

<b>Item No.</b>	<b>Classification:</b> Open	<b>Date:</b> 15 January 2014	<b>Decision Taker:</b> Chief Executive
<b>Report title:</b>	Gateway 2 - Contract Award Approval for main works Proposed new temporary hostel accommodation & general needs housing at Willow Walk, SE1 – appointment of contractor for main works contract		
<b>Ward(s) or groups affected:</b>	Grange		
<b>From:</b>	Director of Regeneration		

### RECOMMENDATION(S)

That the chief executive:

1. Approves the award of the new temporary hostel accommodation and general needs housing at Willow Walk, SE1 main works contract to Mansell Construction Services Limited in the sum of £11,696,129 with a contract period of 58 calendar weeks commencing on 28 January 2014.
2. Notes emergency works had to be undertaken for reasons given in paragraph 21.

### BACKGROUND INFORMATION

3. Last year, the council announced its intention to build 1,000 new council homes before 2020. More recently, this aspiration was extended by setting a target of building a further 10,000 new council homes over the next 30 years. This phase 1 project at Willow Walk provides 54 new temporary accommodation units for homeless families and 21 new council homes for rent, and is the first project in the new programme to start on site.
4. The council is required to secure temporary accommodation (TA) for homeless households whilst under investigation and before a determination is made whether a full homeless duty is to be accepted. The council's duty to accommodate is currently discharged through a mixed portfolio of licensed accommodation such as bed and breakfast and hostel, self-contained accommodation procured through the council's regeneration programme, and private sector leased (PSL) properties. It is estimated that over the next two years access to PSL units and those on regeneration schemes will fall by over 400 units. This is at a time when all resources are coming under increased pressure, including from the impact of welfare reform.
5. Therefore, the council is looking to increase its supply of directly managed temporary accommodation over the next few years. Direct provision and management is the most economically viable method of meeting the obligations, with any surplus made going back to the council. New developments will form part of the wider portfolio, so increasing the economies of scale.
6. The new development will be purpose built, to allow for flexible usage, maximising occupancy and efficiency of management. In addition, the design

allows for clients to share kitchen facilities and have private washing / toilet facilities and this can only be achieved with a new build.

7. The new development will deliver 54 units for homeless households, replacing 35 units previously on the site. The original, single storey buildings had reached the end of their useful life and required substantial investment to bring them up to a reasonable standard.
8. In order to obtain maximum usage of the site, the planned development also allows for the provision of 21 general needs units, thereby substantially increasing the council's asset base for the site.
9. In summary, the proposed development at Willow Walk includes:
  - 54 temporary accommodation units and 21 general needs housing units, including site preparation works comprising the demolition of existing buildings on site and the construction of a new road to an adoptable standard.
  - New temporary accommodation units each comprising a single room with either two or three bed spaces, a private bathroom and shared kitchen facility to the ratio of 2 units to 1 kitchen. There are also a number of wheelchair accessible units, two lifts, a laundry and a bin store.
  - General needs housing comprises a mixture of 1, 2 and 3 bedroom apartments arranged to the north-east of the site.
  - Re-modelling of the existing playground including soft and hard landscaping
10. Situated on the corner of Setchell Road and Alscot Way SE1, the Willow Walk site is currently used as local authority temporary hostel accommodation with part of the site currently vacant. The location plan and a number of images showing the layout and appearance of the proposed development are given in Appendix 1. The cabinet agreed Phase 1 of the council's 'Direct Delivery' programme to build 1000 new council homes in October 2012, and that the Willow Walk scheme would be included. This involved reshaping the original scheme which had proposed the redevelopment of new hostel accommodation on part of the site and the disposal of land freed up, to assist with financing. Bringing the Willow Walk hostel development into the Direct Delivery arrangements has enabled the provision of new general needs council housing alongside the short stay accommodation, meeting housing need and long term rental stream, thereby making a valuable addition to the council's asset base.
11. On 30 January 2012, the Deputy Chief Executive approved Gateway 1 proposals for procuring professional project management/design services and construction works for the proposed development at Willow Walk, SE1 and, in particular, the use of the Improvement and Efficiency South East (IESE) construction and management framework arrangements for the design and build of the new development, including the procurement of:
  - The consultant under the iESE/Government Procurement Services (GPS, formerly known as Buying Solutions) professional consultancy framework; and
  - The contractor under the iESE contractor framework

12. The Gateway 1 approval report included details of the procurement approach, as follows:

Stage	Activity	Responsibility
STAGE 1	Procure and appoint professional design consultant team, approved on 11 April 2012 as noted in paragraph 15.	Client
	Undertake feasibility study and prepare strategic brief for client sign off	Consultant
	Decide on whether or not to proceed to STAGE 2.	Client
STAGE 2	Procure and appoint contractor for pre-construction services, approved on 17 December 2012 as noted in paragraph 15.	Client
	Develop scheme design up to RIBA Work Stage D+ and obtain planning consent.	Consultant
	Tender for and oversee site preparation works (demolitions)	Consultant
	Undertake enabling works (i.e. site preparation works, such as, demolitions), approved on 21 November 2013 as noted in paragraph 15.	Client/Contractor
	Prepare Employer's Requirements for main contract works	Consultant
	Develop detailed design to RIBA Work Stages E & F, package and obtain competitive prices for main contract works.	Contractor
	Submit Contractor's Proposals for main contract works.	Contractor
	Evaluate Contractor's Proposals for contract works	Consultant
	Obtain approval to appoint contractor for the main works contract - this report.	Client
	If contractor appointment approved, proceed to STAGE 3	Client
STAGE 3	Appoint contractor for main contract works.	Client
	Oversee main contract works as Employer's Agent and act as technical/design advisor to the Council	Consultant
	Mobilisation	Contractor
	Site operations	Contractor
	Completion/Ready for use	Consultant/Contractor

13. The original Gateway 1 proposal was for the general needs housing element to be designed up to planning consent only and the relevant site to be sold for development by others. Cabinet resolved on 23 October 2012, however, to include the general needs housing element in the programme of directly delivered council homes. The invitation to tender for the main works contract was delayed, therefore, whilst design proposals for the general needs housing were developed to an equivalent level of detail as had been developed for the temporary hostel accommodation.

14. This report relates to STAGE 2 of the procurement approach, in particular to approval to appoint the main contractor for the main contract works.
15. In summary, the following appointments have been subject to Gateway 2 approval:
- STAGE 1: Professional consultant (and team) to produce a scheme design, obtain planning consent, preparation of Employer's Requirements, tender invitation and evaluation, act as Employer's Agent and provide technical and design advice as necessary. On 11 April 2012, the deputy chief executive approved the appointment of Mott MacDonald Ltd ("Mott MacDonald") under the iESE/GPS professional consultancy framework in the estimated sum stated in paragraph 3 of the closed report.
  - STAGE 2: Contractor for pre-construction services, comprising advice on buildability, development of the design in detail, packaging and pricing the enabling and main works in the form of Contractor's Proposals. On 17 December 2012, the chief executive approved the appointment of the contractor, Mansell Construction Services Limited ("Mansell"), to provide pre-construction services under the iESE contractor framework, in the sum stated in paragraph 3 of the closed report.
  - STAGE 2: Contractor for enabling works, including demolition of the existing structures and other works required to prepare the site for development, to be undertaken in parallel with the pre-construction activities. On 9 July 2013, approval was given to commit the enabling works contract at Willow Walk to Mansell in the sum stated in paragraph 3 of the closed report, which was formally ratified by the chief executive in the Gateway 2 report of 21 November 2013.
16. The following appointment is subject to Gateway 2 approval:
- STAGE 2: Contractor for the main contract works to construct the proposed new development, as now reported.
17. At the cabinet meeting of 22 October 2013, the Leader resolved that gateway 2 decisions for work packages in Phase 1 be delegated to the chief executive.
18. This Gateway 2 report seeks the chief executive's approval to appoint Mansell as main contractor under the iESE contractor framework for the construction of the proposed new temporary hostel accommodation and general needs housing as summarised above, in paragraph 9.
19. The bar chart given in Appendix 2 shows the overall project programme and highlights activities relating to the main contract works in red.

**Procurement project plan (Key Decision)**

20. The timetable for this procurement process is, as follows:

Activity	Completed by/Complete by.
Approval of Gateway 1: Procurement Strategy Report	30 Jan 2012

Activity	Completed by/Complete by:
Invitation to tender	16 Jan 2013
Closing date for return of tenders (as extended)	8 Jul 2013
Completion of evaluation of tenders	13 Dec 2013
DCRB Review Gateway 2	6 Jan 2014
CCRB Review Gateway 2	9 Jan 2014
Notification of forthcoming decision – Five clear working days	10-17 Jan 2014
Approval of Gateway 2: Contract Award Report	20 Jan 2014
Scrutiny Call-in period and notification of implementation of Gateway 2 decision	21-27 Jan 2014
Alcatel Standstill Period (if applicable)	N/A
Contract award	28 Jan 2014
Add to Contract Register	28 Jan 2014
Contract start	28 Jan 2014
TUPE Consultation period	N/A
Publication of award notice in Official Journal of European (OJEU)	N/A
Contract date for completion	11 Mar 2015
Contract date for completion – if extension(s) exercised	N/A

21. During the enabling works, buried asbestos was discovered on site during excavation works by Mansell. This gave rise to a 14 day notification to the HSE, during which work on site stopped and control measures put in place for the resumption of site operations. Further site investigations indicated that the risk of asbestos discovery for all works relating to excavation within the made ground across the whole site was very high. In order to mitigate the health and safety risk (ie. the exposure of site operatives and others to hazardous air borne particles) emergency remediation works were instructed and undertaken by Mansell. This comprised all excavation works required for the entire job and screening for asbestos inclusions. Sifted asbestos containing materials were safely removed from site and the decontaminated soil was re-laid from the area from where it was excavated. The discovery of buried asbestos and subsequent remediation measures has given rise in additional costs to the enabling works contract in the approximate sum stated in paragraph 4 of the closed report. The remediation operation has largely de-risked the main works contract and special control measures have now been lifted. The risk of further delay and disruption to the main works contract from the presence of buried asbestos has been significantly reduced. The emergency measures were taken in consultation with the council's corporate health and safety manager and with the benefit of advice from an asbestos management expert prior to commencement.

## **KEY ISSUES FOR CONSIDERATION**

### **Description of procurement outcomes**

22. The intended outcome of this procurement is to deliver the 54-unit temporary accommodation hostel and 21 general needs housing units, together with the new road and landscape works, ready for use by March 2015.

### **Key/Non Key decisions**

23. This report deals with a key decision

### **Policy implications**

24. The proposed development of a 54-unit new build hostel at Willow Walk supports the council's temporary accommodation strategy and the Bed and Breakfast Reduction Action Plan which seek to significantly reduce and eventually eliminate the use of bed and breakfast for homeless households with children.
25. The new temporary accommodation development will make a significant contribution to the rationalisation and review of current hostel accommodation across the borough and will provide a facility that is more suited to homeless families and more cost effective for the council.
26. The proposed development of general needs housing at Willow Walk forms part of the Affordable Housing Fund (AHF) programme. Homes delivered as part of the AFH programme will assist in increasing the supply of good quality affordable housing and will contribute the following targets;
- Policy 5 of the Core Strategy sets a housing target for the borough of 24,450 net new homes between 2011 and 2026 (1,630 per year).
  - The London Plan sets the borough a housing target of 20,050 net new homes between 2011 and 2021 (2,005 per year)
  - Core Strategy policy 6 sets an affordable housing target of 8,558 net affordable housing units between 2011 and 2026.
27. Sharing the benefits of economic growth and regeneration is an underpinning principle in implementation of the Southwark Economic Development strategy 2010 - 2016. The AHF supports this strategy by engaging with housing partners and council contractors to identify and develop entry points for priority groups to access local employment and training opportunities, promote and develop apprenticeships and work placements and embed local economic benefits into procurement. Details for this project are described below in paragraph 72.

### **Tender process**

28. The tender process outlined below relates only to the main works contract (in STAGE 2 of the procurement approach). The tender process relating to the enabling works contract (undertaken earlier in STAGE 2 of the procurement approach) was provided in the separate Gateway 2 report referred to in paragraph 12.
29. The selection of the contractor for the main works contract followed standard procedures and working practices set out in the iESE framework arrangements.

These envisage that the framework contractor selected for pre-construction services, namely, Mansell, works collaboratively with the client's professional services consultant, Mott MacDonald, to develop the client's requirements, create works packages and obtain open book prices from a minimum of three suppliers for each package in competition. The proposed contract sum is calculated by aggregating the winning package suppliers' prices, and the contractor's core costs (comprising items unsuitable for competitive tender, such as, overheads and profit, insurances, management, derived mainly from their iESE framework tender rates and as quoted in Mansell's tender for pre-construction services).

30. Information on the design and specification of the project and the overall scheme proposals, prepared by the consultant team under the direction of Mott MacDonald, were issued to Mansell in the form of Employer's Requirements (ERs) on 16 January 2013. The form of contract used was JCT Design and Build contract revision 2 2005 (with council amendments), Mansell's submission was required in the form of Contractor's Proposals (CPs), to show how they intend to meet the Employer's Requirements, including a Contract Sum Analysis (CSA), giving a detailed breakdown of the proposed contract sum. A target return date of 8 July 2013 was set.
31. In the event, Mansell submitted their CSA in draft format on 11 July 2013 and their main submission of CPs were submitted on 2 August 2013, a delay of four weeks from the target date of 8 July 2013. However, Mansell's CPs, as originally submitted, included a substantial number of points for clarification or challenge, which resulted in a period for detailed discussions and a number of revisions (eight in all) over the period from July 2013 to October 2013. Mansell's final CSA was submitted in the sum of £11,620,628.99 (including adjustment for minor arithmetical errors) on 25 October 2013. A breakdown of Mansell's final CSA is included at Appendix 3 of the closed report.

## **Tender evaluation**

### *Contractor's Proposals (CPs)*

32. The CPs contain the design and specification of the works to be completed and should be compliant with the Employer's Requirements (ERs). Mott MacDonald undertook a full analysis of Mansell's design documentation over the period from July to October 2013, involving all professional disciplines. A number of meetings and workshops took place in order to conclude outstanding items. The outcome of this process is that Mott MacDonald has substantially signed off the design proposals as compliant with only minor design items still outstanding. These outstanding items are noted within the CP document and have been allowed for in the contract sum analysis.

### *Contract Sum Analysis*

33. Mansell's CSA and sub-contractor pricing was arithmetically checked and validated by Mott MacDonald. Minor errors were found equating to a sum of £93.70. These were raised with Mansell and amended accordingly. Similarly, a review by Mott MacDonald of measured works quantities in sub-contract packages revealed some small discrepancies, which were also brought to Mansell's attention and appropriate amendments made to the CSA.

34. Over 90% of Mansell's proposed contract sum is based on fixed costs. The remaining costs relate to three provisional works packages, provisional sums for defined works and contractor risk items, all of which have been scrutinised by Mott MacDonald and are considered appropriate and acceptable for the size and scope of the proposed contract. The items concerned are summarised in Appendix 4 of the closed report.
35. Mansell's preliminaries costs (ie. items of cost that relate to the works as a whole rather than to individual works packages) in the sum stated in paragraph 5 of the closed report are based on indicative costs quoted in their pre-construction tender submission, based on their iESE framework rates, including uplift for inflation permitted under the iESE framework, together with competitively tendered prices, where appropriate, for additional items such as scaffolding and tower cranes. Following a process of scrutiny and challenge, Mott MacDonald has confirmed that Mansell's preliminaries costs are acceptable.
36. Mott MacDonald has confirmed Mansell's mark ups for insurance costs and overheads and profit, as stated in paragraph 6 of the closed report, are consistent with their iESE framework rates.

#### *Value For Money (VFM) Appraisal*

37. The proposed tender sum stated in paragraph 7 of the closed report exceeds Mott MacDonald's RIBA Work Stage D cost plan in the overall sum and Mansell's cost plan review by a significant margin. It should be recognised, however, that both estimates were undertaken at a formative stage and without the benefit of the Employer's Requirements, which were more exacting than either party had anticipated, or the contractor's developed design. Mott MacDonald, therefore, undertook a reconciliation exercise to explain why the tendered cost was higher than their cost plan forecast. Mott MacDonald attributes the cost difference to the following main factors:
  - a. The extent of project-specific abnormal costs (ie. construction costs that are not 'typical' for the type of development) accounts for an additional sum stated in paragraph 7a of the closed report. These include special ground works in response to exceptional site conditions, provision of an electricity sub-station, 3Nr lift installations with robust specification to provide longevity, specification of durable and hard wearing components and finishes particularly in the hostel accommodation, enhanced services installations to meet security and management requirements for the hostel and the provision of a sprinkler system in the hostel in accordance with new technical policy requirements.
  - b. An increased scope and design development during RIBA Work Stages E and F (detailed design and working drawings), accounting for an additional sum stated in paragraph 7b of the closed report. Examples include brickwork detailing required for structural integrity and balcony configurations, provision of thermal breaks to balconies to eliminate risk of cold bridging/condensation, revised quotations from statutory authorities for incoming services, glazed balustrades to hostel walkways to meet robustness and management requirements, plant room detailing for combined heat and power installation and additional below ground drainage runs and attenuation.
  - c. Under allowances in the cost plan due to oversight, amounting to an additional sum stated in paragraph 7c of the closed report. These relate to the allowances for the piling mat, reinforcement and formwork for the



concrete frame, the brown roof, rainwater harvesting, curtain tracks to windows and builder's work in connection with engineering services installations.

- d. Additional preliminaries items associated with sub-contract packages and competitively tendered preliminaries packages not included within the original core costs, amounting to an additional sum stated in paragraph 7d of the closed report, including tower cranes and additional scaffolding.
  - e. Price increases and adjustments for inflation, amounting to an additional sum stated in paragraph 7e of the closed report.
  - f. Design development risk arising from sub-contractor design portions and risk register allowances, amounting to the sum stated in paragraph 7f of the closed report.
  - g. Allowance for insurances and overheads and profit (which are both a fixed percentage of works costs) at percentages given in paragraph 7g of the closed report, amounting to the sum also stated in paragraph 7g of the closed report.
38. A detailed reconciliation of Mott MacDonald's cost plan forecast and the proposed contract sum, with items grouped under the above headings, is included at Appendix 5 in the closed report.
39. Mott MacDonald has also advised that the following external factors have generally contributed the increased pricing levels currently being experienced:
- *Market factors.* Following four or five years of decline in the UK construction industry, demand has suddenly surged (including in the house building sector in London and the South East) at a time of low capacity, driving prices upward. The full extent of this upward cost pressure is uncertain, but some commentators indicate that it will exceed 10% per annum.
  - *Contractor size and capacity.* With the economic downturn, the number of contractors in the industry has declined, resulting in a greater percentage of work being awarded to fewer contractors, in particular large, well established contractors that provide a greater degree of financial stability. These contractors tend to place greater emphasis on issues such as health and safety, build quality and financial stability which gives rise to higher overheads.
  - *Two-stage tender process.* This brings benefits, including the early appointment of the contractor allowing the client to transfer a greater proportion of risk and input on buildability. The process tends to produce higher initial costs, but greater cost certainty in contract and lower outturn construction cost than the single stage process.
  - *Supply chain reliability.* Well-established building contractors tend to appoint supply chain partners of reasonable size that provide financial security and stability and are suitable resourced to meet the programme. Conversely, successful sub-contractors and staff are attracted to busier contractors where a higher remuneration package is offered.
  - *Scale of development.* There is a direct correlation between the size and cost of development. Generally, greater reductions in cost are found in larger schemes, where a more standardised and repetitive approach can be taken to achieve an economy of scale. Smaller schemes, in contrast, tend to be more bespoke and constrained by such factors as orientation, proximity to adjoining structures and difficult site logistics, and have a higher ratio of common areas to residential units, making them less economic and commercially attractive.

40. Notwithstanding Mott MacDonald's reconciliation analysis given above in paragraph 37 and in Appendix 5 of the closed report, or the external factors referred to in paragraph 39, exercises were conducted by Mott MacDonald at the request of council officers to establish whether Mansell's proposals represent value for money, taking into account project-specific factors.
41. In order to ascertain value for money, Mansell's proposed contract sum was compared by Mott MacDonald with the Building Cost Information Service (BCIS) benchmark rates (published by the Royal Institution of Building Surveyors) for the general needs housing and short stay accommodation elements, respectively, taking account of 'abnormals' (as listed in Appendix 6) and 6% construction price inflation in Q1 to Q3 of 2013, taken from BCIS Tender Price Indices (TPIs). The resultant value for money comparison is shown in the table in paragraph 10 of the closed report.
42. The calculations shown in the table under item 3, 'Value for Money Comparison', indicate that the difference between the BCIS Benchmark rates and the comparable rates derived from Mansell's proposed contract sum for the temporary accommodation hostel and general needs housing give a variance of 1.6% and 10%, respectively..
43. The 1.6% variance relating to the temporary accommodation hostel is considered by both Mott MacDonald and council officers to be within an acceptable range of the BICS Benchmark. The acceptability of the higher variance of 10% for the general needs housing, however, is considered below, in paragraphs 46 to 50, in further detail.
44. Mott MacDonald also conducted an independent value for money test of Mansell's supply chain, to check that the costs being offered reflected competitive market rates. Quotations for a sample of three of Mansell's tender packages, namely, Scaffolding, Tower Cranes and Brickwork, were obtained from alternative suppliers using Mansell's original sub-contract tender documentation to ensure a fair and equal assessment. A comparison of the quotations received with those received from Mansell are outlined in the table in paragraph 12 of the closed report and led to the conclusion that value for money was being achieved:
45. A key objective of the project has been to produce robust and well-designed solutions that provide for low maintenance and running costs. Close consultation has taken place throughout the design development stage with officers who have intimate operational knowledge and experience of the council's requirements, including from Specialist Housing Services, Maintenance and Compliance and Major Works. A value engineering workshop, attended by council officers together with Mott MacDonald and Mansell, was held to identify possible changes in specification and scope to produce cost savings without detriment to the finished quality of works. A provisional list of possible items with an estimated overall value stated in paragraph 13 of the closed report was identified. However, as many of these items require further exploration with supply chain providers once appointed, they have not been incorporated within the contractor's proposals at this stage.

## Conclusions

46. The project board, comprising the director of regeneration, head of specialist housing services, head of regeneration (housing regeneration and delivery) and head of regeneration (capital projects), have met to review the overall position. Although disappointed with the inaccurate forecast of construction cost, the board recognise that considerable time and effort has been expended subsequently by Mott MacDonald and Mansell in ultimately arriving at detailed design proposals and a contract sum analysis that have been developed with thoroughness. This in turn has kept risk items at a reasonable minimum and enabled appropriate allowances and arrangements to be made for their management.
47. The project board considered the value for money of the general needs housing element within the overall context of the project, in particular the possibility of re-tendering the works. The project board, however, was minded to recommend acceptance of Mansell's proposals, rather than enter into a fresh tendering process, for the following reasons:
- Re-tendering would incur significant programme delay (anything from six to twelve months depending on the procurement approach adopted), as well as abortive costs for design and management fees (estimate stated in paragraph 14 of the closed report) and prolonged alternative temporary accommodation costs (net estimate per annum stated in the closed report);
  - There is no certainty that costs will reduce if the project was competitively re-tendered, particularly in the current rising market;
  - The competitive price obtained for the temporary accommodation hostel element would be forfeited if re-tendered;
  - Time and effort spent by Mott MacDonald and council officers with Mansell in fully developing acceptable design proposals and on the control and management of risk would have to be re-established with a new contractor;
  - Knowledge and understanding of the council's quality expectations, particularly in respect of low maintenance costs would also have to be re-established with a new contractor; and
  - GLA funding in the sum stated in paragraph 14 of the closed report for the general needs housing (referred to below in paragraph 79) is subject to completing the construction by March 2015, in accordance with the current programme, failing which the funding will be lost.
48. In summary, the estimated cost to the council of retendering the works could amount to the sum stated in paragraph 15 of the closed report in abortive pre-construction fees, provision of alternative temporary accommodation and loss of GLA funds alone. This substantially outweighs a 10% VFM variance from the benchmark rate for the general needs housing, which is equivalent to the amount stated in paragraph 15 of the closed report. It is apparent, therefore, that costs to the council arising from retendering the works would considerably exceed the 10% VFM variance for the general needs housing referred to in paragraphs 10 and 11 of the closed report.
49. There has just recently been a change in technical policy regarding fire safety in hostels. Maintenance and Compliance now confirm that current policy is to install sprinkler systems in all hostels. Fire engineering requirements in the Employer's Requirements and Contractor's Proposals do not currently provide for a full sprinkler system in the hostel at Willow Walk. Mott MacDonald estimates that the cost of installing a sprinkler system would be the amount stated in paragraph 16

of the closed report. As there is insufficient time prior to the proposed award of contract in which to design and price the sprinkler system, it is proposed that a defined provisional sum as stated in the closed report be added to the proposed contract sum, based on Mott MacDonald's estimate. This increases the proposed contract sum as set out in the closed report. Mansell has agreed in principle to this adjustment.

50. Based on the foregoing evaluation, Mansell Construction Services Ltd has submitted acceptable Contractor's Proposals for the main works package and their price, as adjusted in paragraph 16 of the closed report is, therefore, recommended for acceptance.

**Plans for the transition from the old to the new contract**

51. Not applicable.

**Plans for monitoring and management of the contract**

52. The project clienting, including the management and administration of the consultant and contractor appointments, will continue to be run and resourced through the Capital Projects Team programme office from within Regeneration. Progress with the contract works and performance of the consultant team will be subject to constant scrutiny and monthly formal review, including cost, programme and quality. An experienced officer client team will use a number of mechanisms for monitoring and controlling the financial and programme performance of the contract, including:

- Strategic cost plan, which will be regularly reviewed and updated
- Monthly financial statements by the consultant quantity surveyor/contractor
- Monthly appraisals of progress against the contract programme
- Monthly progress reports by:
  - The lead consultant
  - Main contractor
  - Other design consultants
- Monthly progress meetings on site
- Daily tracking and chasing action on critical issues
- Monthly 'look ahead' meetings with principals / directors
- Periodic project team 'look ahead' workshops covering key phases of work and risks
- Risk and issues log

53. The project sits within the Directly Funded Housing Delivery Programme, which is overseen by the Housing Investment Board chaired by the strategic director of finance and corporate services.

**Identified risks for the new contract**

54. An assessment of risks and mitigation measures has been conducted, as follows:

	<b>RISK</b>	<b>RISK LEVEL</b>	<b>MITIGATION ACTION</b>
1	Award of contract delay disrupts pre-ordering programme	Low	Adhere to procurement timetable. Allow provision within contract sum for cancellation

	<b>RISK</b>	<b>RISK LEVEL</b>	<b>MITIGATION ACTION</b>
			charges and costs.
2	<p>Construction delays on site due to:</p> <ul style="list-style-type: none"> <li>• Hidden obstructions below ground</li> <li>• Contamination below ground</li> <li>• Discovery of antiquities</li> <li>• Unexploded bombs</li> </ul>	Low	Desktop studies and non-intrusive surveys have been undertaken to anticipate and plan for potential hazards on site. Investigation and remediation works undertaken in enabling works contract have de-risked the site in readiness for the main contract works.
3	Construction delays on site and additional costs	Low	Pre-order components with long delivery period. Ensure that site operations are thoroughly and realistically planned by the contractor, prior to commencement of the works. Allow appropriate contingency provision in the programme to cover possible loss and expense claims arising from delay and disruption of the works. Include Liquidated Damages for non-completion of contract by the contractor.
4	Financial position of contractor deteriorates in the current economic climate, putting completion of the project in jeopardy.	Low	Obtain parent company guarantee. A recent check of the financial standing of the works contractor and parent company, indicates "below average risk" and "very low risk", respectively.
5	Significant design and/or latent defects emerge post completion.	Low	Quality control regime to be put in place. Clerk of works to be employed.
6	Default by key subcontractor/supplier.	Low	A select list of well established sub-contractors by trade maintained by the main contractor, which includes financial health checks and performance monitoring.
7	Belated, uncoordinated or contradicting client instructions.	Low	Ensure effective forward planning, communications and co-ordination with all relevant parties to the decision-making process.
8	Failure of contractor to co-ordinate effectively with statutory undertaker gives rise to programme delay.	Low	Contractor to maintain early dialogue with utilities companies to ensure compliance with their technical requirements and lead-

	<b>RISK</b>	<b>RISK LEVEL</b>	<b>MITIGATION ACTION</b>
			in times.

### **Community impact statement**

55. This scheme falls within the Grange Ward. The redevelopment of this site will benefit homeless families in temporary accommodation throughout the borough by providing better quality accommodation and increase the supply of affordable, good quality homes and benefit households in need from all Southwark's communities.
56. Those living in the vicinity of the new development may experience some inconvenience and disruption in the short-term while works are taking place but the community as a whole will benefit in the longer term from the new accommodation provided by this development. The effects will be eased, in part by working closely with residents on the delivery process, and also through the specific planning requirements to mitigate the effect of development.
57. The contractor will carry out the works under the Considerate Contractor scheme, which seeks to minimise disturbance and disruption to people in the locality.
58. The 23 October 2012 cabinet report proposed that a proportion of the new properties in each development are made available to existing tenants living on an estate within an agreed boundary. This matter is being addressed in the Letting Policy review on the assumption that the proportion for local lettings shall be 50% of the homes for rent in each scheme, including Willow Walk and that rehousing will result in a property being released for reletting.

### **Economic considerations**

59. The provision of local employment and training by Mansell Construction Services Limited are a condition of planning consent for the development. Arrangements for implementation are being made in liaison with relevant council officers in the economic strategy and partnerships division of corporate services, and will be monitored thereafter.
60. Construction personnel and, once occupied, residents and occupants are likely to bring economic benefit to local traders through increased trade.

### **Social considerations**

61. The appointed professional works contractor will pay its employees and sub-contractors not less than the current London Living Wage levels.
62. There are no other particular social considerations in connection with this procurement.

### **Environmental considerations**

63. Both the temporary accommodation hostel and the general needs housing have been designed, within the bounds of affordability, to maximum energy efficiency and to comply with the latest council environmental sustainability policies. The specification for the project includes measures aimed at achieving a 20%

renewable energy target. A number of passive and active energy friendly features are incorporated in the design. These include a standard of thermal insulation that exceeds regulatory requirements, photovoltaic electricity producing panels and rainwater recycling.

64. The hostel design and construction is being rated under the Building Research Establishment Assessment Method (BREEAM) with the aim of achieving a 'very good', if not 'excellent' standard.
65. The design and construction of the general needs housing is required to achieve 'Code for Sustainable Homes Level 4' as a condition of the planning consent.
66. Both BREEAM and Code for Sustainable Homes requirements cover design and specification and set targets for minimising the adverse environmental impact of carrying out the works.
67. It should be noted that an improvement of 25% over the Target Emission Rate (TER) as determined by the 2010 Building Regulation Standards is required to achieve the Code for Sustainable Homes Level 4.
68. There is an aim to demonstrate exceptional environmental performance of all new developments under the 1,000 council homes programme. This includes designing energy-efficient developments using long-lasting building materials and reducing water consumption.

#### **Market considerations**

69. The successful tenderer is a private organisation.
70. The successful tenderer has over 250 employees.
71. The successful tenderer has a national area of activity.
72. The planning consent requires the contractor to provide the following employment and training opportunities:
  - Placement of a minimum of five unemployed Southwark residents into sustainable construction jobs;
  - Construction Skills Certification training for a minimum of five unemployed residents;
  - Training for a minimum of two unemployed residents per annum using short courses; and
  - Provision of a minimum of one NVQ-level qualification.
73. Initial discussions have take place between the contractor and relevant council officers in the economic strategy and partnerships division of corporate services on detailed proposals for implementation on award of the main works contract, which is anticipated on 28 January 2014.

#### **Staffing implications**

74. The project is being resourced by existing staff.

75. Officer time relating to the management of this project is funded from existing revenue budgeted resources. Consideration will be given to an alternative treatment dependant on the current accounting rules and regulations. Should any of the revenue costs be allowable as capital costs, these will be included within the expenditure to be set against the existing approved capital programme budget.
76. There are no specific implications other than those covered elsewhere in this report.

### **Financial implications**

77. The financial breakdown for the temporary accommodation hostel and general housing project arising from the main works contract is stated in paragraph 18 of the closed report.
78. As detailed in the table, the scheme includes 2 elements, the general needs housing and the short stay accommodation. There is a range of funding sources. The general needs housing is eligible for funding from the Affordable Housing Fund, which is made up of payments from developers in lieu of affordable housing provision, and a proportion of Right to Buy receipts. Although both the general needs housing and the short stay accommodation will meet affordable needs, the S106 agreements that secured the in lieu payments preclude their use for non self-contained accommodation which the hostel will provide. The amount stated in paragraph 19 of the closed report on the HRA side of the current Housing Investment Programme will provide the majority of the funding for the hostel and a capital bid for the remainder of the funding required has been included in the Q3 report on the capital programme to cabinet. A capital bid is also being submitted to meet the forward funding of the costs for the general needs housing element of this project. In addition, a bid was made under the Mayor's 'Building the Pipeline' programme and an amount stated in the closed report has been secured for the general needs housing subject to the agreement of contractual terms. The GLA funding will be conditional upon completing construction works by March 2015.
79. The annual cashflow forecast for the main works contract that would result from an approval of the recommendations of this report, is stated in the financial implications of the closed report.
80. The decision to progress with the scheme should be seen in terms of the commercial context. The head of property estimates the current market value of the freehold interest in the Willow Walk site, with full vacant possession, to be in the region of the amount stated in paragraph 22 of the closed report. This valuation is based upon a hypothetical private 'for sale' residential scheme with the appropriate percentage of affordable housing as required under current planning policy. It is also fully planning policy compliant in other respects e.g. densities and heights being similar to the actual scheme being proposed by the council. Build cost assumptions are appropriate to the wider development market and not the actual costs relevant to the council scheme. Residual valuations are dependant on the inputs fed into the calculation and can fluctuate significantly with adjustments to sales rates / m2 and/or build costs. The disposal value as caveated, needs to be viewed in the context of the recommendation to proceed, as a potential capital receipt foregone, albeit mitigated by the cost of remediation and planning risk etc. It should also be used as the basis of the calculation of the



pro rata opportunity cost as recommended by the head of specialist housing services below.

### **Second stage appraisal (for construction contracts over £250,000 only)**

81. A check of the financial standing of Mansell Construction Services Ltd (i.e. the contracting organisation) and the parent company, Balfour Beatty plc, was checked in January 2014.

### **Legal implications**

82. The legal implications are addressed in paragraphs 95 to 97, below.

### **Consultation**

83. Public consultation has been undertaken in support of the planning application and will continue throughout the life of the project.
84. Officers from housing management and temporary accommodation were consulted in developing the project brief for the general needs housing and temporary accommodation, respectively.

### **Other implications or issues**

85. A parent company guarantee will be provided by the Balfour Beatty plc in respect of the contracting subsidiary, Mansell Construction Services Limited for the main works contract.
86. Mansell Construction Services Ltd is included on the council's approved list of contractors.
87. A lessons learned workshop took place with Mott MacDonald and council officers at the end of October 2013 so that experience gained from the Willow Walk pre-construction stage informs improvements in the management of subsequent Phase 1 projects. Key actions include greater interaction with the contractor during design development, packaging and pricing to ensure a more strategic approach aimed at improved cost control, time for value engineering where needed and for risk mitigation.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Head of Procurement**

88. This report is seeking approval to award the main construction works contract for the Willow Walk project to Mansell Construction Services Ltd. This award relates to the second stage of the two stage Design and Build contract and will deliver the actual works required for the Willow Walk project.
89. The report focuses on the award of the second stage and not the actual appointment of Mansell as this was the subject of a previous gateway report. The report does however highlight some emergency work that was undertaken as part of the enabling works. These works related to contaminated soil and were unforeseen, however the report confirms that the remediation operation will help de-risk the main works contract and provide better cost certainty going forward.

90. Paragraphs 28 – 31 describe the procurement activity that has been undertaken which has resulted in the award recommendation for the main works contained in this report. Paragraphs 33 – 50 of the report describe how Mott Macdonald has worked with Mansell to develop further the council's requirements and secure detailed costs for the works required.
91. The report highlights that there was an underestimation of pre tender estimate for the works required. Mott Macdonald has provided both project specific and more general reasons for how such a variation can occur. The report also describes the approach that has been taken to ensure that value for money is being achieved.
92. Paragraphs 46 – 47 confirm that the project board has reviewed the process undertaken and the results achieved and are satisfied that the contract provides value for money and the project should proceed as planned.
93. The monitoring and management arrangements for both the whole project and the main works contract are contained in paragraphs 52 – 53.
94. This project is part of a wider programme to deliver new council homes. Paragraph 87 of the report confirms that the procurement approach taken on Willow Walk was the subject of a lessons learned workshop and the experience gained will help inform procurement decisions for the remaining projects to be delivered.

#### **Director of Legal Services**

95. This report seeks the chief executive's approval to the award of the main works contract at Willow walk to Mansell Construction Services Limited as further detailed in paragraph 1. Whilst at this value approval of the gateway 2 would usually be a cabinet decision, this award decision was delegated by the Leader to the chief executive in October 2013.
96. The scope and value of this contract is such that it is subject to the procurement requirements of the EU Regulations, and therefore should be subject to the full tendering requirements of those regulations. However the IESE framework (through which this appointment is being procured) was set up following an EU compliant tendering process, and therefore tendering through this framework satisfies the EU requirements. As noted in paragraph 15, appointment is in stages. Firstly appointment for pre-construction services, which was approved in December 2012 following mini-competition through the framework. In parallel to this the contractor has also undertaken enabling works to prepare the site for construction. This gateway report relates to the final stage and appointment for the contractor to undertake the main contract works to construct the proposed development. The nature of this staged process through the framework means that the council can appoint Mansell to undertake the main works without a further process of tendering provided that it is satisfied that value for money is achieved. Paragraphs 46-50 note the value for money appraisal undertaken and officer's conclusion that this award should be agreed.
97. Contract standing order 2.3 requires that no steps may be taken to award a contract unless the expenditure involved has been included in approved estimates, or otherwise approved by the council. Paragraphs 77-80 confirm the resource implications for this appointment.

**Strategic Director of Finance and Corporate Services (CAP13/073)**

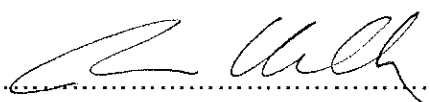
- 98. This report is seeking approval from the chief executive to award the new temporary hostel accommodation and general needs housing contract at Willow Walk to Mansell Construction Services at a cost of £11,696,129.
- 99. The financial implications indicate that the costs of the contract is expected to be funded from a combination of budgets currently in the capital programme and additional capital funding to be approved by cabinet as part of the Quarter 3 capital monitoring report. If however, the new capital bids are not approved, then alternative sources of funding will need to be identified.
- 100. It is noted that once the funding is approved, the budgets will be profiled in line with expected spend for effective monitoring and reporting of the overall project costs.
- 101. Staffing and any other costs connected with this contract to be contained within existing departmental revenue budgets.

**Head of Specialist Housing Services**

- 102. The Head of Specialist Housing Services supports this initiative which makes the most productive use of the land hitherto used to provide only 35 units of poorer quality temporary accommodation.
- 103. There are no leaseholder statutory consultation requirements relating to this procurement.
- 104. Secure tenants allocated the general needs accommodation will have the Right to Buy if they meet the normal qualification criteria; however the 'cost floor determination' rules are such that the purchase price may not be discounted below a level which is less than the cost of providing the accommodation in the first 15 years of its life. It is therefore imperative that the contract costs are broken down to show the cost per unit of the general needs provision AND that the (opportunity cost of the) land value is added to the building cost.
- 105. Paragraphs 3 to 6 of this report sets out the urgent need for more hostel accommodation: 2014/15 will see an increase in the general fund (bed and breakfast) budget of some £2m pa because of the increase in homeless households and the decreasing number of temporary accommodation units. The provision of hostel units moves the financial burden from the general fund to the HRA where the weekly rental translates into a 9 – 10 year pay back period for the gross building costs.

**FOR DELEGATED APPROVAL**

Under the powers delegated to me in accordance with the council's contract standing orders, I authorise action in accordance with the recommendation(s) contained in the above report.

Signature .....  ..... Date 23/1/14

Designation ..... Chief Executive .....

## BACKGROUND DOCUMENTS

Background documents	Held At	Contact
Project records	Property Services, Regeneration, 160 Tooley Street, SE1 2QH	Andrew Brown – 020 7525 5538

## APPENDICES

No	Title
Appendix 1	Site Location Plan and Images of the Proposed Development
Appendix 2	Project procurement programme

## AUDIT TRAIL

<b>Lead Officer</b>	Stephen Platts, Director of Regeneration	
<b>Report Author</b>	Andrew Brown, Head of Regeneration – Capital Projects	
<b>Version</b>	FINAL	
<b>Dated</b>	15 January 2014	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Head of Procurement	Yes	Yes
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Head of Specialist Housing Services	Yes	Yes
Cabinet member for regeneration and corporate strategy		
<b>Contract Review Boards</b>		
Departmental Contract Review Board	Yes	
Corporate Contract Review Board	Yes	
<b>Cabinet</b>	Yes/No	Yes/No
<b>Date final report sent to Constitutional Team</b>		15 Jan 2014