms. Contract Amendments need review.
- 13) There are further lessons learnt that can be gained from other small sites initiatives and best practice at other local authorities such as the 'Brick by Brick' initiative at Croydon Council which was introduced to improve design quality for small sites proposals resulting in a swifter path through the planning process.

NB – See Appendix 1 for the analysis of build costs for the small sites programme so far.

#### **4. Action plan**

- 4.1 The following Action Plan takes the lessons learnt and recommendations from above and illustrates how these will be addressed in the future strategy of developing small sites in the future.

## Small Sites Lessons - Delivery Action Plan for Future Sites

Action	Benefits	Process	Time-scale	Owner
Identify local SME contractors that LBE can work with to deliver small sites.	Ensures LBE has a ready-made tender list of keen & suitable contractors, builds relationships to increase the likelihood of better tender prices & better project outcomes.	Soft market testing by phone call and meetings leading up to projected tender stage. Check frameworks and create an approved list.	Should start immediately but also leading up to tenders.	Regen
Assist partner SME contractors in accessing funding & support.	Brings inward investment to local SME companies, improves employment, boosts economy and assists delivery.	Target GLA Homebuilding Capacity Fund to guidance issued.	According to GLA HCF guidance.	Regen
Hold client awareness & relationship sessions inviting contractors, designers, consultants and key internal technical staff & depts and engage with other local authorities / housing providers to investigate best practice.	Helps to provide awareness of LBE policies, processes & procedures – e.g. obtaining hoarding licences, SUDS requirements or traffic management permits - helps avoid delays on site and increases efficiencies & expertise. Better relationships created = better pricing.	Identify key staff able to participate, give presentations and provide key contacts to contractors. Hold design meetings at key times in project cycles. Have a 'design champion' and identify best practice at other housing providers.	Immediate start, meeting dates chosen according to programme.	Regen
Seek to de-risk sites working with other relevant technical & legal departments and rank sites according to deliverability.	By having detailed information in place at time of tender improves tender docs = better pricing and less disputes and less delays on site. Better risk, resource and programme management.	Early site legal searches. Hold site focus group meetings to help identify site specific risks. Providing detailed drawings and focused briefs.	Early stage of site appraisal leading up to tenders.	Regen
Monitor scheme feasibilities in an overall programme	Able to offset less viable sites against better ones and tracks cross subsidy.	Complete & update dedicated programme spreadsheet.	In progress	Regen
Agree appropriate JCT Contract Amendments & review ERs & component checks	Having the right level of amendments ensures contractors are keener on pricing but still protects LBE. Vetting how components are performing with feedback post completion or references if new.	Work with the legal team to agree appropriate contract amendments. Have regular ERs reviews & component checks with feedback from Property Services.	ASAP	Regen /Legal /CMCT
Create contractor insolvency mitigation strategy.	Checks up front will avoid but not always so need to know early warning signs. Reacting quickly saves time and costs.	Draw up a mitigation strategy and circulate.	ASAP	Regen /Legal /CMCT

## Appendix 1 – Recent Small Sites build costs comparisons

Below are two tables providing value for money comparisons against further small sites for the contracts relevant to the January 2019 Cabinet report and including the recently approved extra costs.

Note – Small Sites 1 was broken into two phases:

Phase 1 (with Kier) – the build cost figures shown below are lower and slightly distorted because the price was reduced due to a ‘Commercial Settlement’ with Kier to account for the remaining limited liability claim and payments Kier withheld from Climate Energy Homes.

Phase 2 (with AMCM) the build cost figures shown below are more in line with the PPH market sale sites (EIL’s units are market sale) and therefore more in line with the particular market. Mott MacDonald are satisfied that they represent value for money bearing in mind the abnormal extra costs incurred and the offsite construction.

**Table 1 – Build per square metre comparisons**

Project	Floor Area	Build Cost	£/m2
Ordnance Road (aff)	1373	£3,229,844	£2352
PPH sites (market)	1220	£3,457,634	£2834
Enfield Small Sites Ph1 (Kier)	2846	£5,377,889	£1890
Enfield Small Sites Ph2 (AMCM)	4894	£13,516,468	£2761

**Table 2 – Build cost per unit comparisons**

Project	Units	Build Cost	£/unit
Ordnance Road (aff)	15	£3,229,844	£215,322
PPH sites (market)	13	£3,457,634	£265,972
Enfield Small Sites Ph1 (Kier)	25	£5,377,889	£215,116
Enfield Small Sites Ph2 (AMCM)	47	£13,516,468	£287,584