

Delegated Decision report



30 May 2023

APPROVAL OF ADDITIONAL FUNDING TO AWARD THE CONSTRUCTION CONTRACT FOR THE MK EAST PRIMARY SCHOOL AND COMMUNITY HEALTH HUB PROJECT

Name of Cabinet Member	Councillor Robert Middleton Cabinet Member for Resources
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Exempt / confidential / not for publication	Yes
Council Plan reference	8 – Well planned growth & renewal
Wards affected	Olney and others

Executive Summary

This report seeks approval for additional resource and spend approval to enable the award of the construction contract for the MK East Primary School and Community Health Hub Project. The commitment to enter into this works contract is subject to receiving confirmation from Homes England that the utilisation of the Grant funding proposed by the Council has been agreed and that programme revisions proposed by Berkeley St James under the terms of the Grant Determination Agreement are acceptable.

1. Proposed Decisions

- 1.1 That the public and press be excluded from the meeting by virtue of Paragraph 3 (Information relating to the Financial or Business Affairs of the Authority) of Part 1 of Schedule 12A of the Local Government Act 1972, in order that the meeting may consider the **confidential Annex B** to the report.

- 1.2 That recommendation be made to Full Council to approve additional borrowing of £9.1m to cashflow the delivery of the project in advance of the receipt of Tariff contributions from the MK East development.
- 1.3 That resource allocation and spend approval be revised in the 2023/24 Capital Programme to £15.2m and a further £8.9m in 2024/25, which includes additional borrowing. This will enable the award of the construction contract for the MK East Primary School and Community Health Hub project. The borrowing will ultimately be repaid from the Tariff developer receipts. The construction sum is detailed in the **Confidential Annex** to the report.
- 1.4 That, subject to the approval of Full Council, as set out at 1.2, the construction contract be awarded to Ashe Construction Ltd to cover RIBA stages 5 to 7.
- 1.5 That, subject to approval of variations from Homes England, delegated authority be given to the Director - Law and Governance to complete necessary variations to both the Grant Determination Agreement with Homes England and the Council's Grant Share Agreement with Berkeley St James to reflect the programme revision.

2. Why is the Decision Needed?

Background to MK East

- 2.1 In 2019, a Central Government appointed Planning Inspector took the decision to allocate the MK East' development site as part of the Council's new local plan known as Plan MK. To deliver MK East, substantial new infrastructure would be needed including a new bridge across the M1, plus a Primary School and Community Health Hub to provide critical facilities and services to new residents.
- 2.2 In 2019, a bid was submitted by the Council to Central Government to secure funding for this new infrastructure. On 12 March 2020, the Secretary of State for MHCLG (now DLUHC) approved the Council's bid. Since this successful bid, substantial work has been undertaken including the Council undertaking a public procurement exercise to identify a contractor to help deliver this new infrastructure.
- 2.3 The grant funding secured by the Council through the Housing Infrastructure Fund (HIF) included a £15m contribution, based on the delivery cost of comparable facilities at the time, allocated towards the delivery of a new 630 place Primary School and Community Health Hub at the Milton Keynes East Strategic Urban Extension (MKESUE) development area. The HIF funding allocation is to be spent by March 2025 and following relevant approvals, a tender process to appoint a contractor to design and build the scheme was commenced in Autumn 2021. Ashe Construction were successful and appointed in March 2022 to deliver the design element to RIBA Stage 4 (Detailed Design). This work has now been completed and a final cost for this new social infrastructure has now been submitted by Ashe Construction Ltd.

- 2.4 The funding contribution from HIF represents financial resource that would not normally be available to the Council to deliver infrastructure facilities of this nature, which would usually have to be fully funded from developer contributions.

Design and Cost Assessment Work

- 2.5 The design development process, technically known as RIBA Stages 2, 3 and 4, has highlighted an increase in the estimated cost of over and above the original £15m HIF allocation. The original allocation was based on estimates of likely construction costs submitted at the Expression of Interest stage in 2017. At the end of RIBA Stage 3, in October 2022 the design work indicated construction costs, including preliminaries and design, had increased to over £23.5m.
- 2.6 Since the original allocation in 2020, several material things have changed. These have contributed to significant turbulence in the UK Economy. Elements of which are:
- (a) an uncertain and volatile market since the global pandemic and the conflict in Ukraine has led to significant increases, over and above general inflation, in costs for construction materials, reduction in their availability, and longer lead times. Construction inflation is running at up to 40% for specific construction materials; and
 - (b) rapid increase in general inflation of between 10% and 12%. This rise in general inflation means workforce costs have increased dramatically which has then been passed on to the Council via the construction partner in a higher final cost submission.
- 2.7 In addition to a downturn in the UK Economy, the scale and scope of the scheme has been detailed and refined to ensure that the new facilities are sufficient to meet the needs of the new community. This has included:
- (a) to deliver the vision for the community hub in MK East, to allow it to be truly multi-purpose, it was concluded that a larger site was necessary. This resulted in the need for additional land to be developed and an increase in preliminary costs after Stage 2;
 - (b) a commitment was made to deliver this new infrastructure in advance of the build out of the new homes. This contrasts with how other developments are delivered elsewhere, where new infrastructure is delivered many months if not years after the new housing is built out. Although delivery of the new infrastructure is the right decision for MK and the new community of MK East, it brings requirements which increase overall costs. For example, the scheme includes measures such as temporary construction accesses and temporary utility supplies in advance of permanent arrangements. This has contributed to the rise in the overall cost of the scheme;

- (c) to mitigate the extra costs arising from the global economic turbulence, and changes to the design of the scheme to optimise the value of the facilities being delivered to the new community; a value engineering exercise has been undertaken. A complete review of the Stage 4 submitted costs was undertaken by the Quantity Surveying teams. This work has reduced the Stage 4 submitted costs by £1.5m. The savings have been achieved by focussing on streamlining and creating efficiencies in the high-cost, major work packages such as the roof, groundworks including cut and fill exercise, piling solution and the mechanical and electrical package. The early ordering of materials such as steel, drylining and groundworks will enable prices and lead times to be secured, reducing the risk of further inflationary increases. The savings that have been generated have not affected the quality or standards we want to deliver; and
- (d) as part of the Council's ongoing process of managing and mitigating risk both during the design and construction periods, a live risk register has been developed and will continue to be reviewed monthly at the Site Progress Meeting or as necessary via the Early Warning process, ensuring risk is constantly reviewed, with appropriate action taken, as defined in the terms of the contract.

Design of New Primary School and Community Health Hub

- 2.8 The Primary School building has been developed in line with Department for Education (DfE) Area Guidelines. The Community Health Hub has been designed to a size that meets the needs of the multiple health-related services that will operate from the building, the predicted future patient numbers, as well as meeting the predicted needs of the Council services that will make the building a true multi-purpose Hub.
- 2.9 Approval is now being sought to approve the additional Resource Allocation, including Spend Approval to award the construction contract for the scheme to progress to RIBA Stage 5 (Construction) through to completion and delivery of the scheme by December 2024 (RIBA Stage 6).

Highways Infrastructure including New Bridge

- 2.10 The lead developer of the MK East site, Berkeley St James, remain responsible for the delivery of the highway infrastructure which will serve the site. The additional cost of the highway, over and above the available HIF funding contribution will be met by Berkeley St James, with the Council's contribution limited to £9.55m agreed as part of the HIF arrangements. As set out in the Delegated Decisions approval of July 2020 this contribution will be met from the sale of the Council's land interest in the MK East allocation when the access to this land is provided through the delivery of the new highway infrastructure. The re-phasing of the infrastructure will also mean that the Council's contribution to these works (£9.55m) is not expected to be required until 2026, which will significantly reduce the period that the Council may need to borrow for, pending land disposals receipts.

2.11 This decision is not seeking resource allocation nor spend approval for this element of the infrastructure works.

3. Implications of the Decision

Financial	Y	Human rights, equalities, diversity	N
Legal	Y	Policies or Council Plan	Y
Communication	Y	Procurement	Y
Energy Efficiency	Y	Workforce	N

(a) Financial Implications

Increased resource and spend approval to bring the total budget to £24.1m is being requested via this Delegated Decision. This budget resource is to cover the construction costs, contingency and all professional fees and surveys. Subject to confirmation from Homes England that the HIF social infrastructure grant funding can be allocated purely to the school, the remaining cost of the Community Health Hub will be ultimately met from Developer Tariff receipts for health provision that will be generated by the new development.

Tariff receipts will only begin to be generated when house building activity commences in 2024 therefore, there will be a requirement in the short term for the Council to borrow against these future receipts to allow the project to proceed at this time.

The cost of borrowing and the associated Minimum Revenue Provision (calculated over a 50-year payback) is estimated £197k in year one and £562k in future years. This cost will be funded from within the Debt Financing budget, with the cost decreasing as the borrowing is reduced upon tariff receipts. Borrowing is anticipated to be required from April 2024, with tariff contributions planned from Q2 2025. The base contribution (at June 21) for Primary Health Care was £7.7m with indexation to March 2023 is now £9.1m, further indexation charged on the tariff contributions will be used to reimburse the debt financing once the initial borrowing has been repaid, (anticipated to be by the end of 25/26).

The cashflow, attached at **Annex A** to the report, shows the timing and anticipated cost of this borrowing.

The revenue implications of the building of the school, will be included within the forecast growth calculations for the Dedicated Schools Grant.

Agreements are being put in place to finalise lease arrangements for the Community Health Hub.

For the highways element of MK East, in the event of an overspend the council has capped its contribution at £9.55m. This will ultimately be funded from land receipts, enabled by the development, but there may be a short borrowing requirement to assist with cashflow, and were this to be the case a further report will be brought forward. The Council, and Berkeley St James' have jointly written to Homes England, seeking approval to vary the programme for the highways works into separate phases to help manage the impact of the works and costs. This also confirms how the full cost of these works will be funded, and that MKCC's total liability for any additional costs is capped at £9.55m. Subject to Homes England confirming a revised programme, and the approval of the recommendations in this report, the Council will enter into the works contract for the primary school and health hub.

(b) Legal Implications

The Council has a statutory duty to ensure that there are sufficient school places in Milton Keynes. This report seeks approval to appoint the winning supplier following a further Competition process undertaken via the Pagabo Framework; to undertake the main construction phase of the works of the school and the community health hub. The estimated financial value of the works exceeded the EU financial threshold for works and required publication to the EU market. The use of Frameworks is a recognised route to market.

The Pagabo framework has been set up following a procurement process and is open for use by all public bodies in the UK.

(c) Other Implications

The Council has been working under Licence to ensure any surveys, including the archaeological clearance could be achieved whilst the land is not in our ownership. These have now been completed. The Land Transfer as part of the s106 agreement is underway and will be completed in time for the proposed start on site date.

Planning Permission for the scheme has been sought under ref: 22/03157/FUL.

Subject to Council approval and the above dependencies the Council will proceed with the contract award.

4. Alternatives

4.1 Do Nothing

The £15m HIF Funding contribution towards the scheme will be lost if not utilised by March 2025. Initial school places for the new MK East development area will not be secured. Vital community services for the emerging new community will not be provided or substantially delayed.

4.2 Delay Approval

The current costs for this scheme are reflective of the national situation in terms of construction inflation and materials supply and the impact this is having universally on the construction industry. Although it is predicted that general inflation will start to decrease later this year, the costs being experienced now are factors of multiple variables being experienced globally and we cannot predict that their impacts will significantly reduce costs should the decision be delayed. The opposite impact on price is an equal possibility should current conflicts expand or extend.

4.3 Approval Granted (Funding to enable Contract Award) - **recommended option**

The Council has an opportunity to deliver the scheme, with the benefit of £15m of external funding already secured, providing the opportunity to meet the aims of the Council Plan, and putting social infrastructure delivery at the forefront of new development in Milton Keynes. Awarding the construction contract now provides us with the cost certainty that cannot be achieved by delay.

5. Timetable for Implementation

Contract Award:	July 2023
Start on site:	July 2023
Completion Handover:	by December 2024

List of Annexes

Annex A	Social Infrastructure Cashflow May 2023
Annex B	Construction Cost Breakdown (confidential)

Background Papers

[Delegated Decision - 20 July 2020 \(Housing Infrastructure Fund – Decision to Accept Grant Funding\)](#)