

<b>Item No.</b>	<b>Classification:</b> Open	<b>Date:</b> 4 May 2022	<b>Decision Taker:</b> Strategic Director of Housing and Modernisation
<b>Report title:</b>		<b>Gateway 2 - Contract Award Approval</b> Main Works Contract – Cator Street 2	
<b>Ward(s) or groups affected:</b>		Peckham	
<b>From:</b>		Strategic Lead, Southwark Construction	

### 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 the main works contract to Equans Regeneration Ltd (Equans) in the sum of £20,153,000 for a period of 83 weeks commencing in May 2022 and completing in January 2024, to deliver a total of 58 new council homes and a multi-purpose flexible space.

### BACKGROUND INFORMATION

2. The Cator Street 2 project is a proposed new build development on the site of the former learning resource centre. The initial Invitation to Tender (ITT) issued on 25 February 2020 was to provide 50 extra (or flexi) care homes on the upper floors and a new dementia day care centre and community & information hub on the ground floor, in accordance with the GW1 report approved by cabinet in March 2019. Due to the outbreak of Covid-19, and an adult social care review of service provision, the proposed use for the ground floor was amended in August 2020 so that the new plan removed the dementia day centre and community & information hub and replaced them with eight additional wheelchair accessible homes and a new community day centre space.
3. The extra care homes at Cator Street 2 will link with Tayo Situ House to create a single service delivering a total of 92 extra care homes that will be more economical to manage for the adult social care service as well as meeting the need that exists for extra care homes.
4. The site for this project is currently vacant, with the previous learning & resource centre having been declared surplus to requirements and demolished in 2017. All that remains of the building are some in ground foundations and a basement substation that is to be relocated.
5. A professional services team was appointed in October 2018 and detailed design work has been ongoing since then. Further detailed background information is available in both the Gateway 1 (GW1) report and the

Gateway 2 (GW2) approval of contract for professional services (listed in background documents with links).

6. Under the GW1 report for the procurement strategy approved by cabinet in March 2019, cabinet delegated approval of this GW2 report to the Strategic Director of Housing and Modernisation, in consultation with the then Cabinet Member for Housing.
7. The GW1 report recommended that the substation relocation be procured separately from the main contractor. However, early in the tender process, as the designs progressed, it became clear that the electrical cabling running between the substation, Tayo Situ House and the new development were much more integrated than initially thought and it would not be possible to let a contract for the substation relocation alone.
8. A proposal to include these works as an enabling works package to the main contract was proposed to the project board, which consists of Regeneration, Housing & Modernisation and Adult Social Care Directors and Facilities Management and Finance colleagues as well as the project team. Advice was sought from procurement representatives and the council's external lawyers Sharpe Pritchard as and when required.
9. The board discussed the proposal to now include the substation relocation and confirmed this as an enabling works package which would reduce the risk of any conflict from different contractors working on the same site. An addendum confirming the relocation of the substation was issued to all tenderers and at the Housing and Modernisation Departmental Contract Review Board (DCRB) on 17 August 2020, the Strategic Director of Housing and Modernisation agreed the procurement strategy to include the enabling works within the ITT.
10. The stage 1 award of contract was approved by the Strategic Director of Housing and Modernisation, in consultation with the then Cabinet Member for Housing, on 4 March 2021 and the decision was implementable on 16 March 2021.
11. Since that time, Equans have worked to complete the Pre-Construction Services Agreement (PCSA) and Enabling Works and a Stage 2 tender submission was received on 26 November 2021, with final price confirmed on 7 Dec 2021. This report sets out the evaluation of the Stage 2 tender return and recommends an award of contract.
12. It should be noted that concurrently with the procurement process, Equans Regeneration Ltd is the new name for the contractor. The initial PCSA and enabling works contracts were awarded to Engie Regeneration Ltd, as set out in the GW2 award of contract report, but following a company takeover in 2021, and formal name change coming into effect on 4 April 2022, the contractor is now known as Equans Regeneration Ltd.

## Procurement project plan (Key Decision)

Activity	Completed by/Complete by:
Forward Plan for Gateway 2 decision	10/01/2022
Briefed relevant cabinet member (over £100k)	25/04/2022
Approval of Gateway 1: Procurement Strategy Report	12/03/2019
Invitation to tender	25/02/2020
Closing date for return of tenders	26/11/2021
Completion of evaluation of tenders	09/03/2022
DCRB Review Gateway 2:	20/04/2022
CCRB Review Gateway 2:	21/04/2022
Request to Chair of Overview and Scrutiny for Urgent Implementation, waiving the notification - five clear working days and call-in period of five working days	28/04/2022
Approval of Gateway 2: Contract Award Report	04/05/2022
Debrief Notice and Standstill Period (if applicable)	04/05/2022
Contract award	05/05/2022
Add to Contract Register	05/05/2022
Contract start	16/05/2022
Publication of award notice in Find a Tender Service	05/05/2022
Publication of award notice on Contracts Finder	05/05/2022
Contract completion date	29/01/2024

## KEY ISSUES FOR CONSIDERATION

### Description of procurement outcomes

13. This report seeks to award the main works contract, which is the second stage of a two stage tender process, to Equans. The first stage of the procurement involved a competitive process utilising the Notting Hill Genesis Framework for the award of the PCSA and the Enabling Works and the second stage is award of the Main Works contract that is the subject of this report.
14. When undertaking a two-stage procurement process, there is an expectation that the tenderer awarded the PCSA contract will progress to be awarded the main works contract. It is not however, mandatory to do so

and is subject to a final assessment of the contract sum and value for money being obtained.

15. The appointment for the main works contractor will deliver the following in an accessible environment with appropriate landscaping and public realm improvements:
  - **Extra Care Residential Accommodation** – as mentioned in paragraph 3 of this report, the 50 extra care units will link in with the existing 42 units at Tayo Situ House, this will allow for efficiencies in service delivery. The proposed extra care housing development will be of benefit to this vulnerable group within the local community
  - **Additional Wheelchair Homes** – for general purpose council housing, five stand-alone two bed and three one bed wheelchair accessible homes
  - **Multi-Purpose Space** – a revised offer for a flexible community space for service providers, on site residents and the wider community.
16. This appointment includes the works on site through to completion and handover.

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

17. This report deals with a key decision.

### **Policy implications**

18. The recommendations in this report will facilitate;
  - a. The provision of 58 new council homes against the target of 11,000 homes by 2043, as set out in the Fairer Future promise for quality affordable homes; and
  - b. The council's aim of enabling vulnerable residents to remain in their homes and to lead and enjoy independent lives for longer, as set out in the Fairer Future 'healthy active lives' proposals.

### **Tender process**

19. As set out in the GW2 award of contract report, a competitive tender was undertaken at stage 1, utilising the Notting Hill Genesis framework, which saw three tenders received and evaluated. Equans was successful at this stage and was appointed to deliver the PCSA and enabling works contracts.
20. Following the appointment of Equans for Stage 1, PCSA and Enabling Works contracts, in March 2021 Equans commenced the design process and undertook an initial pricing exercise to confirm any values not previously fixed.

21. Accompanying the Stage 1 PCSA and Enabling Works costs, a main works total was also submitted and following extensive interrogation and further clarification a final total construction cost as set out in paragraph 8 of the closed report was confirmed in June 2021.
22. The construction market has seen marked increases in associated costs. Further details are set out in paragraphs 26-42 below and 13-29 of the closed report.
23. Due to the fluctuations in the market, sub-contractors are no longer willing, or able, to provide long term fixed pricing for quotes and so prices are only being held for a matter of weeks rather than 90 days as was industry standard.
24. As a result of the market conditions, Equans submitted revised pricing for all elements of the main works contract on 7 December 2021. The council's appointed Quantity Surveyor (QS) has confirmed the revised cost the council received for the main works contract is £20,153,000.
25. A detailed analysis of the submission was then undertaken by the council's cost consultant and their recommendations are set out below, in the closed report and in the tender evaluation report attached as Appendix A to the closed report.

### **Tender evaluation**

26. The evaluation of the Stage 2 tender return commenced on 7 December 2021. As is standard in two stage procurement, this was purely a price evaluation of Equans pricing submission.
27. As stated in paragraph 8 of the closed report, Equans provided a total construction cost in the stage 1 submission. This included both the PCSA Contract (£724,500) and the Enabling Works Contract (£370,500). In comparison with the other tenderers, this figure was significantly lower and therefore the project team extensively interrogated the figures submitted, but as detailed in the GW2 Award of PCSA and Enabling report, the council was ultimately satisfied with submission.
28. Equans were then appointed contractor for stage 1 of the project (PCSA and Enabling Works). During the PCSA period, Equans finalised their prices for the Stage 2 submission and due to unprecedented market conditions, the contractor advised that they were unable to deliver the Main Works for the original tendered costs.
29. In reviewing costs Faithful+Gould (F+G), quantity surveyors, confirmed the following materials have seen significant increases in costs during the latter half of 2021. The table below shows the percentage increase in price for elements of construction from Stage 1 award (May 2021) to Stage 2 submission (December 2021):

<b>Trade</b>	<b>% Increase in costs</b>
Groundworks & Frame	6.50%
Ceilings Partitions and Linings	20.00%
Timber Windows	7.50%
Brickwork	15.00%
Screeds	20.00%
Kitchens	15.00%

30. Brexit has also had an impact on materials imported from overseas and the wider British economy has seen inflation increase from 2.4% (source: [ONS CPIH ANNUAL RATE 00: ALL ITEMS 2015=100 - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/cpi/cpih/cpih-annual-rate-00-all-items-2015=100)) in Jun 2021 to 6.2% in March 22 (latest ONS release 13 April 2022).
31. At this point, the council then had to consider whether it would be economical to continue with the tender. The options considered are set out in the closed report at paragraph 18.
32. Having considered all options, the council acknowledged the extraordinary market conditions and confirmed the price for the works would be able to be resubmitted.
33. As revised costs for all elements of the works were submitted, and not just the provisional sums, this meant that a portion of the costs, the fixed price and any other bespoke allowances, were negotiated. The negotiated approach is not ideal in terms of obtaining competitive prices when compared with single stage competitive tendering however, in order to control any excessive cost increases and to ensure the council is achieving best value for money in these particular circumstances, F+G made comments and observations to Equans requesting them to re-evaluate and demonstrate any non-tendered costs as part of the e-mail query submissions and during the two-party clarification process.
34. A detailed review of the contractor's submission of the tendered packages was commenced in December 2021. F+G can confirm that the tendered costs are robust and that the contractor has satisfactorily complied (on an open book basis) with the tender process that relates to the tendered packages. Where no contractor pricing was received, Equans have inserted 'plugged' rates based on recently tendered and comparable projects which were negotiated and agreed with F+G.
35. The preliminaries and design costs claimed (people costs, equipment and site specifics) were previously agreed and have only marginally changed due to the increased programme durations and replacement of the size of the crane to be utilised, which were all agreed. The internal scaffolding

elements and any labour provision to distribute materials were priced within the subcontractor trade packages.

36. Crucially, the overheads and profit (OH&P) have not changed and Contractor's Risk is included, as set out in paragraph 23 of the closed report.
37. An inflation allowance (fixed price addition) was applied by Equans' supply chain within certain packages of work that are likely to attract labour and material increases over the next two years. Further details are included at paragraph 24 of the closed report.
38. This allowance is included as stated in paragraph 25 of the closed report and was agreed by Equans' board meeting back in November 2021.
39. It should be noted that Equans' inflation allowance (fixed price addition) is in addition to separate cost allowances as included by Equans' supply chain (where it was possible to fix the costs – brick supply, floor finishes, reinforcement/concrete, etc ) within certain packages of work that are likely to attract labour and material increases over the next two years.
40. F+G notes that the contractor has not increased the inflation figure since November 2021, even though there were further significant developments since then. The Omicron variant (Covid-19 Pandemic) was affecting the industry in December 2021 and early into 2022 for example and, more recently, the war in Eastern Europe (Russia and Ukraine conflict). The latest events have been causing inflationary price increases, as construction materials manufactured in Europe using coal, oil or gas such as brick, block, steel and glass could be affected by changes in the market pricing of fossil fuel commodities due to the conflict.
41. Materials such as timber, iron, steel and non-ferrous metals are currently imported from Russia and Ukraine. Although these imports account to less than 5% of the UK's total supply, the conflict and associated sanctions mean that direct trade in these materials will reduce. Suppliers of these imported materials will need to find alternative sources resulting in disruption to supply chains. There may also be an indirect increase in the market pricing of these materials. With regards to labour, cost of living increases due to reduced trade in commodities such as oil, gas and grain may result in increases in labour rates. On this basis, the inflation allowances can go up or down and need to be monitored as the project progresses, however the contractor has offered to eliminate this risk by confirming a fixed price.
42. As a result of these market uncertainties, programme implications and based on the financial information presented in the tender report, F+G have confirmed they are satisfied that the overall project costs for the sum of £20,153,000 are fair and reasonable.

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

43. Not applicable as this is a new contract.

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

44. 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 and Equans have been included on the council's contract register via the eProcurement System, should this report be approved, the main works contract will be added to the contract register.
45. The scheme will be monitored by project officers in the Southwark Construction Team acting as clients for the duration of the works whilst the council's consultant (F+G) will provide a single point of delivery of project management design oversight and cost control.
46. The council's project officer 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 progress reports by:
    - a. The council's consultant Project Manager
    - b. Main Works contractor
  - Risk and issues log
  - Regular reports to the Cator Street 2 Project Board
47. Additionally, a resource plan will be required from Equans covering both sub-contractor and Equans resources that are necessary to enable the delivery of the contract. This will be monitored at the monthly progress meetings by the council's consultants to give reassurance that the programme continues to be deliverable and in a timely manner. This can then be used to evidence non-performance in the event that we need to rely on termination clauses in the contract due to performance issues. A resource plan, and the regular monitoring of this, will be an incentive to Equans to perform.
48. Overall project progress will be reported to and monitored by the Housing and Modernisation Capital Programme.
49. Any demand on the construction contingency will be managed through the change control process set out in the contract. Annual performance reviews will also be prepared in line with the council's contract standing orders (CSOs)

## Identified risks for the new contract

### 50. Risk Table

No.	Risk	Risk Level	Mitigating Action
1	Fees exceed budget	Med	Wherever possible, the council has included an element of risk funding to offset any future fluctuations in cost of materials or labour. A fixed charge has also been included in order to mitigate any future requests for additional funding as set out in paragraphs 24-28 of the closed report.
2	Delay to obtaining Planning Permission for the revised ground floor proposals	Low	The project team are working with the planning team to fully understand the requirements for the application and have ongoing dialogue regarding the revised layout.
3	Contractor has inadequate resources and management arrangements to deliver the project	Low	The council checked at the procurement stage and prior to appointment have established that the contractor plans to allocate adequate resources and is willing to supplement additional resources to the project, if required. Through the tender period, the contractor confirmed adequate management arrangements in place to deliver the project.
4	Construction delays by the contractor.	Low	Clear information on key milestones has been agreed as part of the stage 2 submission. Project team will monitor and control the delivery process.
5	Delay in obtaining/failure to obtain utility consents, where it applies, e.g. PowerOn, UKPN, SGN	Low	The relocation of the substation will be concluded prior to the start of the main works contract and a commitment has been received to undertake early discussions regarding connections to other services.
6	Insolvency of contractor	Low	An up-to-date financial check has been obtained from Mint, which

			indicates that Equans financial standing is below what would normally be acceptable however, a performance bond is included in the main contract and any change in company details will be monitored and transferred if necessary. Additional protection is afforded through all payments being processed upon certification of work completed and not in advance.
7	Interruptions to work programme due to Covid-19	Med	Whilst the risk of new local lockdowns appears to have passed, the contractor has confirmed at tender stage that all works are to be completed in line with the government guidance on social distancing and that appropriate PPE is to be worn at all times. The project team will monitor this and any amendments to working practices that impact on the programme or cost will need to be agreed under the change control process
8.	Interruptions to work programme due to Brexit supply chain delays	Med	The main works for this project are scheduled to commence in May 2021. Supply chain delays are now known, although more recent events may also cause disruption. This will be an ongoing risk that will be monitored throughout the contract.
9.	Interruptions to supply chain due to conflict in Eastern Europe	High	The supply of materials such as bricks, blocks and steel will potentially be affected by the conflict, early orders will be placed as soon as possible to mitigate any affect this may have, but will remain a risk throughout the contract.
10.	Legal challenge to procurement	Low	The stage 1 appointment was robust and with external legal advice sought, the stage 2 award is in line with the council's Contract Standing Orders and procurement rules which reduces the likelihood of challenge

11.	Loss of GLA funding due to delayed start on site	Low	By awarding an enabling works contract, and relocating the substation, the council has mitigated the loss of funding as works have been deemed to have started on site
-----	--	-----	--

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

### Community impact statement

51. The proposal to increase the supply of affordable, good quality homes will benefit those requiring extra care accommodation from all Southwark's communities, and will increase the housing options available for older people and people with disabilities living in Southwark.
52. In reviewing the need for further extra care homes, the Adult Social Care team has confirmed the establishment of a 'Housing supply and demand for older people task and finish group' with social services – 'rightsizing' and targeting and providing support to tenants who want to downsize and move to supported housing and extra care (EC) is one of the top priorities.
53. The Allocations Team have identified there are several hundred applicants who need to be contacted to ensure they are aware of how to bid and are aware of their options and the services on offer. They have also identified that current council residents who are in general needs properties may be eligible and are currently under occupying properties. From the figures, there's certainly a need for more EC properties; the challenge now is to raise awareness which the team will do in conjunction with Resident Involvement.
54. Historically, the team has been working to fill voids but since commencing the Cator Street 2 project, Tayo Situ House as not been fully subscribed. The team are confident that with the proposed changes, as set out above, things will improve as there are certainly enough people in the borough to take up the voids.
55. There will be a small impact on the disabled and frail elderly community due to the change from a dedicated dementia day care centre to a more flexible community space however, the adult social care team continue to manage the need for specialised care and having access to a multi-purpose community space will allow for a wider ranges of services to be provided; from within the council and from external providers, such as Age UK.
56. Extensive consultation has been carried out with different stakeholders and comments regarding any inconvenience caused by the previous construction of Tayo Situ House have been noted and passed to the contractor to implement.

57. Those living in the vicinity of the new developments may experience some inconvenience and disruption while works are taking place, but the community as a whole will benefit in the longer term from the new homes. In local areas, the effects will be eased, in part by working closely with residents on the delivery process, and also through the specific planning requirements to mitigate any potential adverse effects of development in that local area.

### **Equalities (including socio-economic) impact statement**

58. As set out in paragraph 15 these works will deliver 50 extra care homes that will be available for vulnerable council tenants. In addition to these homes, there are also to be eight wheelchair council homes on the ground floor that will provide accessible accommodation to individuals and families on the council's housing waiting list.

### **Health impact statement**

59. New extra care and wheelchair accessible housing will improve the health and wellbeing of people of all ages. This development will provide 100% accessible housing and facilities, which will improve disabled people's health and wellbeing and quality of life.

### **Climate change implications**

60. Southwark Council declared a climate emergency in 2019 and has set 2030 as the target date to be carbon neutral. The Cator Street 2 development is aiming to contribute to a reduction in carbon emissions and has been designed with the following:
- Embedded building techniques – photovoltaic panels will be installed on the roof of the development
  - Ensuring the building is built to minimise carbon emissions in their use
61. In line with the London Plan, energy efficiency measures are proposed to minimise the energy used by the proposed development and consequently the associated carbon emissions. Furthermore, the proposed energy efficiency measures will ensure that the proposed development surpasses the minimum requirements set out in ADL2A 2013 (Approved Document Part L2A which sets out Building Regulations energy efficiency and emissions targets for new build non-domestic developments). To realise this potential, both passive and active energy efficiency measures will be adopted.
62. The approach taken has been to firstly reduce the required energy for heating and cooling by careful and intelligent fabric design. Secondly, active elements such as heat recovery, highly efficient motors, variable speed fans and pumps and efficient lighting are utilised.

## **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 wellbeing of the local area can be secured. The social value considerations included in the tender (as outlined in the GW1 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**

64. Consultancy personnel and, once occupied, staff, residents and visitors using the new buildings are likely to bring economic benefit to local traders through increased trade.
65. The engagement of local subcontractors and apprentices is included in the contract documentation in line with the council's apprenticeship requirement and Equans have provided details of their approach, attached as Appendix 2 of the closed report, confirming a minimum of 1 apprentice for every £1m of spend.

## **Social considerations**

66. The project will provide new high quality extra care and independent wheelchair housing for people in need of suitable accommodation from the council's housing register.
67. The council is an officially accredited London Living Wage (LLW) Employer and is committed to ensuring that, where appropriate, consultants and contractors engaged by the council to provide works or services within Southwark pay their staff at a minimum rate equivalent to the LLW rate. Payment of the LLW is a council requirement. This will provide best value for the council. Anticipated benefits include a more incentivised workforce and improved staff retention. Equans pays the LLW to its staff. Quality improvements and any cost implications will be monitored as part of the contract review process.
68. 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 actions concerning past blacklisting activities.
69. 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:
  - a. "Owned Up": clarified the facts and circumstances in a comprehensive manner by actively collaborating with the investigating authorities;

- b. “Cleaned Up”: taken concrete technical, organisational and personnel measures that are appropriate to prevent further criminal offences or misconduct, and
  - c. “Paid Up”: paid or undertaken to pay compensation in respect of any damage caused.
70. The council included a request for the necessary information from tenderers (using the council's standard documentation in relation to blacklisting). The council's contract conditions include an express condition requiring compliance with the blacklisting regulations and include a provision to allow the contract to be terminated for breach of these requirements.

### **Environmental/Sustainability considerations**

71. The Code for Sustainable Homes, although no longer a formal requirement, together with BREEAM (Building Research Establishment Environmental Assessment Method) will be used as a guide to cover the construction process and will set targets for minimising the adverse environmental impact of carrying out the works for the project.
72. The employer's requirements prescribes materials and components to be specified for the works. In terms of excluded construction materials, good practice is to be adopted:
- Asbestos products: not to be specified
  - Brick slips: only to be used where cast onto pre-cast elements as risk of failure is unacceptably high
  - Man-made mineral fibre (MMMMF): the material to be encapsulated in all applications
  - No insulation materials in which hydro fluorocarbons (HFCs) are used in their manufacture or application
  - No hardwood unless from FSC or equivalent sources.
73. A low energy, efficient and cost effective building engineering services design that keeps running costs to a minimum, has been an essential component of the project. Key considerations included:
- Whole life-cycle costs;
  - Sustainable sourcing, including locally produced materials and, where possible, timber from renewable resources.
  - Incorporation of environmentally benign heating and lighting provision;
  - Provision of facilities and equipment to encourage the re-use and recycling of materials including, where practicable, water recycling;
74. Ensuring the project achieves a standard equivalent to the former Code for Sustainable Homes Level 4 criteria and BREEAM 'excellent'. The Code for Sustainable Homes requirements covers the construction process as well

as design and specification and set targets for minimising the adverse environmental impact of carrying out the works for the project.

### **Market considerations**

75. Originally part of the Keepmoat group, the contractor was sold to Engie, the French multi-national power company, in 2017 for approx. £330m. Globally they have a turnover of approx. £650m with over 2000 employees.
76. Since the sale to Engie the business has been subject to some restructuring which has impacted their published financial results, although the underlying metrics of the business show them to be a viable and stable business. As mentioned in paragraph 12, and taking effect on 4 April 2022, Engie Regeneration Ltd have now legally changed the company name to Equans Regeneration Ltd.
77. Additionally Equans have made further significant investments to create a business that will deliver their long-term ambitions to remain a key player in the regeneration market in the UK.
78. Equans has an extensive customer base across the UK with many Local Authorities and housing associations. They are keen to maintain and grow this relationship with these organisations.
79. As mentioned in paragraph 29, it is noted that there have been significant market fluctuations recently due to a variety of factors, including the Covid-19 pandemic and war in Ukraine. These have predominantly been in relation to the cost of labour and materials.

### **Staffing implications**

80. The staff resource deployed to this procurement is sufficient to meet the proposed timetable.
81. The project will be resourced by existing staff, within existing budgets

### **Financial implications**

82. For construction (works) contracts, the council is the end user in relation to Domestic Reverse Charge (DRC) and notification of this will be included in the letter of award to the successful contractor.
83. As stated in paragraph 8 of the closed report, a main works total was submitted as part of the stage 1 submission. This was extensively interrogated and following a further clarification process a final total construction cost as stated in paragraph 44 of the closed report was confirmed in Jun 2021. When added to the additional costs for professional fees and other associated costs, it was confirmed the total cost of this project was within the approved budget of £21,820,000.

84. Since June 2021 the contractor has been working to provide a final, total, cost for the main works element of the contract. This has not been straight forward as the construction market has seen marked increases in associated costs.
85. As stated in paragraph 23, sub-contractors are no longer holding a fixed price for a period of more than two weeks and this has resulted in costs increasing across all elements of the tender. The revised tender sum, as confirmed by the council's consultants, for the main works element is £20,153,000. The cost of the project will continue to be accounted for within project code H-8888-0009.
86. The evaluation of the tender submission, as set out in paragraphs 26-42 of this report and paragraphs 13-29 of the closed report, identified the increase in the various elements of the price early on in the PCSA contract period which allowed the project team to discuss the increased costs with the project board. Further information and analysis is set out in paragraphs 44-49.

### **Investment implications**

87. Scheme proposals for the extra care residential component have been subject to investment checks using the council's internal viability appraisal model and initially returned a favourable outcome as detailed in paragraph 58 of the closed report. Following the ground floor amendment which now includes an additional 8 wheelchair homes, as well as the multi-purpose community space, the revised cost per unit has significantly increased due to cost of construction in the current market, as detailed further in paragraphs 29 and 30.
88. The design for the extra care units and communal space seeks to minimise running costs and provide a more economical facility than its predecessor establishments.
89. Both the extra care and wheelchair homes will generate a rental income for the council as well as provide outstanding accommodation for residents. An excellent facility for visitors to the multi-purpose community space is also to be provided

### **Legal implications**

90. Please see comments from the Director of Law and Governance below.

### **Consultation**

91. The council is committed to keeping the community informed of the works as they progress and will arrange for public presentations to be held in order for the community to 'meet the contractor' and understand the proposals and the likely impact.

92. Equans have a dedicated resident liaison officer and they will be in regular contact with the local Tenants and Residents Association (T&RA) as well as the wider community in the area.
93. Further community and member consultation will be undertaken as part of the re-design of the ground floor. Once appointed, the council and Equans will work together to prepare a schedule for community engagement which will include information leaflet drops, virtual meetings and consultation events at appropriate stages of design to ensure everyone is aware of the proposed amendments to the ground floor. Statutory consultation will also take place once the proposals are submitted for planning.
94. In line with the approval authority delegated by cabinet in the GW1, this report was presented to the Cabinet Member for Council Homes and Homelessness on 25 April 2022 where this report was cleared for further circulation.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Strategic Director of Finance and Governance (H&M 22/005)**

95. This report seeks the approval of the Strategic Director of Housing and Modernisation, in consultation with the Cabinet Member for Council Homes and Homelessness approves to award the main works contract for Cator Street 2 to Equans Regeneration Ltd for the sum of £20,153,000. The project will deliver 58 new council homes and a multi-purpose flexible space. As set out in the report, the recommendation to award the contract has follows careful consideration of options in light of significant increases in costs for this project and throughout the construction industry.
96. As outlined in the financial implications section of the report, the costs associated with this contract award will be funded from resources supporting the council's Housing Investment Programme.

### **Head of Procurement**

97. The Strategic Director of Housing and Modernisation, in consultation with the Cabinet Member for Council Homes and Homelessness approves the award of the main works contract for Cator Street 2 to Equans Regeneration Ltd for a sum of £20,153,000 for a period of 83 weeks commencing in May 2022 to deliver a total of 58 new council homes and a multi-purpose flexible space.
98. The Strategic Director of Housing and Modernisation and the Cabinet Member for Council Homes and Homelessness note the procurement is detailed in paragraphs 19 to 42, the management and monitoring of the contract are detailed in paragraphs 44 to 49, the risks are detailed in paragraph 50, the impact on equalities, health and climate change are detailed in paragraphs 59 to 62, paragraph 65 confirms Equans and its supply chain will provide one apprentice per £1m of spend as per the Fairer

Future Procurement Strategy and paragraph 67 confirms payment of the London Living Wage.

### **Director of Law and Governance**

99. The Director of Law and Governance notes the contents of this report which 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 the Cator Street Phase 2 main works to Equans Regeneration Limited, in the sum of £20,153,000 for a period of 83 weeks commencing in May 2022 and completing in January 2024, to deliver a total of 58 new council homes and a multi-purpose flexible space.
100. On the basis of the information contained in this report, it is confirmed that this procurement was carried out in accordance with Contract Standing Orders and the relevant legal requirements.
101. The procurement was undertaken in two stages. Stage 1 involved the award of a PCSA and was approved by the Strategic Director of Housing and Modernisation, in consultation with the then Cabinet Member for Housing, on 4 March 2021. Since that time, Equans have worked to complete the Pre-Construction Services Agreement (PCSA) and Enabling Works and a Stage 2 tender submission was received on 26 November 2021, with final price confirmed on 7 Dec 2021.
102. Paragraphs 19 to 42 of this report sets out the tender and evaluation process of the Stage 2 tender return.
103. Paragraphs 22 to 26 and paragraphs 28 to 42 highlights that there has been significant increases in costs during the latter half of 2021 caused by the market uncertainties, the Covid-19 pandemic and the conflict between Russia and Ukraine. A detailed review was conducted by the council's consultant F+G and confirms that they are satisfied that the overall project costs for the sum of £20,153,000 are fair and reasonable.
104. Paragraph 44 to 49 of this report details how the contract will be monitored and managed.
105. The identified risks of this contract and the actions to mitigate the risks are outlined in paragraph 50 of this report.
106. 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 to 58 setting out the consideration that has been given to

equalities issues which should be considered when approving the recommendations in this report.

107. The climate change implications in set out in paragraphs 60 to 62 and the environmental/ sustainability considerations in paragraphs 71 to 74 of this report.
108. 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 82 to 86 confirm the financial implications of this award.
109. Paragraph 17 and paragraph 12 of this report confirms that this is a Key Decision which needs to be implemented immediately by virtue of the urgency of the actions that need to be taken. In accordance with Rule 17.2 of the Access to Information Rules, this decision can only be taken if agreement is obtained from the Chair of the Overview and Scrutiny Committee that the decision proposed is reasonable and should be treated as a matter of urgency.

#### **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).

Signature...Michael Scorer ..... Date...4 May 2022.....  
**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).

<b>1. DECISION(S)</b>
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)

\* Under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, the council is required to put in place a scheme for recording and publishing some officer executive decisions. This process is sometimes referred to as "Regulation 13(4)".

## BACKGROUND DOCUMENTS

Background documents	Held At	Contact
Gateway 1 - Procurement Strategy Approval Main Contractor Procurement: Cator Street 2	www.southwark.gov.uk	Laura Wannop 0207 525 5352
Link: Item No. 14 at: <a href="http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&amp;MId=6088&amp;Ver=4">http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&amp;MId=6088&amp;Ver=4</a>		
<b>Gateway 2:</b> Contract Award for Cator Street 2 - Professional services only	www.southwark.gov.uk	Laura Wannop 0207 525 5352
Link: <a href="http://moderngov.southwark.gov.uk/mglIssueHistoryHome.aspx?IId=50018433&amp;Opt=0">http://moderngov.southwark.gov.uk/mglIssueHistoryHome.aspx?IId=50018433&amp;Opt=0</a>		
<b>Gateway 2:</b> Contract Award for Cator Street 2 Main Works – stage 1	www.southwark.gov.uk	Laura Wannop 0207 525 5352
Link: <a href="http://moderngov.southwark.gov.uk/mglIssueHistoryHome.aspx?IId=50016811&amp;amp;Opt=0">http://moderngov.southwark.gov.uk/mglIssueHistoryHome.aspx?IId=50016811&amp;amp;Opt=0</a>		

## APPENDICES

No	Title
None	

## AUDIT TRAIL

<b>Lead Officer</b>	Hemali Topiwala, Strategic Lead, Southwark Construction	
<b>Report Author</b>	Laura Wannop, Project Manager	
<b>Version</b>	Final	
<b>Dated</b>	4 May 2022	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>

Strategic Director of Finance and Governance	Yes	Yes
Head of Procurement	Yes	Yes
Director of Law and Governance	Yes	Yes
<b>Cabinet</b>	N/A	N/A
<b>Date final report sent to Constitutional Team</b>		4 May 2022