

Item No.	Classification: Open	Date: 2 December 2021	Meeting Name: Strategic Director of Housing Modernisation
Report title:		Gateway 2 - Contract award for new homes at Fendall and Maltby House, St Saviours Estate	
Ward(s) or groups affected:		London Bridge & West Bermondsey	
From:		Director of New Homes	

RECOMMENDATION(S)

That the Strategic Director of Housing and Modernisation in consultation with the Cabinet Member for Council Homes and Homelessness;

1. Approves the award of a works contract for Woodville House (Maltby Street) and St Vincent House (Fendall Street Garages) for the sum of £13,208,817.62 to ARJ Construction Ltd, commencing 12 March 2022 for a construction period of 62 weeks from site possession until approximately 20 May 2023.
2. Notes the proposed works will provide 40 new units within two blocks and two new children play areas.
3. Notes the total scheme costs as outlined in the closed report.
4. Notes the contract sum equates to a build cost circa £3,110/m² or £330,220/unit.
5. Notes there will be a minor loss of green space, however both schemes will benefit from landscaping and public realm improvements.
6. Notes ARJ have committed to the provision of 14 new apprentices as part of the commitment to the local community.
7. Notes the development will meet the targets set out by the council's Sustainable Design and Construction Supplementary Planning Document, and complies with the London Plan CO₂ savings target of 35% overall.

BACKGROUND INFORMATION

8. Planning permission for Fendall Garages was granted on 13 November 2020 for the construction of 16 flats and improvements to the surrounding landscaping of the existing St Saviours Estate and provide new communal amenity space (Application 20/AP/1472).

9. Planning permission for Maltby Street was granted on 16 October 2020 for the construction of 24 units and landscaping around the building and the re-provision of the existing children's play area. (Application 20/AP/1941)
10. The planned procurement strategy was the subject of a Gateway 1 report; which was approved by the Cabinet Member for Social Regeneration, Great Estates and New Council Homes on 26 August 2020. The Gateway 1 report set out a strategy for the procurement of both sites to be packaged together under one single contractor, via a Public Contract Regulations 2015 compliant tendering process based on the close proximity of these sites.
11. The Gateway 1 report also approved delegation of the Gateway 2 award decision to the Strategic Director of Housing and Modernisation, in consultation with the then cabinet member for Social Regeneration, Great Estates and New Council Homes, whose portfolio now sits with the Cabinet Member for Council Homes and Homelessness.
12. The proposed works concern two locations within the St Saviours Estate. The Fendall Street project is located at the existing garages on St Saviours Estate (just off Fendall Street). The scheme will deliver 16 units and will provide a mix of one, two and three bed flats for social rent in a five-storey block. The development will be integrated within the existing estate opposite St Vincent House and will deliver landscaping improvements.
13. The Maltby Street project is located at the existing car park on St Saviours Estate (on Maltby Street). The scheme will deliver 24 units and will provide a mix of 1, 2, 3 and 4 bed flats for social rent in a five storey block and improvements to under 5s play area.
14. This contract is part of the wider commitment to build 2,500 new homes by 2022 as agreed by cabinet in July 2012.
15. The contract was procured in accordance with the Public Contract Regulations 2015 using the restricted tender process. A pre-qualification (PQQ) exercise allowed the market to respond, then qualifying contractors invited to tender.
16. The works contract will be JCT Design & Build 2016 with Southwark's amendments to conditions.
17. The works contract will be for a fixed period of 62 weeks from the date of the transfer of site possession from the council to the contractor until practical completion.
18. The contract is due to commence in March 2022 and practical completion in May 2023.

Procurement project plan (Key Decision)

19.

Activity	Completed by/Complete by:
Forward Plan for this Gateway 2 decision	31/12/2021
Briefed relevant cabinet member (over £100K)	20/11/2021
Approval of Gateway 1: Procurement Strategy Report	26/08/2020
Pre-qualification (PQQ)	21/05/2021
Invitation to tender	18/06/2021
Closing date for return of tenders	20/08/2021
Completion of evaluation of tenders	31/08/2021
DCRB Review Gateway 2:	15/11/2021
CCRB Review Gateway 2:	25/11/2021
Notification of Forthcoming Decision	30/11/2021
Gateway 2 Approval	09/12/2021
Scrutiny Call-in Period and notification of implementation of Gateway 2 decision	20/12/2021
Debrief Notice and Standstill Period (if applicable)	21/12/2021
Contract award	03/01/2022
Add to Contract Register	04/01/2022
Contract start	12/03/2022
Publication of award notice in Find a Tender Service	05/01/2022
Publication of award notice on Contracts Finder	05/01/2022
Practical completion date	20/05/2023
Contract completion date	19/05/2024

KEY ISSUES FOR CONSIDERATION

Description of procurement outcomes

20. The procurement has enabled one contractor to be selected who will deliver construction works in line with the Maltby and Fendall planning approval for 40 new homes. These new homes are part of the council's 11,000 new homes programme.
21. The contract value is considered to represent value for money. The build cost per square metre equates to approximately £3,110/m², which is reasonable. The sum is below the pre-tender estimate for the works (estimated by Quantity Surveyor Pellings of £14,199,300).

Key/Non Key decisions

22. This report deals with a key decision.

Policy implications

23. The 40 new homes at Fendall and Maltby Street are designed to help meet the target as set out in the council's New Homes Programme to deliver 11,000 new council homes at social rents by 2043, of which 2,500 will be delivered by 2022.

Tender process

24. The proposed works contract has been procured in accordance Public Contract Regulations 2015 and followed two stages, pre-qualification (PQQ) followed by invitation to tender (ITT).
25. Following advertisement through Find a Tender, Contracts finder and the London Tender Portal, ten contractors responded to the pre-qualification questionnaire and five contractors invited to tender in accordance with the Applicants selections guidance (PAS91 PPQ).
26. The tendering exercise was undertaken using the council's E Procurement portal, Pro Contract.
27. Two of the five contractors advised that they were unable to tender for this scheme due to commitments on other tenders and insufficient resources within their estimating department.
28. Three council officers evaluated the PQQ and the quality section of the subsequent tenders and a representative from Pellings LLP appointed as Employers Agent (EA). A consensus scoring method was used during this evaluation.

29. Pellings LLP (also appointed as Quantity Surveyor for the project) examined the price and contract sum analysis. The council's Finance department completed financial checks on each tenderer.

Tender evaluation

Pre-Qualification Questionnaire

30. The standard suppliers' questionnaire included a quality assessment that focused on the following:

- A. Experience – 30%
- B. Delivery, quality and compliance – 40%
- C. Living wage, Apprenticeships and Local Labour – 30%

31. The top five scoring tenderers were shortlisted and invited to ITT stage. The lowest scoring contractors were not invited to ITT stage.

Invitation to Tender

32. As stated in the Gateway 1 report, contracts will be awarded based on using a combined price/quality/social value-weighting ratio of 60/30/10 which takes into account the council's requirement to include social value evaluation for all procurements above £100,000.

33. 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 focused around the following:

- a. Quality, Innovation and Value for Money
- b. Constraint and Delivery
- c. Defects, Quality and Future Maintenance

34. The questions within the quality assessment were weighted equally as detailed in the tender evaluation assessment criteria.

35. Tenderers were required to provide a contract sum and a contract sum analysis, which was scrutinised by the Employer's Agent.

36. All tenderers met the quality threshold scores (minimum of 2 out of 5 marks) in accordance with the evaluation criteria and no tenders were excluded.

37. A summary of the outcome of the quality scores is provided in the closed report.

38. Price was scored against lowest value only. The Gateway 1 report states a combination of lowest and closest to the median price shall be used, however considering the volatile market it was agreed by the Head of Development scoring against the lowest cost will ensure value for money. The formula used for the price score is below:

$$\text{Score} = (\text{Lowest Bid Value} \div \text{Scoring Bid Value}) \times 60$$

39. Tender clarifications were sought on a number for points.
40. The proposed contract sum is £13,208,817.62
41. ARJ construction are both the lowest priced bid and the highest quality ranking.

Plans for the transition from the old to the new contract

42. Not applicable.

Plans for monitoring and management of the contract

43. The council's contract register publishes the details of all contracts over £5,000 in value to meet the obligations of the Local Government Transparency Code. The Report Author must ensure that all appropriate details of this procurement are added to the contract register via the eProcurement System.
44. The project management, including the management and administration of the contractor appointment will be run and resourced through the New Homes Delivery Team in the New Homes Division of the Housing & Modernisation Department. Performance of the construction 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
 - Annual monitoring reports to DCRB and CCRB
45. Payment will be made monthly based on a valuation that has been verified and agreed by the Employer's Agents.
46. 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

47.

	RISK	RISK LEVEL	MITIGATION ACTION
1	Contractor has inadequate resources and management arrangements to mobilise and deliver the contract	Low	A review of the financial standing undertaken by the Finance department indicates that ARJ Construction have the necessary financial capacity to undertake a contract of this size. The New Homes Delivery Team will closely monitor the contract and regularly review their general performance as well as performance in relation to their subcontractors.
2.	Contractor becomes insolvent, ceases trading and goes into administration	Low	The contractor will obtain insolvency cover, and in addition, provide a performance bond for this project.
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 which the council anticipates will be necessary have been carried out which should help mitigate against there being any unforeseen site conditions or abnormalities. Any future variations will be fully scrutinised, justified and costed by the Employer's Agent prior to instruction. Value engineering will take place where necessary to ensure that the budget is achieved,
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. The tender process also tested the contractor's 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 extensions of time will be fully scrutinised, justified and costed by the Employer's 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.
7.	Brexit and Covid related price increases and time delays.	High	Responsive contract management. Pro- active cost management throughout the contract and scrutinise all cost variations.

48. A performance bond/parent company guarantee will be provided for this contract.

Other considerations (For Housing Department works contracts only)

49. 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 and the council's Employer's Requirements.

Community, equalities (including socio-economic) and health impacts

Community impact statement

50. 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.

51. 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.
52. Households near the new developments may experience inconvenience and disruption in the short term whilst works are taking place. However such communities will benefit in the longer term from the provision of new homes, particularly as at least 50% of these homes will be let to existing tenants from the local area subject to an agreed local lettings policy.
53. Local residents will be consulted at each stage of the development proposals as outlined in the Charter of Principles agreed by cabinet in November 2014.

Equalities (including socio-economic) impact statement

54. The development will increase the supply of affordable, good quality homes and will benefit households in need from Southwark communities. It will increase the housing options available to older people and people with disabilities also.
55. Both schemes will benefit from the re-provision of new and improved play areas, which will be accessible to all of the local and wider community.

Health impact statement

56. The provision of 40 new quality homes provides a positive impact on health inequalities, as the scheme is designed to current quality and space standards that will contribute towards addressing health inequalities. 50% to 100% of the new homes will be allocated to existing residents/those in housing need in the borough, residents who are living in overcrowded conditions, or unsuitable housing will benefit. In addition to this rent levels are set at council rent, that are lower than London Affordable rent levels and market rent levels making them genuinely affordable. Health and wellbeing are further addressed by providing residents with individual balconies for outdoor space, along with communal landscaping.

Climate change implications

57. The developments will comply with Building Regulations Part L that addresses the conservation of fuel and power, and guarantees eco-friendly efficient properties and minimise carbon emissions, as part of a drive towards a greener future.
58. The schemes will also incorporate landscape improvements and provide new place space. The new homes have mechanical and heat recovery ventilation systems. The cumulative CO2 savings on site are estimated at 50.5% against a Part L 2013 compliant scheme and the development will aim to achieve at

least 35% reduction post-planning as required by policy. The new blocks will have a grid-connected photovoltaic system.

59. The proposed development complies with the London Plan CO2 savings target of 35% overall.
60. To achieve 'zero carbon' for the residential portion of the scheme, 30 tonnes per annum of regulated CO2, equivalent to 285.3 tonnes over 30 years, from the new-build domestic portion should be offset offsite.
61. Any carbon offset contributions will be subject to viability discussions and detailed design stage calculations.
62. The proposed development has been designed to meet energy policies set out by the GLA and the London Borough of Southwark Local Plan, which demonstrates the client and the design team's commitment to enhancing sustainability of the scheme.

Social Value considerations

63. 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.
64. The council's approach to procurement of design, development and construction process will ensure a requirement to maintain and improve the sustainability of the project.
65. A low energy, efficient and cost effective building engineering services design that keeps running costs to a minimum is an essential component of the project brief. Key considerations 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 the project achieves Code of Sustainable Homes criteria or any successor requirement.
66. ARJ Construction Ltd will be participating in a local employment and training initiative in line with the Southwark Economic Wellbeing Strategy 2012-20.

Economic considerations

67. 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.
68. The council is an officially accredited London Living Wage (LLW) Employer and is committed to ensuring that, where appropriate, contractors and subcontractors engaged by the council to provide works or services within Southwark pay their staff at a minimum rate equivalent to the LLW rate. The Gateway 1 report dated 26 August 2020 confirmed for the reasons stated in that report, payment of LLW was an appropriate and best value requirement for this contract. ARJ Construction Ltd has confirmed that they will meet the LLW requirements. Following award, quality improvements and cost implications linked to the payment of LLW will be monitored as part of the contract review process.

Social considerations

69. The new housing will provide high quality affordable housing for local people in need of accommodation. At least 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.
70. The new rented homes will be let at social rent levels.
71. ARJ Construction Ltd will seek to employ 14 new apprentices and also provide training and work placement opportunities.

Environmental/Sustainability considerations

72. By investing in high quality, 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.
73. 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.
74. The developments will meet the targets set out by the council's Sustainable Design and Construction SPD and the Greater London Authority (GLA). Key sustainability features:
 - Design that minimises the demand for space conditioning, ventilation and lighting whilst mitigating overheating risks;
 - Efficient design of the proposed massing, openings and internal layouts so that habitable spaces across the site benefit from abundant daylight and sunlight levels, are naturally ventilated and passively cooled;

- The specification of water efficient fittings to limit water consumption to less than 105 litres per person per day for domestic uses;
- The protection of natural features of ecological value and the improvement of biodiversity on site through wild-flower roofs, terrace planting and soft landscaping;
- The incorporation of Sustainable Urban Drainage Systems in the form of green roofs;
- Effective air, noise, water and land pollution management and control: the development is not expected to have any significant adverse effects to air, noise, land or watercourses;
- Considerate construction practices and the efficient management of construction and operational waste.

Market considerations

75. The market for construction related services is good. Of the ten firms that expressed an interest in the project at PQQ stage, five were invited to tender and three subsequently provided a bid. This level of response is considered sufficient.

Staffing implications

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

Financial implications

77. The value of the contract arising from the procurement described in this report is £13,208,817.62.

78. The cost of delivery of the new council rented homes will be funded from £3,800,000 grant funding from the GLA Building Homes for Londoners Programme, S106 contributions, the HRA, and other council resources including borrowing.

79. The council is the end user, thus the VAT reverse charge does not apply.

Investment implications

80. 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)

81. A FAME credit check has been undertaken by the Councils finance department.

Legal implications

82. Please see concurrent from the Director of Law and Governance.

Consultation

83. Local residents will be consulted at each stage of the development through a range of methods as outlined in the Charter of Principles agreed by cabinet in November 2017.

Other implications or issues

84. Not applicable.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance and Governance

85. The report seeks approval from Strategic Director of Housing and Modernisation in consultation with Cabinet member for Council Homes and Homelessness to award the award of works contract to build 40 new council homes at Woodville and St Vincent House to ARJ Construction Limited for the sum of £13,208,817.62.

86. There is an estimated resource shortfall for the Housing Investment Programme. There is also likely to be further demand on this programme and it is therefore important that the costs of these works are carefully monitored and that accurate forecasting is in place to enable efficient financing of capital expenditure over the life of the programme.

87. Any variation or extension of the contract beyond the scope of this report will require further approval in line with the council's procurement protocols.

Head of Procurement

88. This report seeks approval from The Strategic Director of Housing and Modernisation in consultation with the Cabinet Member for Council Homes and Homelessness to award the works contract for Woodville House (Maltby Street) and St Vincent House (Fendall Street Garages) for the sum of £13,208,817.62 to ARJ Construction Ltd, commencing 12 March 2022 for a construction period of 62 weeks from site possession until approximately 20 May 2023.

89. The Strategic Director of Housing and Modernisation in consultation with the Cabinet Member for Council Homes and Homelessness notes the details in recommendation 2.

90. The Strategic Director of Housing and Modernisation in consultation with the Cabinet Member for Council Homes and Homelessness also notes the procurement process is detailed in paragraphs 19 to 36, contract management and monitoring is detailed in paragraphs 38 to 41, risks are

detailed in paragraph 32, the impact on equalities, health and climate change are detailed in paragraphs 49 to 57, social value commitments are detailed in paragraph 61 and confirmation of the payment of London Living Wage is detailed in paragraph 63

Director of Law and Governance

91. This report seeks the approval of the Strategic Director of Housing and Modernisation (in consultation with the Cabinet Member for Council Homes and Homelessness) to the award of contract for Fendall Street Garages and Maltby Street to ARJ Construction Limited as further detailed in paragraphs 1-7. At this value the award decision would ordinarily be a Cabinet Member decision, but as noted in paragraph 10, this decision has been delegated to the Strategic Director of Housing and Modernisation subject to a requirement for consultation with the Cabinet Member.
92. The nature and value of these works are such that they are subject to the full tendering requirements of the Public Contract Regulations 2015 (PCR15). As noted in paragraph 15, the contract has been procured following a restricted tender process compliant with the PCR15. The council, using the evaluation methodology set out in the tender documents has identified the most economically advantageous tender as that provided by ARJ Construction Limited, who is therefore recommended for award.
93. The Strategic Director'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 Strategic Director is specifically referred to the community, equalities (including socio-economic) and health impacts at paragraphs 50-62 setting out the consideration that has been given to equalities issues which should be considered when approving the recommendations in this report.
94. Contract Standing Order 2.3 requires that no steps are taken to award a contract unless the expenditure involved has been included in approved estimates, or otherwise approved by the council. Paragraphs 77-80 confirm the financial implications of this award.

Director of Exchequer (for housing contracts only)

95. Not applicable

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 (and as otherwise recorded in Part B below).



13 December 2021

Signature Date.....
Michael Scorer, Strategic Director of Housing and Modernisation

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

- 1) All key decisions taken by officers
- 2) Any non-key decisions that are sufficiently important and/or sensitive that a reasonable member of the public would reasonably expect it to be publicly available (see 'FOR DELEGATED DECISIONS' section of the guidance).

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
Not applicable.
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

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.

None

6. DECLARATION ON CONFLICTS OF INTERESTS

I declare that I was informed of no conflicts of interests.*

or

~~I declare that I was informed of the conflicts of interests set out in Part B4.*~~

(* - Please delete as appropriate)

BACKGROUND DOCUMENTS

Background documents	Held At	Contact
Gateway 1 Procurement Strategy Contractor Service for Fendall & Maltby New Homes development.	Cabinet Member for Social Regeneration, Great Estates and New Council Homes	Director of New Homes
Link: https://modern.gov.southwark.gov.uk/documents/s90385/Report.pdf		

APPENDIX

No	Title
n/a	

AUDIT TRAIL

Lead Officer	Stuart Davis, Director of New Homes	
Report Author	Patrick Cooper, Project Manager	
Version	Final	
Dated	2 December 2021	
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 Governance	Yes	Yes
Director of Exchequer (for housing contracts only)	n/a	n/a
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
Cabinet	N/a	N/a
Date final report sent to Constitutional Team		13 December 2021