

Item No.	Classification: Open	Date: 30 March 2020	Decision Taker: Strategic Director of Finance and Governance
Report title:		Gateway 3 – Variation Decision Approval Design Services for proposed new office development (Queens Road 4)	
Ward(s) or groups affected:		Nunhead and Queens Road	
From:		Head of Regeneration – Capital Works & Development Place & Wellbeing Department	

RECOMMENDATIONS

That the Strategic Director of Finance and Governance

1. confirms the prior approval for the variation of the contract with Faithful & Gould for professional services for £232,636 for a period of 17 months from August 2018 plus a contingency sum of £80,000 as set out in paragraph 16 to cover the project design stages 2 to 4 to enable the completion of the design phase.
2. confirms the prior approval for the variation of the contract with Wernick Buildings Limited for the specialist modular design services for £1,276,996 for a period of 17 months from August 2018 to cover the project design stages 2 to 4 to enable the completion of the design phase.

BACKGROUND INFORMATION

3. In November 2016 Cabinet endorsed Southwark's Fairer Future Modernisation Programme which outlined how Southwark will become a transformed, forward thinking, dynamic council that effectively embraces modern ways of working in order to serve our customers.
4. The workplace strategy proposed fully developing the council's office accommodation across the two centre model by increasing capacity at the Queens Road complex. This development could be seen as the council's 'end game' for its office based estate and a solution for the co-location, consolidation and re-engineering of our customer facing services by: eliminating our remaining sub-optimal office accommodation, delivering modern office accommodation for the majority within a refreshed IT environment.
5. In July 2017 Housing and Modernise DCRB considered the procurement strategy and the award of contracts which was subsequently confirmed in a report dated 24 July 2018 for the consultant services to produce the feasibility study by using frameworks to appoint Faithful & Gould (F+G) for the professional services (as set out in paragraph 15) via the Pagabo framework for £86,367 and design services from Wernick Buildings using the LHC framework for £160,000.
6. Wernick were appointed using the LHC Framework (MB1), under a direct appointment, which is allowed within the framework. Officers agreed to pilot a single supplier route for the delivery of QR4 on clear advice from technical experts that it was the most appropriate route when considering modular construction and an extremely restricted site, with no working area for compound. Benchmarking indicates that it will be cheaper and quicker (especially time on site minimising resident disturbance) and will provide higher

quality. The brief has demanded innovation in design and specification and engineering and requires relatively early engagement of the contractor to ensure that the designed solution is cost effective and deliverable. The original concept for QR4 was a basic temporary structure with a 30 year life. There has been change of scope to deliver a permanent building with 'civic' presence.

7. The design can now best be described as a 'bespoke' comprising of steel frame, cross laminated timber floors and off site formed office units which would be fitted in the Wernicks factory in Wales. Mechanical and electrical (M&E) services run vertically and horizontally through the floor voids. Clearly tendering to another supplier would mean that tenderers would need to allow for the integration of the council's design to their system of modular construction. Contractors will allow for this within the lump sum tender which means costs with another supplier are almost certainly going to be greater as they will need to repeat all the work that the Wernicks have undertaken with the council and its architects to RIBA Stage 3. Wernicks are one of the UK's leading supplier of modular buildings with recent projects working for major clients.
8. The procurement strategy is therefore to appoint Wernick using a Pre-contract Services Agreement (PCSA) to cover the specialist design work stages (RIBA stages up to the end of stage 4). This limits the council's exposure on any abortive work and does not commit the council to the works phase. The works contract will be subject to separate reporting and is proposed to be under the JCT Design & Build contract.
9. It is intended to undertake any further design work necessary and procure extensive surveys, to mitigate design and construction risk prior to tender (up to RIBA Stage 4). This process will enable the modular contractor to develop robust construction strategies and market test their subcontractor packages in advance of submitting their contract sum analysis (CSA) thereby producing the best value for money for the council.
10. The council's cost consultant has developed a tender strategy for Wernick to use to help to ensure a robust tender approach and that best value is being achieved. This has been captured as part of the Negotiated Tender Requirements and it provides for a transparent tender process which includes any sub-contractor packages and their costs.
11. The council's cost consultant has already reviewed and set a target cost for the CSA. The tender strategy approach mentioned above will have elemental cost targets to meet which are based on current market rates. The LHC framework will also be supporting the council in reviewing the tender costs to ensure that they are within the framework matrix of costs for modular units.
12. Each returned sub-contractor tender submission will be vetted for compliance with the council's requirements and for competitiveness in relation to value for money. Where the supply chain partners have influenced the design they will be asked to provide alternative product options or costings to satisfy value for money. The final decision on the products proposed will be determined by the council. Collateral Warranties will be required from all designers, principal sub-contractors and those with any design responsibility in the normal way.

13. In October 2017 the Staff Accommodation Strategic Board confirmed that the appointment for the design services should be extended to cover further design stages beyond the initial feasibility study.
14. On 12 December 2017 Cabinet confirmed that 133-137 Queens Road SE15 2ND (QR4) as the location for the new office accommodation for service users of targeted services currently based at Bournemouth Road, Sumner House, 47b East Dulwich Road (Youth Offending Team retained at this site), St Mary's Road, Curlew House and Talfourd Place. Cabinet also authorised officers to progress with the primary recommendation from the report – to develop a modular building to increase the capacity of the Queens Road Campus.
15. This would mitigate the impact of the loss of accommodation at Sumner House to redevelopment as new residential housing and allow the council to move staff out of substandard office accommodation at Sumner House and Bournemouth Road.
16. On 22 October 2018 the Programme Board (of which the decision taker is a member of) agreed to proceed with the appointment of the consultants to complete the design work to the end of RIBA design stage 2. The scope of the work to confirm the scheme massing and floor area as well as confirm the schemes budget. The cost of this was limited to £200,000.
17. On 17 April 2019 the Programme Board agreed to the completion of RIBA Stage 2 design work and that the Stage 3 design work could commence.
18. On 15 May 2019 the Programme Board agreed the new project budget, which includes for the full development of the design stage including all fees in relation to this. For clarity this includes for professional fees as well as the design fees.
19. On 18 June 2019 Cabinet approved the new project budget, which includes for the fees for all of the design stages and for the professional fees as well as the overall works budget. This report is to formalise all the design related costs in relation to QR4 and is in line with the cost agreed at Cabinet.

KEY ISSUES FOR CONSIDERATION

Key Aspects of Proposed Variation

Wernick Buildings Limited (Wernick)

20. The variation in fees recommended in this report, relates specifically to the extension in scope of the Pre-Construction Services Agreement (PCSA) to take the full design for Wernick up to and including Royal Institute of British Architects (RIBA) Design Stage 4 at a cost of £1,276,996 in addition to the previously approved PCSA sum at a cost of £160,000 producing a total cost of £1,436,996.
21. Wernick's original cost of £160,000 covered the feasibility design and investigation work only for which they were awarded the commission on; this variation is to cover the re-design work due to significant change in the brief and results from the public consultations and the extension of the design work up to the end of design Stage 4. See the closed report for the breakdown of the overall fee structure. This has been reviewed by project's consultant quantity surveyor to ensure the revised sums represent value for money and reflect current market costs. Wernick have appointed a number of sub-consultants to undertake the full design work and

surveys as set out in the closed report attached Appendix 1. The summary of this is included in the closed report.

Faithful & Gould (F+G)

22. F+G were awarded the contract on the original fee level of £86,367 under the Pagabo framework for a defined area of work covering project management, quantity surveying/ cost control, principal designer for Construction Design & Management Regulations (CDM) and interior designers/space planners. As the project scope has increased and the scheme is being redesigned to Stage 4 we need to increase the appointment for F+G to cover this period which is an additional cost of £232,636 producing a total fee of £319,003. The fees have also been benchmarked with previous appointments of F+G using the Pagabo framework to demonstrate value for money and this shows that the fee level is lower than similar scale schemes (approximately 2.16%).
23. The fee matrix below also allows for a separate contingency sum of £80,000 which can only be released by the approval of the Project Board and is for the additional prolongation costs for any extension to the design stages up to the end of Stage 4.

Proposed Faithful +Gould Services		
Service (all professional services fees until end of RIBA Stage 4)	Proposed Fees (£)	Commentary
Project Manager	99,020	The project manager will control the programme up to planning submission and the development of the technical and design information with regular reporting to the council.
Quantity Surveyor	79,270	This covers the cost control and management of the designers fees and reviews of the design costs as this proceeds.
Principal Designer	17,515	This is statutory requirement under the CDM regulations and will review the design as it proceeds to ensure compliance with CDM.
Space & Interior Designers	110,929	Initial design work on the original scheme which included the interior design of the building and surveys working with service users and officers to ensure that the internal layout can deliver the change in service delivery.
Sub- Total	306,734	
Pagabo Framework Levy 4%	12,269	This is the framework levy and applies to all works undertaken via the framework.
Total	319,003	
Actual cost/fees approved Gateway 1&2 July 2018	86,367	

Proposed Variation	232,636	
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Contingency sum	80,000	To be released only with agreement of the Programme Board and is for prolongation of the design programme.
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Reasons for Variation

24. The Staff Accommodation Strategic Board meeting in October 2017 confirmed that the scope for the project needed to be varied to extend the commission of the design team and the professional team to cover further design development. This variation is required for the following reasons:

- a. Significant change in approach to the scheme which involved a comprehensive revision to the brief to develop the design to sufficient detail across the various design disciplines and allow full integration and co-ordination of mechanical, electrical, landscaping, architectural and the inclusion of the interior design which will provide a more coherent and strategic approach to the development.
- b. Significant scope change to redesign of the scheme to take into account the results of the public consultations and that there has been a change in the appointment of the design team.
- c. Scope change to the interior design brief to include analysis of the service users in the design brief.
- d. To reap all the benefits of offsite manufacturing and for this to be efficient all of the design and detailing has to be completed in advance of awarding the construction contract. The amount of information required for the fully detailed design to the full RIBA Stage 4 requirements should therefore also be incorporated into the PCSA contract. The contract will then cover the full design information needed for this stage. This will include the internal design/layout as well as the construction detailing for the external cladding etc.
- e. By taking the full design until the end of RIBA Stage 4 the design will be developed in sufficient detail for the Contractor to procure materials and factory time slots effectively. If this is not undertaken this could adversely affect the Contractor's ability to meet the delivery timescales for opening of the building by summer 2021.
- f. Undertaking additional surveys during the design stage will give greater certainty of the ground contamination on all elements prior to entering into the main contract and Southwark Council would have a much more comprehensive view of the project risk to the entire scheme.

25. The proposed fees provide value for money for the council and the project's Quantity Surveyor has scrutinised Wernick's fee proposal and confirmed that the fees are in line with market values for this scale of work. The fee proposal by Faithful & Gould have been assessed and challenged with them and a fee

reduction has been agreed with them. The fees have also been assessed against previous commissions to F+G using the Pagabo framework.

Future Proposals for this Service

26. The variation proposed allows for all the professional services and works required to be undertaken within the revised timeframe up to the end of the design phase (RIBA Stage 4). The completion of the overall project programme now will extend to summer 2021.

27. The works procurement and contract award will be subject to separate reporting.

Alternative Options Considered

28. The only alternative to varying the contracts is to undertake a separate tender exercise. This would cause an unnecessary delay to the programme and it was imperative to start the consultation with the residents to test the design principles and see if any re-design was necessary. The two sets of consultants were already familiar with the scheme and can carry this knowledge forward in to the later design stages.

29. If the council did not approve the extension to the contracts this would place the scheme at high risk for the following reasons:

- Prevent the council from obtaining planning permission
- Not being able to undertake the public consultations to test the design proposals and amend as necessary
- Poor coordination of design, services and interior brief.
- Site unknowns not being realised until the council have entered into the main contract; and
- Programme slippage and resulting delays to the delivery of the new office which would substantially increase cost and escalate the risk that the scheme would not be delivered in time.

Identified risks for the extensions

Risk	Risk Rating	Mitigation
Programme slippage due to increased scope	Low	Wernick are aware of this and have informed the council on their proposals to address this. F+G have the responsibility to monitor the programme and report and make recommendations to the council on progress and risks.
Financial assumptions incorrect	Low	Firm costs for the consultancy services and surveys have been sought and robust project management is in place to ensure the cost is not exceeded.
Procurement challenge	Low	The frameworks used, Pagabo for F+G and LHC for Wernick's have been procured in line with the Public Contract Regulations 2015. The Pre Construction Agreement allows for changes to be made to the pre-construction services. The appointment of F+G under the Pagabo framework is allowed as they are the single supplier for these combined services. For the Wernick appointment under the LHC framework a direct appointment was recommended by the LHC

Risk	Risk Rating	Mitigation
		due to the specific nature of the modular design system to be used and that another supplier would be unable to match this, without undertaking significant redesign work.

Policy implications

30. The delivery of this project fits with the council's objectives as outlined in the council plan , specifically:

- Commitment - A place to call home
- Commitment - A Greener Borough
- Commitment - A healthier life
- Commitment –A safer community

Contract management and monitoring

31. The contracts will be managed and monitored principally by the Regeneration Capital Works team and F+G will report to them on performance, programme and cost issues of Wernick's team. The design progress will be monitored by regular design team meetings with representation from the planners present and additional design input from Regeneration South team.

32. Regeneration Capital Works will report to the Staff Accommodation Delivery Board on the programme and cost control and performance of the consultants. The revised design for the scheme will be submitted for a formal sign off to the Staff Accommodation Strategic Board.

Community Impact Statement

33. This variation has been judged to have no further impact on the community identified in the combined Gateway 1 and 2 report, which covers both appointments to Wernick and F+G and this variation will allow the redesign to review the changes identified by the initial public consultations.

Sustainability considerations

34. 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 social value considerations included in the tender (as outlined in the Gateway 1 report) are set out in the following paragraphs in relation to the tender responses, evaluation and commitments to be delivered under the proposed contract.

Economic considerations

35. This variation has been judged to have no further impact on economic considerations identified in the original Gateway 1/2 report, which covers both appointments to Wernick and F+G

Social considerations

36. This variation includes the consultants' commitment to the council's policy of paying the London Living Wage to all Tier 1 and Tier 2 suppliers.
37. Allies and Morrison are one of the sub-consultants to Wernick on this scheme and have a broad approach to working in the local community and on wider projects across the UK and the world. Locally the practice has sponsored the 'Drawing Salon Project' in conjunction with Dulwich Picture Gallery for local pupils to engage with drawing classes held over 12 weeks. The practise also organises and run 'Access to Architecture' for local schools which includes model making, architecture and design workshops.

Environmental/Sustainability considerations

38. This variation has been judged to have no further impact on environmental and sustainability considerations identified in the Gateway 1/2 report, which covers both appointments to Wernick and F+G.

Financial Implications

39. The initial capital budget of £14.4m for the delivery of QR4 was approved by Cabinet in February 2018. Approval to increase this budget by £5.35m was secured from Cabinet in June 2019, revising the overall capital budget to £19.75m.
40. The original budget contained a cost estimate of £1.25m for IT which will now be funded directly through the existing IT capital programme.
41. Wernick's were awarded the pre-construction services agreement (PCSA) at an original cost of £160k. Scope change and incorporation of design work from later stages into the proposal, further increases the cost by £1.277m, which revises the overall contract cost to £1.437m.
42. For Faithful and Gould, increasing the design stage work to cover stage 4 and redesign of the scheme, means that their original contract cost of £86k has increased by £233k, to £319k (there is a separate £80k contingency set aside for this as well).

Legal Implications

43. Please refer to the supplementary advice of the director of law and democracy.

Consultation

44. The extended scope of work for Wernicks includes for the architects (Allies & Morrison using their 'Urban Practitioners') to lead on the next stage of public consultation alongside the councils communications team. A strategy for this engagement has been agreed by the Programme Board. A number of public meetings have been held to discuss the proposals before submission for planning approval. The strategy sets out required levels of public engagement for planning purposes but also expands on this to specifically engage with residents who have expressed concerns about the proposed development. This includes local businesses and the local school community. This process will continue if the scheme is granted planning approval.

45. Service user and staff consultation has been undertaken already and these groups will be consulted with further once the proposals are developed. Consultation with the local unions has also taken place and as above they will be consulted on the proposals as they are developed.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance and Governance (H&M 19/172)

46. The report seeks approval by the Strategic Director of Finance and Governance to the formalisation of prior decisions taken by the QR4 Strategic Programme Board in relation to the variation of the professional services contract with Faithful & Gould and specialist modular design services contract with Wernick in order to complete the project design for the new office building at Queens Road.
47. The total variation amounts to £1,509,632 and reflects the extensive redesign necessitated by the planning constraints and to assuage resident concerns that have emerged since project inception. The report sets out the rationale for the variations and the procurement frameworks under which such decisions have legitimately been taken. In terms of funding, these sums (including contingency) are contained within the revised capital project allocation of £19.75m approved by Cabinet in June 2019.
48. A corollary of the reduced size and scope of the proposed building has also meant that it is necessary to retain 47B East Dulwich Road over the medium-term which was formerly earmarked to be vacated as part of the office accommodation strategy approved by Cabinet in December 2017 as referenced in the report. The costs of the lease extension and some refurbishment works to extend its operational life will be funded from departmental and corporate facilities capital programme resources outside of the budget provision for QR4.

Head of Procurement

49. This report seeks the formalisation of the prior approval of the Strategic Director of Finance and Governance to variations to the contracts for professional services and specialist modular design services in relation to QR4, as further detailed in paragraphs 1 and 2.
50. The original appointments were made through the OJEU-compliant Pagabo and LHC frameworks, both of which allow direct appointments, therefore additional services may be procured through the frameworks.
51. Social value was considered at call off stage and both contractors confirmed they and their supply chains pay LLW and have apprenticeship programmes.

Director of Law and Democracy

52. This report seeks the formalisation of the prior approval of the Strategic Director of Finance and Governance to variations to the contracts for professional services and specialist modular design services in relation to QR4, as further detailed in paragraphs 1 and 2. As the value of these variations is between £1-2m then the decision is reserved to the Strategic Director of Finance and Governance, after consideration of the report by CCRB.

53. Whilst the values of the original appointments were such that those procurements were not originally subject to the Public Contract Regulations 2015 (PCR15), the value of the variations means that those additional services may only be placed through the contracts if the tendering requirements of the PCR15 are met. As noted in this report, F + G have been appointed through the Pagabo framework which has been procured fully in accordance with the PCR15, and therefore additional services may be placed through it. Similarly Wernicks have been appointed through the LHC framework which permits direct appointment in these circumstances, and their current Pre Construction Agreement allows for variations to be made to the services.
54. Contract Standing Order 2.3 requires that no steps are taken to vary a contract unless the expenditure involved has been included in approved estimates or is otherwise approved by the council. Paragraphs 39-42 confirm the financial implications of this award.

Director of Regeneration

55. The building design has been the subject of careful briefing and design with staff who will be using the accommodations with the emphasis on securing a comfortable, functional and secure building for users of the council's services. We believe that the environment of all council buildings is crucial to ensuring that residents can access the services knowing that their needs will be catered for, with support and confidentiality in an environment that is conducive to wellbeing.
56. Delivery of this building will allow the council to release buildings that no longer serve their purpose to meet the demand of residents and young people in using Housing and Children's & Adult Services.
57. I support the justification in this report in relation to professional and design services.

Strategic Director of Housing and Modernisation

58. This new building is a key element in the council's strategy to deliver its services more efficiently and locate offices close to the delivery of front line services in Housing and Children's Services.
59. Paragraphs 8 to 12 of this report describe the intended approach to open book tendering of the various sub-contractor packages. The council's consultant QS will scrutinise these packages to ensure that the council is obtaining value for money and that there is genuine open market tendering.
60. I have considered the balance of issues and options carefully and sought advice from the Director of Regeneration and his technical advisers. Wernick's work with the council has been of high standard to date and any alternative contractor would need to incur additional design costs to reach the same position. There are some disadvantages and risks with a single supplier option but we are of the opinion that these can be mitigated by an experienced technical and design team and do not outweigh the benefits of continuing to develop the detailed design of the building with Wernick.
61. I therefore support the recommendations in this report in relation to the professional and design services.

PART A – TO BE COMPLETED FOR ALL DELEGATED DECISIONS

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...30 March 2020

Designation Strategic Director of Finance and Governance.....

PART B – TO BE COMPLETED BY THE DECISION TAKER FOR:

- 1) All key decisions taken by officers
- 2) Any non-key decisions which are sufficiently important and/or sensitive that a reasonable member of the public would reasonably expect it to be publicly available.

1. DECISION(S)
As set out in the recommendations of the report.

2. REASONS FOR DECISION
As set out in the report.

3. ALTERNATIVE OPTIONS CONSIDERED AND REJECTED BY THE OFFICER WHEN MAKING THE DECISION
As set out in the report

4. ANY CONFLICT OF INTEREST DECLARED BY ANY CABINET MEMBER WHO IS CONSULTED BY THE OFFICER WHICH RELATES TO THIS DECISION
None

5. NOTE OF ANY DISPENSATION GRANTED BY THE MONITORING OFFICER, IN RESPECT OF ANY DECLARED CONFLICT OF INTEREST
<i>If a decision taker or cabinet member is unsure as to whether there is a conflict of interest they should contact the legal governance team for advice.</i>
Not applicable

6. DECLARATION ON CONFLICTS OF INTERESTS
<p>I declare that I was informed of no conflicts of interests.*</p> <p>or</p> <p>I declare that I was informed of the conflicts of interests set out in Part B4.*</p> <p>(* - Please delete as appropriate)</p>

BACKGROUND PAPERS

Background Papers	Held At	Contact
Gateway 1/2 - Contract Award Approval	Chief Executive's Dept / Regeneration 5 th Floor Tooley Street	

APPENDICES

No	Title
	See Closed Report

AUDIT TRAIL

Lead Officer	Bruce Glockling, Head of Regeneration – Capital Works & Development	
Report Author	John Ryan - Project Manager	
Version	FINAL -Open	
Dated	30 March 2020	
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
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes

Cabinet Member	N/A	N/A
Date final report sent to Constitutional/Community Councils/Scrutiny Team		N/A