

Item No.	Classification: Open	Date: 13 December 2017	Decision Taker: Strategic Director of Housing and Modernisation
Report title:		Gateway 2 - Contract Award Approval Works Contract for the New Homes Delivery programme – 95a Meeting House Lane	
Ward(s) or groups affected:		Livesey	
From:		Director of Asset Management	

RECOMMENDATION(S)

The Strategic Director of Housing and Modernisation:

1. Approves the award of works contract for 95a Meeting House Lane to ENGIE Regeneration Ltd in the sum of £7,296,533, commencing Monday 22th January 2018 for a period of 82 weeks from site possession. The Strategic Director of Housing and Modernisation should note the contractor's change of name as set out in paragraph 9 of this report.
2. Notes the total scheme costs of £8,552,680 noted in paragraph 61

BACKGROUND INFORMATION

3. Planning permission was granted in May 2017 for 29 flats for council rent and a community hall.
4. The planned procurement strategy was the subject of a Gateway 1 report which was approved by the Strategic Director of Housing and Modernisation on 6th June 2016.
5. The Gateway 1 recommended procuring these works following the OJEU restricted procedure.
6. The procurement strategy relates to the council's 11,000 new homes programme.
7. The tender is sought for a JCT Design & Build Contract 2011 based on Southwark's Employers Requirements and the Stage 4 scheme design.
8. The works contract will be for a fixed period of 82 weeks from date of the transfer of site possession from the council to the contractor.
9. On 27 July 2017, Keepmoat formally changed its name via Companies House to ENGIE Regeneration Limited. A copy of the change of name certificate is attached in Appendix 1. However, the tender was submitted in the former name of Keepmoat Regeneration Limited.

Procurement project plan

10. See table below:

Activity	Completed by/Complete by:
Approval of Gateway 1: Procurement Strategy Report	06/06/16
Invitation to tender	10/08/17
Closing date for return of tenders	06/10/17
Completion of evaluation of tenders	26/10/17
DCRB Review Gateway 2:	27/11/17
Approval of Gateway 2: Contract Award Report	15/12/17
Contract award	03/01/18
Add to Contract Register	03/01/18
Publication of award notice on Contracts Finder	18/01/18
Contract start	22/01/18
Contract completion date	19/08/19

KEY ISSUES FOR CONSIDERATION

Description of procurement outcomes

11. The procurement has enabled one contractor to be selected who will deliver construction works in line with the planning approval for 29 new homes and a community hall. This new homes are part of the council's 11,000 new homes programme.
12. The contract value is considered to represent value for money. The build cost per square metre equates to approximately £2,710 /sqm which is considered value for money and compares favourably with other projects within the 11,000 new homes programme. The sum is also below the pre-tender cost estimate for the works (estimated by Quantity Surveyor Bailey Garner) of £7,388,221.

Key/Non Key decisions

13. This report deals with a key decision

Policy implications

14. The 29 new homes at 95a meeting House Lane are in line with the council's principles and visions for a new housing strategy which is aimed at increasing the availability, affordability and quality of homes in the borough. The new homes will play a key role in assisting the council to achieve its target of building 11,000 new homes by 2043 and 1,500 by 2018.

Tender process

15. The works contract has been procured via the EU restricted procedure that follows two stages, Pre-Qualification (PQQ) followed by Invitation to Tender (ITT).
16. Following advertisement through the OJEU and the London tenders portal 10 contractors responded to the pre qualification questionnaire and 5 contractors were invited to tender in accordance with the guidance in the invitation to tender.
17. The tendering exercise was undertaken using the council's E Procurement portal, Pro Contract 3.
18. The closing date for the pre qualification questionnaire was 07/06/17. The closing date for the tenders was 06/10/17. The tenders were reviewed on 12/10/17. Three of the five firms invited to tender submitted a tender. Of those whom did not submit a tender, the reasons given were due to the complexity of the scheme and the type of contract (single stage Design and Build).
19. The pre qualification questionnaire and the quality section of the subsequent tenders were evaluated by two LBS officers and a representative from Bailey Garner (appointed as Employers Agent for the project). A consensus scoring method was used during this evaluation.
20. The price and contract sum analysis were examined by Bailey Garner (appointed as Quantity Surveyor for the project). Financial checks on each tenderer were completed by the council's Finance department.

Tender evaluation

Pre Qualification Questionnaire

21. The pre qualification questionnaire included a quality assessment that focused on the following:
 - a. Experience
 - b. Quality and Value for Money
 - c. Community Engagement
22. The results of the scoring of the tenderers is available in the closed version of this report. In Summary; The top 5 scoring tenderers shortlisted and invited to ITT stage; The lowest scoring 5 contractors were not invited to ITT stage.

Invitation to Tender

23. As stated in the Gateway 1 report the most economically advantageous tender (MEAT) was adopted with a 60/40 price/quality split.
24. Tenderers were required to provide information to support their quality submission that demonstrated their ability to fulfil the requirements of the contract, the questions asked were focused around the following:
 - a. Quality, Innovation and Value for Money
 - b. Constraints and Delivery

c. Defects, Quality and Future Maintenance

25. The questions within the quality assessment were detailed in the tender evaluation assessment criteria included within the tender documents.
26. Tenderers were required to provide a contract sum and a contract sum analysis, which was scrutinised by the Employers Agent/ Quantity Surveyor.
27. 3 out of the 5 contracts at ITT stage submitted tenders.
28. All tenderers met the quality threshold scores in accordance with the evaluation assessment criteria and therefore none of the tenders were excluded. The successful tenderer was Keepmoat Regeneration Ltd.
29. The successful tenderer submitted a contract sum of £7,296,533 after any adjustments.
30. A full breakdown of the quality and cost scores for all tenderers is available in the closed version of this report.

Plans for the transition from the old to the new contract

31. Not applicable

Plans for monitoring and management of the contract

32. The project clienting, including the management and administration of the contractor appointment will be run and resourced through the New Homes Delivery Team in the Asset Management Division of the Housing & Modernisation Department. Performance of the consultant team will be subject to constant scrutiny and monthly formal review including reviews on cost, quality and programme. The 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 site meetings and monthly progress reports
 - Monthly financial statements by the contractor and verification by the Employers Agent
 - Monthly appraisals of progress against programme
 - Tracking and chasing actions on critical issues
 - Periodic project team 'look ahead' workshops covering key phases of work and risks
 - Risk and issues log
33. Payment will be made monthly on the basis of a valuation that has been verified and agreed by the Employers Agent.
34. Internal governance arrangements for the programme were reported to cabinet in December 2014. These confirmed that ultimate responsibility for the overall programme resides with the Delivery Programme Board, chaired by the Strategic Director of Housing & Modernisation

Identified risks for the new contract

RISK		RISK LEVEL	MITIGATION ACTION
1	Contractor has inadequate resources and management arrangements to mobilise and deliver the contract	Low	Contractors ability to resource and mobilise for the project has been tested through the procurement of this contract.
2.	Contractor risk of insolvency	Low	The New Homes Delivery Team has undertaken a credit check and are satisfied that the credit scoring is satisfactory. The Finance department have also undertaken financial checks and are satisfied with the financial standing of the company. NHBC insolvency cover has will be obtained by the contractor; in addition a performance bond / guarantee for this project will be sought.
3.	Project cost overruns	Low	The form of contract used for this project is a JCT Design and Build contract which means that the contract sum is inclusive subject to any provisional sums and future variations. All surveys have been carried out which should help mitigate against there being any unforeseen site conditions or abnormal. Any future variations will be fully scrutinised, justified and costed by the Employers Agent prior to instruction. Value engineering will take place where necessary to ensure that the budget is achieved. A contingency has been included in the overall costs as detailed below in paragraph 61.
4.	Project delivery delays resulting from discharge of planning conditions and liaison with third party organisations.	Medium	The new homes delivery team will assist where possible with liaison with third parties to help mitigate delays, particularly any which may result from the discharge of planning conditions or necessary approvals from within the council. Reliance on utility companies remains a risk, particularly in relation to the relocation of the electrical substation. However the tender process tested the contractors experience in delivering construction projects, relying on successful liaison with third party organisations.
5.	Project delivery delays (general)	Medium	Liquidated Ascertained Damages sums have been included as part of the contract and will be claimable should

			the project overrun without any justification. Any extension of times will be fully scrutinised, justified and costed by the Employers Agent prior to agreement. Project progress will be monitored and slow progress will be addressed in the monthly project meetings.
6.	Contractor seeking further negotiations on contractual terms prior to entering into contract.	Low	A standard JCT works contract is being utilised, with the council's amendments to the terms clearly set out from the start of the tender process. The tender documents and clarifications during the tender process have been robust and clearly define the terms of the contract.

35. A performance bond/guarantee will be provided for this contract.

Other considerations (Design Specification Compliance)

36. Southwark council has standard specifications in a number of areas of work and these will be used as appropriate. This will include using Southwark Housing Design Standards.

Community impact statement

37. Southwark is a borough with high levels of deprivation, low income levels and high levels of housing need. Southwark's housing Strategy 2009-16 identified that there is a shortage of affordable housing in the borough, particularly of larger homes. Households from black and ethnic minority communities tend to be over-represented among those living in overcrowded, poor quality housing.

38. Cabinet agreed a new vision for Southwark through its 2013 to 2043 housing strategy which included a principle to use every tool at our disposal to increase the supply of all kinds of homes across Southwark.

39. The proposals to increase the supply of affordable, good quality homes will benefits households in need from all Southwark communities, and will increase the housing options available for older people and people with disabilities.

40. Those households in the vicinity of the new developments may experience inconvenience and disruption in the short term, whilst works are taking place but such communities will benefit in the longer term from the provision of new homes. Particularly as 50% of these homes will be let to existing tenants from the local area subject to an agreed local lettings policy.

41. This development will provide the additional benefit of a new community facility. This will provide a flexible space in which to hold community events, classes and meetings. The exact management arrangements are currently being agreed but it is likely to involve the Acorn Estate Tenants and Residents Association.

42. Local residents will continue to be consulted at each stage of the development proposals as outlined in the Charter of Principles agreed by cabinet in November 2014.

Social Value considerations

43. The Public Services (Social Value) Act 2012 requires the council to consider a number of issues including how what is proposed to be procured may improve the economic, social and environmental well-being of the local area. These issues are considered in the following paragraphs which set out economic, social and environmental considerations.
44. The councils approach to procurement of design, development and construction process will ensure a requirement to maintain and improve the sustainability of each tendered project.
45. A low energy, efficient and cost effective building engineering services design that keeps running costs to a minimum will be an essential component of the project brief. Key considerations will include;
- Consideration of whole life-cycle costs
 - Sustainable sourcing
 - Incorporation of environmentally benign heating and lighting provision
 - Provision of facilities and equipment to encourage the re-use and recycling of materials including, where practical, water recycling.
 - Ensuring projects achieve Code of Sustainable Homes criteria or any successor requirement.
46. The appointed contractor will be participating in a local employment and training initiative in line with Southwark Economic Wellbeing Strategy 2012-20. The initiative will generally conform to any Local Government policy including requirements set-out by the Homes and Community Agency and/or Greater London Authority that generally will encompass the Contractor, wherever possible, being encouraged to employ local subcontractors and labour and shall involve the training and employment of local people. Such employment and training will be relevant to the needs of the local community.

Economic considerations

47. The design briefs for the new homes will be developed in consultation with the 'user client' officers and make it clear that the council is seeking developments that are not only attractive and functional in their design but also durable and easy to maintain with low running costs.
48. The council is an officially accredited London Living Wage (LLW) Employer and is committed to ensuring that, where appropriate, contractors engaged by the council to provide works or services within Southwark pay their staff at a minimum rate equivalent to the LLW rate. The 11,000 new homes programme is a strategically important undertaking for the council and its benefits are expected to be realised in a number of ways, including the recruitment of qualified staff, retention of staff and an improved service delivery to the council. Due to the nature of the professional service being sought those employed will be paid in excess of the LLW. Each firm has agreed to this in section 2.2 of the contract amendments issued with the tender.

Social considerations

49. The new housing will provide high quality affordable housing for local people in need of accommodation. 50% of these homes will be made available to existing tenants in the local area based on an agreed local lettings policy. The remainder will be made available to other households in need of accommodation from the council's housing register.
50. The new rented homes will be let at social rent levels.
51. Apprenticeship and work placement opportunities will be sought from suppliers as expected by the council linked to the value of the contract. It is anticipated that at least 7 apprenticeship opportunities will result from this contact.

Environmental considerations

52. By investing in high quality and well designed buildings and estates the Council aim to achieve positive impacts which will benefit the environment and increase the stock of environmentally friendly buildings within the borough.
53. As part of the design development process, there will be a requirement for environmental assessments to be completed, with a view to identifying what impact would be caused by any proposed development.
54. The development secured planning permission on the basis of meeting the current environmental standards in relation to carbon reduction and on site energy production. The development demonstrates a reduction in carbon emissions by more than the 35% reduction (baselined from the 2011 building regulations) as required by the London Plan.

Market considerations

55. The market for construction services is good. Of the 10 firms that expressed an interest in the project at SQ stage, 5 were invited to tender and 3 subsequently provided a bid. This level of response is considered to be satisfactory.

Staffing implications

56. There are no specific staffing implications to this report.

Financial implications

57. The value of the contract arising from the procurement described in this report is £7,296,533, which form part of a wider programme. The project will also have associated on costs of £1,256,147, as detailed in the table below (61), which gives a total scheme cost of £8,552,680.
58. The cost of delivery of new Council rented homes, based on apportionment by floor area, is £8,114,244. The residential element of the project can be funded 30% from Right to Buy (RTB) receipts allocated for new build and 70% from developer contributions under section 106, the latter subject to Planning Committee approving allocations to the relevant schemes.
59. The cost of delivery of new community hall, based on apportionment by floor area, is £438,436. The community hall element of the project is to be funded through Capital funds, of which £1,500,000 were agreed by Cabinet on 18th March 2014 to fund a community facility on the Acorn Estate.

60. The following tables show the breakdown of the total scheme costs and estimated apportioned costs of the residential and community hall elements:

Total Scheme Cost Breakdown		
Works	£	7,296,533
Consultancy Fees	£	378,123
Surveys	£	69,800
Site Security	£	10,000
Planning Payments	£	141,536
Internal Fee (4%)	£	291,861
Contingency (5%)	£	364,827
Total	£	8,552,680

Residential/Community Hall Cost Apportioned by Area			
Residential	2554 sqm	£	8,114,244
Community Hall	138 sqm	£	438,436

Investment implications

61. The costs of this contract will be charged to the respective project cost programmed in the capital allocation for new homes delivery budgeted within the council's Housing Investment Programme.

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

62. A MINT credit check has been undertaken, the details of which are available in the closed version of this report.

63. In line with the requirements of the Contract Standing Orders, this report confirms that a restricted OJEU tender process was undertaken and that adequate financial provisions to fund the expenditure associated with the delivery of this project are set out in the paragraphs 59 and 60 of this report. There are no other specific legal implications.

Legal implications

64. Please refer to paragraph 73-77 of this report for the legal concurrent.

Consultation

65. Local residents have been consulted throughout the design stage of the project and will continue to be consulted through a range of methods through each stage of the development, as outlined in the Charter of Principles agreed by Cabinet in November 2014.

Other implications or issues

66. Not applicable.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

67. This report is seeking approval for the award of a design and build contract for 95a Meeting House Lane.
68. The report confirms that the procurement strategy set out in the previously approved Gateway 1 report has been followed, namely a two-stage EU restricted procedure.
69. The report describes the evaluation process that was carried out and that the successful contractors tender submission has been evaluated in line with the methodology detailed in the Gateway 1. The build cost of £2,710 per square metre represents good value for money and compares well with other projects of a similar nature.
70. The timetable for completing these works is tight but achievable if sufficient resources are applied by the contractor and they manage third-party organisations involved in the delivery such as the utility companies effectively.
71. The report confirms that the New Homes Delivery Team in conjunction with the consultant team will ensure that robust monitoring mechanisms are established, in relation to the financial and program performance of the contract.

Director of Law & Democracy

72. The Director of Law and Democracy notes the contents of this report which seeks the approval of the Strategic Director of Housing and Modernisation to the award of a works contract for 95a Meeting House Lane to ENGIE Regeneration Limited, formally known as Keepmoat Regeneration Ltd.
73. On the basis of the information contained in this report it is confirmed that this procurement was carried out in accordance with the Public Contracts Regulations 2015 and the council Contract Standing Orders (CSOs).
74. The council has a duty to ensure that the procurement achieves best value in accordance with the Local Government Act 1999. Paragraph 12 of this report confirms that the contract is considered to represent value for money. A contract award notice will need to be posted in the OJEU within 48 days of the award of the contract.
75. As part of the contract award process, there will need to be a standstill period of a minimum of 10 calendar days between notification of the successful tenderer that they have won the contract and the award of the contract to that tenderer, so as to allow unsuccessful tenderers the opportunity to challenge (if they decide to) the award of the contract.
76. CSO 2.3 provides that a contract may only be awarded if the expenditure has been included in approved revenue or capital estimates or has been otherwise approved by, or on behalf of the council. Paragraphs 79 of this report confirms how the proposed contract will be funded. Paragraph 80 states that costs should be

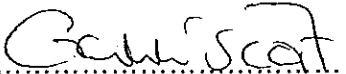
carefully monitored and that accurate forecasting should be in place to minimise adverse impact on the housing investment programme.

Strategic Director of Finance and Governance (H&M16/020)

77. The report is requesting delegated approval from the Director of Housing and Modernisation to award the new build works contract for 95a Meeting House Lane to ENGIE Regeneration Ltd in the sum of £7,296,533.
78. The report identifies the total costs of works including fees and contingency to be £8,552,680 of which £8,114,244 relates to the delivery of new homes and the remaining £438,436 to the delivery of a new community hall. The financial implications of the report states how the scheme will be funded, and it is noted that the residential units will be funded from RTB and S106 funds and the community hall from other HRA resources. Any other costs connected with this contract are to be contained within the existing department revenue budgets.
79. There is an estimated resource shortfall for the Housing Investment programme for 2017/18 and also over the life of the whole programme. There is also likely to be further demand on the capital programme as a consequence of local or national demands for resources following the Grenfell fire. While there is no immediate risk of funding for this project, it is important that the cost of these works is carefully monitored and that accurate forecasting is in place to minimise the risk of any adverse impact on the housing investment programme overall.
80. Any variation or extension to the contract beyond the scope of this report will require further approval in line with the Council's procurement protocols.

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..... 21.12.2017 .
Gerri Scott, Strategic Director of Housing and Modernisation

BACKGROUND DOCUMENTS

Background documents	Held At	Contact
GW1 Contractor Procurement – Over OJEU	160 Tooley Street, SE1	Tim Bostridge

APPENDICES

No	Title
Appendix 1	ENGIE Regeneration Ltd Change of Name Certificate

AUDIT TRAIL

Lead Officer	Dave Markham, Direct of Asset Management		
Report Author	Simon Masters, Project Co-ordinator		
Version	Final		
Dated	13 December 2017		
Key Decision?	Yes		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title	Comments Sought	Comments included	
Strategic Director of Finance and Governance	Yes	Yes	
Head of Procurement	Yes	Yes	
Director of Law and Democracy	Yes	Yes	
Cabinet	N/a	N/a	
Date final report sent to Constitutional Team			21 December 2017