

Item No. 28.	Classification: Open	Date: 24 March 2020	Meeting Name: Cabinet
Report title:		Gateway 1 Procurement Strategy Approval MMC Contractor Services for the New Homes Roof Top Developments and Associated Works (Framework)	
Ward(s) or groups affected:		All wards	
Cabinet Member:		Councillor Leo Pollak, Social Regeneration, Great Estates and New Council Homes	

FOREWORD – COUNCILLOR LEO POLLAK, CABINET MEMBER FOR SOCIAL REGENERATION, GREAT ESTATES AND NEW COUNCIL HOMES

Southwark’s ambition to bring forward is now gaining pace, with consultations starting at a number of estates across the borough, and with an initial pipeline of several hundred council homes to be built this way in the year ahead. This follows our adoption late last year of key development principles for rooftop building, designed to maximise the benefits and minimise the impacts to residents. The first of these principles is to carry out as much of the building work off-site in factory settings, and to then crane near-completed homes onto adapted blocks, to minimise the period of on-site construction and any inconvenience to residents. This procurement report provides a key route to delivering rooftop housing against this principle, with a new modular framework for building off-site housing from the London Housing Consortium offering a number of established quality approved building factories serving London and the South east.

While much of the work will take place off-site and often outside the borough, we will be applying our fairer future procurement framework to these procurement exercises to ensure the best labour standards and maximum community benefits from each project. We will also be evaluating on the basis of the quality of resident liaison that contractors offer to ensure as smooth and responsive a construction process as is possible, with the needs of residents living in the host block given highest priority.

Our aspiration is for several dozen structural sound flat roof blocks to see durable manageable high quality upward extensions, delivering hundreds (and potentially thousands) of new council homes. These homes will not only preserve the embodied energy of existing buildings, but offer a new way of regenerating estates, bringing new investment to existing blocks and communal spaces, with no infill, no demolition, and no mandatory rehousing.

RECOMMENDATIONS

That cabinet:

1. Approves the procurement strategy in relation to the procurement of a delivery partner for roof top developments, other modular opportunities, and associated works through a single Modern Methods of Construction (MMC) delivery partner through the use of the LHC Offsite Construction of New Homes Framework.
2. Approves the delegation of the award decision for the Gateway 2 reports for the Delivery Agreement and all individual project contracts to the Strategic Director of

Housing and Modernisation, in consultation with the Cabinet Member for Social Regeneration, Great Estates and New Council Homes, for the reason outlined in paragraph 63.

3. Notes the total estimated contract sum of this approval is £36,000,000 and a total estimated cost of £43,000,000 inclusive of fees, subject to the separate IDM decision for specific schemes. It is estimated that the length of the individual build contracts will range from 12 to 15 months depending on the complexities of each site, with the overall contract lasting for up to 5 years from Summer 2020 to 30 June 2025.

BACKGROUND INFORMATION

4. This procurement strategy relates to a number of opportunities that will form the council's New Homes Development Programme, which is part of the council's commitment to build 11,000 new homes by 2043 and to deliver 2,500 by 2022.
5. The New Homes Development Programme is aimed at creating new homes from existing council assets and acquiring new assets. The principle of New Homes Development was agreed by Cabinet in July 2012. In September 2015 cabinet delegated the approval of future schemes for inclusion in the New Homes Delivery Programme to the Cabinet Member for Regeneration and New Homes.
6. The New Homes Delivery Team is seeking to procure a partner to deliver roof top developments and other land opportunities through a Modern Methods of Construction (MMC) route.
7. Southwark Council has a significant potential to extend upwards and create additional high quality new council homes. It is a way of adding to the housing stock, but the council is mindful of the potential impact on local people. The preferred method for delivering this is MMC which can provide a relatively quick, lightweight, and less disruptive solution for existing residents to developing on top of existing council housing blocks with residents in situ when comparing with traditional construction options.
8. Rooftop sites can cause less nuisance and inconvenience than traditional builds. The use of off-site modular manufacturing, where it is appropriate, minimises the on-site 'installation' time which compares favourably with conventional construction projects built on new foundations. Where modular is used the modules are being manufactured in controlled and 'sterile' conditions, the output of the product exceeds the standard of construction being delivered in all weather conditions. Rooftop sites also allow the council to retain more green spaces and parking spaces which are under pressure in the context of our housing targets.
9. Recognising that there are challenges to building homes on top of existing buildings, as there are with all building works, the council is keen to create a space where it can think through the technical and design opportunities that will benefit all. The Council will seek to create a construction package that enhances the offer to residents and where they are able to see a real benefit.
10. It will be necessary to devise and consult with local residents on the specific offer proposed in relation to the site opportunities. However it is proposed that, subject to that process, the principles of the enhanced local offer will be as follows:
 - a. Local letting offer

- b. Estate improvement offer
 - c. Leaseholder recharge for roof top homes offer
 - d. Tenant move offer under local lettings plan
 - e. Priority for new rooftop homes properties under the local lettings plan, subject to consultation on the specific local lettings offer
11. This approval seeks to include roof top development which could deliver up to 100 units through a delivery contract, and undertake any works associated with enabling or delivering these opportunities. Work is underway to identifying appropriate schemes which will be subject to an IDM decision.
12. Officers envisage most of the new homes being for social rent, as they will be developed on top of existing blocks of flats, however there may be instances where other tenures are more appropriate.
13. The estimated total scheme cost for this project, which includes fees, is £43,000,000. The fees include:
 - a. Architects
 - b. Employer Agent Fees
 - c. Design Fees
 - d. CDM Coordinators
 - e. Surveys
 - f. Legal Fees
 - g. Planning Application Fee
 - h. Contingency
 - i. Administration and Development Allowance
14. The above fees will be subject to separate approval processes and procurement routes in line with contract standing orders.
15. The council have been looking at various options to deliver roof top MMC developments in the short to medium term, which has not materialised. This paper seeks to provide a short term approach to roof top developments, with a medium to long term approach following later.

Summary of the business case/justification for the procurement

16. The council has committed to the delivery of 11,000 new homes by 2043. This procurement exercise will build on the progress made to date and enable the progression of 100 new homes completed over the next few years.
17. Additional key deliverables are as follows:
 - a) Maximise and enhance the utility, value and quality of council-owned land and buildings to deliver:
 - High quality homes for rent
 - Improved streetscapes
 - Employment and training opportunities
 - b) Deliver high quality and fit-for purpose public buildings at good value.

Market considerations

18. The council are seeking contractors who specialise in modern methods of construction (MMC) or who work with MMC subcontractors. The tendering process needs to reflect this by ensuring that the appropriate MMC and modular companies are targeted.
19. There are a number of MMC approaches, from full 3D modules through to site process led productivity improvements (Modern Methods of Construction: Introducing the MMC Definition Framework), which are being engaged in by a number of house building organisations.
20. There seems to be a renewed interest in MMC, especially with the increased pressure to build more homes more quickly and efficiently and with the need to achieve carbon efficiencies. There are a number of social housing providers engaging in the MMC process and a number of emerging modular manufacturing companies.
21. A recent National House-Building Council (NHBC) report (Modern Method of Construction: Who's doing what?) cited potential quality improvements of up to 30% and potential reductions in costs of up to 25% through the MMC route. The report also notes that the drivers for change to an MMC approach include an ageing construction workforce and labour security that may be affected by Brexit and other geo-political pressures.
22. It should be noted that cost reductions are dependent on mass production and therefore given the numbers of units the council are looking to deliver through this Gateway report, the savings cited above may not be achievable for Southwark. However, the benefits for the council would be quality, speed of delivery, an appropriate product for sites with constraints and because units are made off-site it would mean less disruption for existing residents.
23. It should also be noted as the UK have now left the EU, the medium to longer term impact that this will have on the construction industry is uncertain. The top strategic Brexit risks for the construction industry are currently cited as:
 - An increase in the cost of materials due to the devaluation of the pound
 - An increase in the cost of materials due to import tariffs
 - A skills and human resource shortage due to restriction on free movement
24. MMC is a different type of construction and may be able to weather changes in the industry better than a more traditional approach, especially around skills shortage and may provide solutions and opportunities for skilling up local labour.

KEY ISSUES FOR CONSIDERATION

Options for procurement route including procurement approach

A. Do Nothing

25. The council has a target to build 11,000 new affordable homes by 2043 and deliver 2,500 of these by 2022. In order to achieve this, the council will need every tool at its disposal, therefore to do nothing is to limit the council's ability to deliver new homes and to choose not to progress viable opportunities.

B. Deliver In-house

26. The council does not have the in-house ability or resources to construct new homes.

C. Procure on a Project by Project Basis

27. The council already has the approval to procure contractors for individual sites on a project by project basis through a variety of different routes (under OJEU, OJEU compliant framework, or single / two stage OJEU process) in line with contract standing orders. The council are looking for a more efficient and effective way to deliver small and complex opportunities.

D. Use an Existing MMC Framework

28. The only framework that offers an MMC route, which the council could currently use is the London Housing Consortium (LHC): Offsite Construction of New Homes framework.
29. Hyde Housing did have a framework but this expired in October 2019 and the procurement of a replacement framework has not yet been completed.
30. Frameworks will offer a quicker route to procurement than a full OJEU tender.
31. Appendix A summarises the range of contractors and types of MMC services that are available through the framework:
32. The LHC have recommended work stream 1 as the most appropriate list for the type of projects the council is looking at and the outcomes that the council are aiming to achieve – this work stream provides the following contractors:

1	Module-AR Limited
2	Lesko Modular Group Ltd
3	Ashley House plc
4	BWF Construction Services Ltd.
5	ISO Spaces South West Ltd

33. The LHC is undertaking some soft market testing on our behalf to firstly ascertain the level of interest. Some suppliers have confirmed interest already and also confirmed that whilst volumetric is their manufacturing speciality, they are also able to provide different solutions for the sites that volumetric is not suitable for.

E. Procure a Single Delivery Partner (A Single Supplier Framework)

34. A delivery partner would offer the council a working arrangement where it could deliver a number of MMC opportunities and sites in an effective and efficient way.
35. A single contractor would remove the need for each site to be individually tendered, potentially saving 3 to 6 months on every scheme in terms of procurement, and may work particularly well in bringing in longer term cost benefits and quality improvements.

36. The MMC route would mean that the council will be developing new homes in a way that has not been used before and therefore potentially introducing solutions that the council's departments are not familiar with, therefore it may be beneficial to develop a longer term relationship with a single contractor.
37. Officers are conscious that procuring a MMC delivery partner is as much about manufacturing as it is about construction, and therefore a longer term relationship may help the council develop more of an expertise in this construction method.
38. A delivery partner route would be a more collaborative approach, which would mean that the contractor could play a more significant role in the scheme designs process which may avoid potential problems later on down the road.
39. One of the procurement requirements of this route would be the need to fix rates for as much of the contract as possible. It is quite difficult to work on a fixed rate basis for construction projects and often would not represent best value for money. This is made more difficult by the fact that the council are not identifying all of the sites immediately and are looking to add opportunities into the programme as it progresses.
40. Fixing rates on an MMC product may be achievable due to the fact the production of modules in a factory will have more cost certainty when compared to a traditional construction project, however there will still be significant elements of the project cost that cannot be fixed.
41. A two stage route could suit this process, with stage one fixing the price of modules, profit and some overheads, and an open tendering approach for the second stage to firm up the price for the site specific elements of the scheme.

F. Procure a Two Supplier Framework

42. One of the solutions to not being able to fix as much of the contract costs as required under the procurement rules would be to create a small MMC supplier framework (two or more suppliers) specifically for Southwark projects.
43. One of the risks of this could be a poor response to the tender due to the proposed contract values not being significant enough to generate enough interest for more than one supplier.

Proposed procurement route

44. The potential overall cost of the proposed contract has been identified to be above the EU threshold for works the full tendering requirements of the Public Contract Regulations 2015 and Public Sector Directive 2014/24/EU would apply.
45. The council is initially looking for short to medium term option in order to move forward the roof top development programme and therefore this paper is seeking approval to procure a single delivery partner through the LHC Offsite Construction of New Homes Framework (This is a combination of Options D & E).
46. It should be noted that the council may also look a longer term strategy, which could be using the framework further if it proves to work well or through procuring either a single supplier or two supplier framework.

47. Founded in 1966 and with more than 50 of those years working in London, the LHC has knowledge, technical expertise and a commitment to better buildings and homes. They believe in fast and efficient procurement which delivers financial gains without compromising on quality or delivery. The LHC and Southwark council are united in their commitment to providing value for money, high quality affordable homes and enhancing local communities.
48. The LHC Offsite Construction of New Homes Framework is a 4-year framework that commenced on 01 May 2019 and runs until 30 April 2023.
49. The framework was evaluated on the basis of a 75 / 25 Quality / Price weighting and included the following:
 - a. Financial information
 - b. Business & professional standing
 - c. Health & Safety policy and capability
 - d. Equal opportunity and diversity policy and capability
 - e. Environmental management policy and capability
 - f. Quality management policy and capability
 - g. Sustainability & Social Inclusion policy requirements
50. The framework does not require the council to sign an access agreement and there is no direct cost to Southwark council for using the framework, however it should be noted that the LHC do levy a fee of between 0.5 and 1% of contract value to the suppliers depending on the size of the contract.
51. Ultimately this fee is inevitably passed on to the council through the contract sum, however the fee levied by the LHC does offers very good value for money when compared to other frameworks that frequently charge around 1%, sometimes as much as 5%.
52. Use of the framework does come with the benefit of a technical support manager that will remain close during the project delivery to help manage and mitigate against the risk of failure.
53. The framework also allows for a subsequent phase in the project to be directly awarded to a supplier if that supplier has already performed the required works and the client requires continuity of service for that subsequent phase.

Identified risks for the procurement

	Identified Risk	Likelihood	Risk Control
1	Insufficient interest from contractors.	Medium	Contractors will be approached prior to tendering a project to ascertain their interest through an expression of interest.
2	Quality of submitted tender proposals do not meet the Councils expectations	Low	Officers will ensure that comprehensive project briefs that are clear and without ambiguity are produced. Tenders will also be rigorously assessed during the evaluation stage.
3	Cost proposed is in	Low	Officers will ensure that all necessary

	Identified Risk	Likelihood	Risk Control
	excess of budget and does not deliver value for money		surveys are undertaken and a cost plan that identifies any associated risk is developed. A detailed specification will form part of the tender packs so that expectations are clearly identified.
4	Challenges to procurement outcome	Low	Officers will ensure our use of the LHC framework is in line with EU procurement regulations and the framework rules is followed and will liaise closely with the Council's Procurement and Legal departments.
5	Contractors cease trading, goes into administration / liquidation	Medium	Officers will undertake financial and credit checks to ensure that only financially healthy companies progress. A performance bond / a parent company guarantee is considered and/or sought for each contract to mitigate this risk.
6	Impact of Brexit or other geo-political pressures, including: <ul style="list-style-type: none"> • Increased cost materials due to import tariffs • A skills and human resource shortage due to restriction on free movement 	Medium	The use of MMC may provide a solution to some of these risks and provide opportunities for the council to accelerate the new homes programme as a result.

Key/Non Key decisions

54. This report deals with a key decision.

Policy implications

55. The new homes delivered through the New Homes Development Programme are in line with the council's principles and vision for a new housing strategy which is aimed at increasing the availability, affordability and quality of homes in the borough.

56. This procurement exercise supports the council's Fairer Futures Commitment – A place to belong to. The new homes will play a key role in assisting the council achieving its target of building 11,000 new council homes by 2043.

57. These procurement exercises will also be subject to the Fairer Future Procurement Framework (FFPF) and Southwark's construction charter. Each competitive tender process undertaken will ensure that the Council is receiving value for money and delivering added social value.

58. The long term housing vision for the borough (agreed by cabinet in January 2014) sets a clear policy direction for the council that directly impacts the delivery of the new homes set out in this report. The vision comprises four overall principles:

- a. The council will use every tool at our disposal to increase the supply of all kinds of homes across Southwark.
- b. The council will demand the highest standards of quality, making Southwark a place where you will not know whether you are visiting homes in private, housing association or council ownership.
- c. The council will support and encourage all residents to take pride and responsibility in their homes and local areas.
- d. The council will help vulnerable individuals and families to meet their housing needs and live as independently as possible.

Procurement project plan (Key decisions)

59. The following table deals with the initial procurement of a delivery partner, however there will be a number of procurement exercises and a number of Gateway 2 reports arising from this procurement strategy.

Activity	Complete by:
Enter Gateway 1 decision on the Forward Plan	31 October 2019
DCRB Review Gateway 1	15 January 2020
CCRB Review Gateway 1	23 January 2020
Brief Cabinet Member	03 February 2020
Notification of forthcoming decision – Cabinet	24 March 2020
Approval of Gateway 1: Procurement strategy report	29 March 2020
Scrutiny Call-in period and notification of implementation of Gateway 1 decision	29 March 2020
Soft Market Testing	31 January 2020
Completion of tender documentation	27 March 2020
Closing date for receipt of expressions of interest	10 April 2020
Completion of short-listing of applicants	24 April 2020
Invitation to tender	27 April 2020
Closing date for return of tenders	12 June 2020
Completion of any clarification meetings / presentations / evaluation interviews	26 June 2020
Completion of evaluation of tenders	03 July 2020
Forward Plan (if Strategic Procurement) Gateway 2	01 June 2020
DCRB Review Gateway 2:	13 July 2020
CCRB Review Gateway 2	20 July 2020
CMT Review Gateway 2 (if applicable)	n/a
Approval of Gateway 2: Contract Award Report	27 July 2020
End of scrutiny Call-in period and notification of implementation of Gateway 2 decision	03 August 2020
Debrief Notice and Standstill Period (if applicable)	03 August 2020

Contract award	03 August 2020
Add to Contract Register	03 August 2020
Enter Delivery Agreement	August 2020
Contract start	August 2020

60. Following the award of the delivery agreement, opportunities will then be identified and progressed, Pre-Contract Services Agreement (PCSA) will be entered into followed by a JCT contract. There will be further gateway 2 approval to enter into contract for each of the individual projects.
61. This report is seeking approval from cabinet to delegate all of the initial Gateway 2 decision for award of the delivery agreement, and the subsequent Gateway 2 decisions for the individual schemes, to the Strategic Director of Housing and Modernisation in consultation with the cabinet member for Social Regeneration, Great Estates and New Council Homes.
62. The rationale for this is to streamline and speed up the approval process. Seeking cabinet approval for each Gateway 2 is likely to add at least another 4 to 6 weeks to the timeframes set out in the procurement plan above to each of the individual projects.

TUPE/Pensions implications

63. Not applicable.

Development of the tender documentation

64. The New Homes Development Team will be developing a template tender documentation and the quality and pricing evaluation methodologies for this approach.
65. Officers in the New Homes Development Team will work with the Employers Agent to include the scheme specific information within the tender packs.
66. Officers will develop the framework specific tender documentation in line with the framework guidance and work in collaboration with the LHC.
67. The tender packs, ITT questions and price/quality evaluation criteria will all be reviewed as part of a process with legal and procurement team prior to the tender commencing.
68. The tender documents will include:
- a. Expression of Interest and guidance document
 - b. Instructions To Tenderers
 - c. Contract documents, amendments and terms and conditions
 - d. Employers Requirements
 - e. Scheme details including;
 - i. Site information
 - ii. Project drawings
 - iii. Project plan
 - iv. Relevant surveys & reports

- f. Tender evaluation methodology
- g. Contract Sum Analysis Template
- h. Form of Tender and necessary undertakings and certificates
- i. Compliance table

Advertising the contract

69. The opportunity will only be advertised to those contractors on the relevant lot in this framework.

Evaluation

A. Third Party OJEU Compliant Framework

70. Contracts will be awarded on the basis of using a combined price/quality/social value ratio which takes into account the councils requirement to include social value evaluation for all procurements above £100,000. In line with the FFPF the ratio is likely to be 50/40/10. Any deviation from the intended 50/40/10 price/quality/social value ratio (which would be decided by the Director of New Homes on the basis of current market conditions and recent experience) will be highlighted in the Gateway 2 report.
71. Officers will ensure that the nature of social value considered through the tender process reflects that MMC contractors are likely to be based outside of London and therefore are limited in the types of social value they will be able to practically offer. As part of the tender process, officers will ensure that the community benefits are sought, and as part of the evaluation process that these are rigorously assessed to ensure the best social value outcomes are achieved. Where apprenticeships, due to location and the offsite construction are not appropriate, equal or improved social value options will be considered. This includes community benefits for Southwark residents as per Fairer Future Procurement commitments, guaranteeing a minimum London Living Wage (LLW) for all operatives; addressing Gender Pay Gap and Black Asian and Minority Ethnic (BAME) Pay Gap; ensuring ethical standards by addressing prior blacklisting activity and allowing Trade Union Recognition. All the sites will be part of the Considerate constructors scheme.
72. The process will consist of the following stages:

Expression of Interest (EOI)

73. The purpose of the EOI is to create a shortlist of organisations who have demonstrated that they have sufficient experience, technical capacity and financial and economic standing and ability to be invited to tender.
74. Following receipt of a completed registration form the LHC will run a 5 day expression of interest with the appointed companies and will inform the council of the outcome and the relevant contacts,
75. Whilst the LHC are undertaking the expression of interest, officers will check the financial standing of the appointed companies, which will involve a credit check and finance check, which will include a review of any charges and judgements.
76. Working with the LHC, tenderers will be asked to confirm whether they are interested.

Mini Competition – Selection of a Delivery Partner

77. The mini-completion will be on the basis of a two stage approach, the first stage being a quality and a price assessment to select a delivery partner. Officers anticipate using a quality / price / social value score of 50/40/10.
78. Quality Assessment will be undertaken through the provision of method statements which will be used to evaluate applicants against the key quality criteria, for which there will be a minimum pass mark for each question.
79. The quality assessment will include a number of method statements based on the following criteria:
 - a. Delivery, Quality & Compliance
 - b. Design Management
 - c. Subcontractors
 - d. Health & Safety
 - e. Constraints & Delivery
 - f. Fire Safety
 - g. London Living Wage & Apprenticeships
 - h. Social Value
80. For the Price Assessment the contractors will be asked to provide a pricing matrix that includes:
 - a. Rates for Management Fees (Overheads, Profit and Preliminary Fees)
 - b. Rate (SQM) for each unit basis on a unit number ranges
 - c. Rate (SQM) for external works
81. The above rates will be averaged where appropriate and will be weighted on maximum points awarded to the tenderer with the lowest price within each element and with each remaining tenderers' price will be awarded a score based on the percentage difference between their submission and that of the most competitive.
82. The submitted tenders will be evaluated and scored by a panel made up of:
 - a. Employers Agent
 - b. Development Manager
 - c. Project Manager
 - d. Project Co-ordinator
83. The Employers Agent, will submit a Tender and Value for Money Report, this will conclude that the highest scoring tenderer be recommended for award through a Gateway 2 to enable the contract to be entered into.

Project Specific Stage

84. A further stage will be undertaken for each project, which will involve pricing specific elements of the scheme that have not been included within the pricing matrix – this could include enabling works, site abnormal items, access works, and specific landscaping etc.
85. A further value for money exercise will be undertaken at this stage for each of the projects and lead to a further Gateway 2 to enable a PCSA or works agreement to be entered into.

Community impact statement

86. The Public Sector Equality Duty requires public bodies to consider all individuals when carrying out their day to day work, in shaping policy, in delivering services and in relation to their own employees. It requires public bodies to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different people when carrying out their activities. The council's consultation with residents on the 11,000 council homes programme has been specifically designed to be inclusive of all the borough's communities and provide a range of mechanisms to provide residents with the opportunity to engage.
87. Southwark is a borough with high levels of deprivation, low income levels and high levels of housing need. Southwark's Housing Strategy to 2043 identifies that the supply of affordable housing in the borough outstrips demand. There is a demand for larger properties for younger families, many of whom are experiencing overcrowding.
88. Cabinet has agreed a new vision for the future housing strategy including a principle to use every tool at our disposal to increase the supply of all kinds of homes across Southwark.
89. The proposals to increase the supply of affordable, good quality homes will benefit households in need from all Southwark communities, and will increase the housing options available for older people and people with disabilities.
90. 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.
91. 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

92. The Public Services (Social Value) Act 2012 requires that the council considers, before commencing a procurement process, how wider social, economic and environmental benefits that may improve the well being of the local area can be secured. The details of how social value will be incorporated within the tender are set out in paragraph 58, 71, 78 and 80.

Economic considerations

93. 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.
94. 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. It is expected that payment of the LLW by the

successful contractor for this contract will result in quality improvements for the council. These should include a high calibre of multi-skilled operatives that will contribute to the delivery of works on site and will provide best value for the council. It is therefore considered appropriate for the payment of LLW to be required. The successful contractor will be expected to meet the LLW requirements and contract conditions requiring the payment of LLW will be included in the tender documents. As part of the tender process, tenderers will also be required to confirm how productivity will be improved by payment of LLW. Following award, these quality improvements and any cost implications will be monitored as part of the contract review process.

95. The council will be seeking the appointed contractor to participate 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.

Social considerations

96. 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 need 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.
97. The new rented homes will be let at social rent levels.
98. The council can exclude companies who break the law by blacklisting from public contracts if they are either still blacklisting or have not put into place genuine concerning past blacklisting activities. The council can require "self cleaning" which enables a potential contractor to show that it has or will take measures to put right its earlier wrongdoing and to prevent them from re-occurring and to provide evidence that the measures taken by the economic operator are sufficient to demonstrate it has:
 - "Owned Up": clarified the facts and circumstances in a comprehensive manner by actively collaborating with the investigating authorities
 - "Cleaned Up": taken concrete technical, organisational and personnel measures that are appropriate to prevent further criminal offences or misconduct, and
 - "Paid Up": paid or undertaken to pay compensation in respect of any damage caused
99. The contract conditions will include an express condition requiring compliance with the blacklist regulations, and include a provision to allow the contract to be terminated for breach of these requirements.
100. The council will investigate further opportunities for the contractors to offer apprenticeship and work placement opportunities, however it should be noted that due to MMC contractors likely to be based outside London and due to them spending limited time on site, this may not be directly beneficial to the council.

Environmental considerations

101. 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.
102. 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.
103. The council will be looking for new homes to be designed and built to a standard that ensures they are 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.

Plans for the monitoring and management of the contract

104. The project clienting, including the management and administration of the contractor appointments, will be run and resourced through the New Homes Development 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 financial statements by the consultant
 - Monthly appraisals of progress against programme and monthly reports by the consultant
 - Tracking and chasing actions on critical issues
 - Periodic project team 'look ahead' workshops covering key phases of work and risks
 - Risk and issues log
105. 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.
106. Contract monitoring report will be taken to DCRB and CCRB in line with contract standing orders.
107. The social value deliverables will be monitored by council officers.

Staffing/procurement implications

108. The staff resources deployed to this procurement is sufficient to meet the proposed timetable.
109. The project will be resourced by existing staff, within existing budgets.
110. Officer time relating to the management of this project is funded from the capital budgets for the individual projects.

Financial implications

111. The report is requesting approval for a procurement strategy, there are no financial implications arising directly from the report's recommendations. The strategy will potentially deliver 100 new homes.
112. The potential total cost of works to be procured through the strategy is £43m (£36m works contract and £7m for homeloss and disturbance payments, professional fees, internal costs, and contingency). The individual project costs will be funded from resources supporting the Housing Investment programme, including borrowing where appropriate.
113. Once schemes have been identified and the development potential has been quantified, a scheme development appraisal will be undertaken to ensure that the proposals offer good value for money for the council. A major benefit of these schemes is that they do not require land use, thus enabling more new homes to be built on existing council land than would otherwise be the case.
114. It should also be noted that as the framework will not have been consulted on with Leaseholders then there will be no recourse for charging for any works that fall outside of the development cost, if indeed there are any. That said, the council have already agreed that LH will not be charged for such works where they are necessary for the implementation of the new homes provision. This will be formally determined by delegated authority on a scheme by scheme basis by the relevant strategic directors.

Legal implications

115. Please see concurrent from the Director of Law and Democracy.

Consultation

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

Other implications or issues

117. None.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

118. This report seeks the approval of Cabinet for the procurement strategy for Modern Method of Construction (MMC) new homes roof top development contracts.

119. The Southwark New Homes Rooftop Development Works Contracts would commence in June 2020 for a duration of five years, with the objective to deliver on a number of individual sites each being delivered within a period of 12 to 15 months.
120. The report summarises the context and rationale for procuring a single developer to undertake a number of works contracts, namely assured quality and speed of delivery in contributing to the councils objective of building 11,000 new homes by 2043.
121. Paragraphs 18 -24 confirms that within the construction sector there are a number of modern methods of construction models being utilised by housebuilding organisations particularly as this approach can deliver homes quickly and efficiently along with meeting carbon efficiency targets. As the UK is in the transition stage of leaving the EU (31/12/2020) this approach to construction is considered best able to withstand the changes to the supply chain of both labour and materials than traditional construction models.
122. Paragraphs 25 to 43 confirms that five alternative procurement options in addition to the recommended approach have been considered and discounted including an option to construct new homes in- house.
123. Paragraph 60 confirms the timetable that will be followed for this procurement.
124. The report confirms that the evaluation of potential contractors will be in two stages. The first stage will assess capability, technical capacity and economic standing and a second stage mini competition where bids will be evaluated the basis of most economically advantageous tender. In determining this, it is anticipated that a weighted model with a quality/price / social value ratio of 50:40:10 will be the expected norm.
125. Paragraph 105 confirms the monitoring and management arrangements that will be established for each project run under the contract.

Director of Law and Democracy

126. This report seeks the Cabinet's approval to the procurement strategy for procuring a MMC delivery partner through the use of the LHC Offsite Construction of New Homes Framework, and for delegation of the Gateway 2 award decisions as further detailed in paragraphs 1-3.
127. The value and nature of these works at an estimated value of £36m means that the procurement is subject to the full tendering requirements of the Public Contracts Regulations 2015 (PCR15). However the LHC framework, through which it is intended to undertake the procurement was established following an EU compliant tendering process and therefore satisfies those PCR15 requirements. As noted in paragraph 61, and following the award of the main delivery agreement, individual projects which have been identified will then be progressed with the successful contractor with a further value for money exercise being undertaken. Individual gateway 2 reports will be required to approve entering into the contracts for that project/site, once that value for money exercise has been completed.
128. The Cabinet's attention is drawn to the Public Sector Equality duty (PSED General Duty) under the Equality Act 2010, which requires public bodies to have regard when making decisions, to the need to eliminate discrimination, advance equality of opportunity and foster good relations between persons who share a relevant

protected characteristic and those who do not share it. The Cabinet is specifically referred to the community impact statement at paragraphs 87-92, setting out the consideration that has been given to equalities issues, and to the consultation which has taken place and is due to take place (noted in paragraphs 92 and 117) which should be considered when approving the recommendations in this report.

Strategic Director of Finance and Governance (H&M19/155)

129. This report seeks Cabinet approval for the strategy to procure a delivery partner for the construction of an estimated 100 new homes, including rooftop developments, using Modern Methods of Construction (MMC) at an estimated cost of £36 million over five years. The report identifies the total estimated cost of works including fees, contingency and associated costs to be in the region of £43 million. The works will form part of the Housing Investment Programme, and the financial implications section of the report, sets out how the costs will be met. The development of rooftop homes in particular provides the council with the opportunity to build new homes without requiring the use of additional land, whether owned by the council or not.

130. At this stage of the procurement process, costs are indicative only and there are no financial implications arising directly from the recommendations made in this report.

Strategic Director of Housing and Modernisation (for housing contracts only)

131. Not applicable.

BACKGROUND DOCUMENTS

Background Documents	Held At	Contact
Southwark Council's Fairer Future Procurement Framework	Corporate Procurement 160 Tooley Street	Elaine McLester 020 7525 7733
Link: http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=6413&Ver=4		
Southwark Construction Charter	Corporate Procurement 160 Tooley Street	Elaine McLester 020 7525 7733
Link: http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=6413&Ver=4		

APPENDICES

No	Title
A	Range and Types of Contractors available through the MMC Framework

AUDIT TRAIL

Lead Officer	Stuart Davis, Director of New Homes	
Report Author	Tim Bostridge, Head of Development	
Version	Final	
Dated	13 March 2020	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Head of Procurement	Yes	Yes
Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	Yes	Yes
Strategic Director of Housing and Modernisation (for housing contracts only)	No	No
Cabinet Member	No	No
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		16 March 2020

Appendix A: Range and Types of Contractors available through the MMC Framework

APPOINTED COMPANIES	HOUSING				OPTIONS APARTMENTS				ADAPTIVE PODS				ROOM ON ROOF				TEMPORARY ACCOMMODATION				OPTIONS MIXED DEVELOPMENTS WITH A COMMUNITY BUILDING REQUIREMENT/ WITH ONSITE CONSTRUCTION				ENHANCED ENERGY PERFORMANCE			
	WS 1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
> Ashley House plc	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
> BWF Construction Services Ltd	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
> Castleoak Care Partnerships Ltd	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
> Engie Regeneration Limited	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
> hatch. Homes Accelerator Ltd	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
> Ilke Homes Limited	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
> Innovare Systems Limited	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
> ISO Spaces South West Ltd	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
> Lesko Modular Group Ltd	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
> LoCal Homes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
> Module-AR Limited	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
> Rollalong Limited	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
> The McAvoy Group Limited	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

WORKSTREAM 1 - MMC CATEGORY 1

Volumetric building systems are factory produced three-dimensional units that are transported to site for fixing together.

WORKSTREAM 2 - MMC CATEGORY 2

Panelised building systems are factory produced flat panel units that are transported to site for assembly.

Options Available:	OPEN PANEL	INSULATED PANELS	CLADDING AND WINDOWS FITTED	ENHANCED ENERGY EFFICIENCY
> BWF Construction Services	✓	✓	✓	✓
> Castleoak	✓	✓	✓	✓
> Innovare Systems		✓		

WORKSTREAM 3 - MMC CATEGORY 1/2

Highrise systems - enhanced.

Options Available:	LOW RISE	7.4-18M	18-60M	ENHANCED ENERGY EFFICIENCY
> Castleoak	✓	✓		
> Rollalong Ltd	✓	✓	✓	

WORKSTREAM 4 - MMC CATEGORY 1/2

Turnkey delivery of offsite systems.