

<b>Item No.</b> 14.	<b>Classification:</b> Open	<b>Date:</b> 18 October 2022	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Gateway 2 – Contract Award Approval Partner & Financial Plan for redevelopment of the Tustin Estate	
<b>Ward(s) or groups affected:</b>		Old Kent Road	
<b>Cabinet Member:</b>		Councillor Darren Merrill, Council Homes and Homelessness	

## **FOREWORD – COUNCILLOR DARREN MERRILL, CABINET MEMBER FOR COUNCIL HOMES AND HOMELESSNESS**

The below report is for the approval for the council to approve the Partnership contract with BY Development Ltd to develop the agreed plans for the Tustin estate.

This represents a milestone moment, The Tustin Estate low rise redevelopment programme has come about after a huge amount of work to date from a resident-led board. And I wish to thank all those that have contributed.

This agreement shows the commencement in this project for high standard homes. The report sets out the phasing of the project starting with 167 replacement council rented and shared equity homes for those existing tenants and residents. This project will bring forward 690 homes over the four phases including 345 at social rent and 98 key worker homes, It also details the commitment to bring forward a new building for Pilgrims Way School.

As agreed in a previous Cabinet report work has already started on phase 1 and I am looking forward to finally seeing this project get out of the ground and visiting the new improved Tustin and seeing families growing and living there lives in what will be a fantastic development.

## **RECOMMENDATIONS**

1. The cabinet approve the award of the Tustin Estate Development Agreement contract (Phases 1-4) to BY Development Ltd (trading as Linkcity) in the estimated sum of £242,601,000 for a period of eight years, commencing on 1 November 2022.
2. The cabinet approve a further variation to the Housing Investment Programme as set out in the closed report.

3. The cabinet delegate Phases 2-4 approval to the Strategic Director of Housing and Modernisation in consultation with the Strategic Director of Finance and Governance and note if Phases 2-4 costs individually exceed the estimated costs by 20%, further approval will be required by cabinet.
4. The cabinet delegate to the Director of Planning and Growth in consultation with the Head of Property the grant of a building lease(s) and necessary building licences for the development and the grant of long leases and the taking of lease backs and option agreements as detailed in paragraph 29, and the entering into overage agreements as referred to in paragraph 29 this will be subject to a separate report.

## **BACKGROUND INFORMATION**

5. The Tustin Estate Low Rise Redevelopment Programme is the outcome of a resident-led investment decision into low-rise homes on the Tustin Estate following a feasibility process between 2019 and 2021 and a resident ballot in March 2021.
6. The programme comprises:
  - Demolition of 251 homes (200 council rented and 51 leasehold).
  - Construction of an estimated 690 homes including 202 replacement council homes, 443 additional affordable homes (345 social rent homes and 98 key worker homes), 27 shared equity homes and 220 homes for private sale.
  - Refurbishment of council homes in Manor Grove.
  - Development of a new park in the centre of the estate.
  - Demolition and replacement of Pilgrims' Way School.
  - Construction of new commercial spaces.
7. The new council homes included within the programme are being delivered as part of the council's commitment to build 11,000 new council homes by 2043.
8. The programme will be delivered in four phases. Phase 1 will deliver 167 replacement council rented and shared equity homes for existing council tenants and resident leaseholders with construction starting in October 2022 and expected to complete in early 2025. Phase 1 also includes the refurbishment of council homes in Manor Grove and investment in the public realm in that area. Later phases will deliver additional council rented and shared equity homes, council keyworker homes and private sale homes, as well as the replacement primary school and new commercial spaces. Completion of the whole scheme is currently programmed for summer 2030.
9. A planning application was submitted in March 2022, requesting detailed consent for Phase 1 and outline consent for Phase, 2, 3 and 4 and approved at the meeting of the Planning Committee on 19 July 2022.

10. Phasing Plan summary (see appendix 3)

**Phase 1 - September/October 2022 to early 2025**

- Hillbeck Close residents move in summer 2022
- Demolition of Hillbeck Close and Ullswater House
- Construction of Plots C, D and G1 providing new council rent and shared equity homes
- Refurbishment of council homes at Manor Grove
- Construction of Hillbeck Close extension and public realm in Manor Grove
- Bowness, Kentmere and Heversham residents move to new Phase 1 homes in 2025

**Phase 2 - Summer 2025 to Spring 2028**

- Demolition of Kentmere House and Heversham House
- Construction of buildings H, F1, F2 and G2 providing new council rent, shared equity and keyworker homes and homes for sale
- Completion of public realm to east of Tustin Common

**Phase 3 - Spring 2027 to Winter 2028**

- Construction of School and Plot E buildings providing new council rent, shared equity and keyworker homes and homes for sale
- Completion of New Hornshay Street and public realm to north of Tustin Common

**Phase 4 - Winter 2027 to Summer 2030**

- Demolition of existing school building
- Demolition of Bowness House
- Temporary relocation of existing businesses
- Construction of Plots A, B, J providing new council rent, shared equity and keyworker homes and homes for sale and new commercial space
- Completion of Patterdale Road extension and public realm improvements between buildings and to Old Kent Road
- Businesses move into new commercial space

11. For each of the future phases 2-4, there will need to be a design process that will lead to detailed planning applications. This design will be led by Linkcity, but will involve input and require sign-off from the council along with ongoing resident engagement. While the above paragraph (and appendix 3) lists what is expected to be delivered in each phase, this may vary based on the financial conditions and council requirements at the time each phase is submitted for planning.

12. The scheme has been allocated £31m Greater London Authority (GLA) grant, which is subject to the construction enabling works starting in October 2022, and the council has made an additional grant claim which if approved will result in a total of £41m grant.

13. Cabinet agreed the procurement strategy for a delivery partner for the Tustin Estate Low Rise Programme in July 2021, approving the use of a two-stage procurement process using the Pagabo framework. The two-stage process comprises of a Pre-Construction Services Agreement (PCSA) to deliver pre-construction services at stage one, followed by a Development Agreement for the delivery of the scheme including the construction works at stage two of the procurement. The council has the option to enter into the Development Agreement subject to successful completion of the scope of the PCSA including achieving financial close.
14. The PCSA was awarded to BY Development (trading as Linkcity) which is the development arm of construction firm Bouygues UK in January 2022. The works will be delivered by Bouygues UK. BY Development are performing well. There have been no delays or overspend.
15. During the selection process that involved residents from the Tustin Estate, Linkcity ended up with the highest quality score and the highest financial score of the tenders received. The analysis of the tenders received showed that Linkcity were asking for the lowest profit level of all bidders, meaning that their bid allowed for the most value towards the re-built estate.
16. Linkcity have experience of delivering other high-quality large scale housing development for local authorities and their contracting arm Bouygues are currently building the Flaxyard scheme for the council, which comprises 96 new council homes and 24 homes for shared ownership in Peckham.
17. Linkcity/Bouygues performance has been good. They have been active with their social value commitments and engaged in the design process. They lead monthly drop-in sessions and attend other drop-in sessions, the monthly Resident Project Group meeting and the monthly Tustin Community Association meeting.
18. As part of the scope of the PCSA, Bouygues obtained prices for Phase 1 work packages from suppliers and sub-contractors on an open book basis. External suppliers and specialist sub-contractors are required due to the range of different works required.
19. The council's appointed Quantity Surveyor has reviewed to confirm these costs as providing value for money when benchmarked against other sites.
20. In order to meet the target start on site date for GLA funding, the enabling works and demolition for Phase 1 was required to be brought forward in advance of formal entry into the Development Agreement. This budget was agreed by cabinet and a contract awarded in July 2022. This contract will be subsumed into the main building contract.

## Procurement project plan (Key Decision)

21.

Activity	Completed by/Complete by:
Forward Plan (If Strategic Procurement) Gateway 2	16/05/2022
Briefed relevant cabinet member (over £100k)	13/07/2022
Approval of Gateway 1: Procurement Strategy Report	13/07/2021
Invitation to tender	06/08/2021
Closing date for return of tenders	17/09/2021
Completion of evaluation of tenders	11/10/2021
DCRB Review Gateway 2:	08/08/2022
CCRB Review Gateway 2:	18/08/2022
Notification of forthcoming decision – despatch of Cabinet agenda papers	01/09/2022
Approval of Gateway 2: Contract Award Report	18/10/2022
End of Scrutiny Call-in period and notification of implementation of Gateway 2 decision	28/10/2022
Contract award	31/10/2022
Add to Contract Register	01/11/2022
Contract start	01/11/2022
Contract completion date	30/06/2030

## KEY ISSUES FOR CONSIDERATION

### Description of procurement outcomes

22. As set out by the procurement route, Linkcity will contract Bouygues to deliver the works. The works will be delivered by a combination of Bouygues and specialist sub-contractors.
23. Prices for the Phase 1 work packages have been obtained from sub-contractors on an open book basis. Through this process, suppliers provide a price for the works/services and the margin that can be added. This ensures that a market price is obtained. The cost of Phase 2-4 was estimated based on the prices that was achieved for Phase 1.

24. The enabling works and demolition contract will be subsumed into the main construction works contract once the Development Agreement is entered into.
25. The estimated contract value is £242,601,000. This includes a profit margin at 2% for Phase 1 social rent and 4% for other tenures. This means that it is 4% of development costs for all uses except the school and retail. The profit margin was agreed for the Development Agreement as part of the Pagabo framework procurement. The rate was the result of a competitive process run by the framework.
26. There is an additional Development Management fee (DM fee) set at 3% of the development costs, as agreed as part of the Pagabo framework procurement. The cost is included in recommendation 1.
27. Recent market condition such as reduction in labour force, supply issues with materials and inflation have meant construction costs have been steadily increasing. The Tender Price Index is currently forecasting circa 10% inflation over the next three years.
28. The council will enter into a Development Agreement (DA) for all phases and building contract for Phase 1.
29. The council will grant a long lease of the relevant parts of the site (i.e. those where private homes for sale are being constructed) to Linkcity and take a lease-back of the council housing and commercial space once delivered in relevant blocks. The council will grant building leases, building licenses, overage agreements and options agreements during the work on the rest of the site and to take rights of pre-emption where required.
30. The council is responsible for the cost of Phase 1 as this phase provides replacement homes for existing residents. It is intended that the funding from the private sale houses will help to fund the later phases as well as grant funding support for affordable tenure units. There is a process in the DA to agree the cost of future phases, meaning the council can consider whether to proceed or not if the cost was too high.
31. The indication from Linkcity is that the first phase of private homes (built in Phase 2) will be Build-to-Rent (also known as Private Rented Sector, or PRS) based on their assessment of the local market. This has been taken into account when discussing overage.
32. Linkcity will appoint a consultancy team including dRMM as architect who have been working on the scheme for a year.
33. Separately the council has appointed client-side consultants to take the scheme forward and ensure that the project is delivered to the highest quality for our residents.

34. The council has the obligation to provide vacant possession. Phase 1 will develop enough council social rent homes for all council tenants affected by the wider programme to make one move to. In addition shared equity homes will be built to meet the needs of resident leaseholders.

### **Policy implications**

35. The programme is aligned with 2020-22 Borough Plan commitments to deliver 11,000 new council homes by 2043.
36. The Fairer Future Procurement Framework commitments are applied to this procurement.

### **Tender process**

37. The tender process involved a two-stage procurement using the Pagabo framework as detailed in paragraph 13 of this report. Linkcity's PCSA tender contained pricing of the initial second stage submission.

### **Tender evaluation**

38. Details of the tender evaluation are set out in paragraphs 23 – 36 of the gateway 2 report for the PCSA (Appendix 1).
39. An open book approach was used to establish the phase 1 costs and these were checked by the quantity surveyor.

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

40. Not applicable.

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

41. 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.
42. The contract will be monitored and managed by the Senior Project Manager (Southwark Construction), supported by Pulse Consult who have been appointed by the council to provide additional construction project management support.
43. The Project Manager will ensure that process are in place to manage and monitor the contract including compliance with contract, performance against Key Performance Indicators (KPI) and programme and cost.
44. To ensure that quality is maintained, and that all of the homes delivered as part of the Tustin Estate Rebuilding are in line with commitments made to

residents, the council will appoint a design guardian. The design guardian will be a qualified architect, with experience in estate rebuilding schemes, who will work with the council and their other appointed consultants to monitor all of the design work carried out by Linkcity/Bouygues, to suggest improvements, and scrutinise any changes made.

45. An annual performance report will be prepared in line with the council's Contract Standing Orders.

**Identified risks for the new contract**

46.

No.	Identified Risk	Likelihood	Risk Control
1	Costs of development agreement increase due to rising inflation and current construction market pressures	High	<p>Given current market conditions, the council anticipates that costs of the works may increase. A contingency has been added to the estimated contract value which will be held client side in case of cost increases as set out in the closed report.</p> <p>Through the Pagabo framework, there are a number of safeguards to control costs for the delivery phase and ensure best value. These include:</p> <ul style="list-style-type: none"> <li>• The developer is required to obtain a minimum of three quotes for each supply chain element. For some packages it will be more.</li> <li>• Overhead and profit margins are provided as part of the tender and cannot be exceeded at a later stage.</li> </ul> <p>Additionally, the council's appointed Quantity Surveyor will witness the supply chain quotes and verify the value for money.</p>
2	Vacant possession of Phase 1 and Phase 2 buildings is delayed, causing a delay to demolition and construction	Medium	<p>Ullswater House is already vacant and secured.</p> <p>There are 27 council properties in Hillbeck Close, all of which are now void.</p> <p>Sales have been agreed with all five leaseholders in Phase 1 and are being progressed by the council's legal team.</p>

No.	Identified Risk	Likelihood	Risk Control
			<p>Progress on rehousing and leasehold acquisitions is being monitored closely by the Senior Project Manager.</p> <p>The construction programme is being reviewed to consider options to start on other sites within Phase 1 if vacant possession is delayed.</p>
3	Enabling works which was contained in a separate gateway take longer than anticipated, causing a delay in the start of the main works	Medium	Performance against programme will be closely monitored and risks actively mitigated.
4	The council is unable to make the future financial contributions required under the development agreement due to changes in financial conditions	Medium	<p>This development agreement commits the council to significant future financial contributions based on the content and timing of future phases.</p> <p>However there is the possibility to alter the timings and content of what is delivered in future phases to reduce the overall cost to the council's Housing Revenue Account (HRA). Although and changes will be dependent on planning permissions and resident engagement.</p>
5	Supplier becomes insolvent or no longer has the capacity to deliver scheme	Low	Robust financial assessments have been undertaken by Pagabo for framework appointment including independent financial and credit checks. Pagabo also tracks each developer's finances on an ad hoc on request basis through a credit report service which is reported to the council.
6	Procurement challenge	Low	The procurement has been conducted in accordance with the Pagabo framework terms and the Public Contracts Regulations 2015. The Gateway 1 report sets out that in line with the two stage procurement process, the council has the option to award the DA to Linkcity, subject to internal governance approval. The Gateway 1 report sets out that the DA

No.	Identified Risk	Likelihood	Risk Control
			will include all works to deliver the scheme.
7	Interruptions to work programme due to COVID-19	Low	The risk of new lockdowns is considered low and unlikely to cause significant disruption to delivery of the works. The project manager will monitor any likely delays caused by staff shortages.
8	Interruptions to work programme due to supply chain delays caused by Brexit or war in Ukraine	Low	The impact of any supply chain delays due to Brexit or war in Ukraine will be closely monitored and alternative options pursued wherever possible to reduce interruptions.

**Other considerations (For Housing Department works contracts only)**

47. Not applicable.

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

**Community impact statement**

48. Residents voted in favour of the redevelopment programme in a residents' ballot in March 2021. The scheme has been progressed in line with the council's Landlord Offer commitments and with the Tustin Resident Manifesto.
49. Resident representatives participated in the selection of the developer including scoring and interviewing.
50. Since being appointed in November 2021, the developer has attended monthly Resident Project Group meetings and has taken part in estate 'walkarounds' to better understand residents' needs and concerns about construction. The council will ensure that the developer continues to consult extensively with residents on site management through the established resident consultation structure including the monthly Resident Project Group meeting, the monthly Tustin Community Association meeting, regular drop-in sessions, the Tustin newsletter and noticeboard boards. Residents may experience some disruption during the works. These impacts will be mitigated as far as possible by working closely with residents and ensuring effective communication.
51. The developer will work with the council to continue engaging with residents over the course of the scheme, as detailed under consultation.

52. The social value offer is detailed under social value considerations.

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

53. Section 149 of the Equality Act, lays out the Public Sector Equality Duty which requires public bodies to consider all individuals when carrying out their day-to-day work in shaping policy, in delivering services and in relation to their own employees. It requires public bodies to have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations between different people when carrying out their activities. The council's Approach to Equality commits the council to ensuring that equality is an integral part of all activities.
54. The Tustin Estate Low Rise Redevelopment Programme has been developed in line with the council's Southwark Stands Together (SST) programme, a borough wide initiative in response to the injustice and racism experienced by Black, Asian and minority ethnic communities and to the inequalities exposed by COVID-19 pandemic.
55. A full Equalities and Health Impact Assessment (EHIA) (Appendix 2) was completed in December 2020. This was updated in March 2022 on the basis of the planning application.
56. The EHIA found that the majority vote in the residents ballot in combination with the scheme's potential to provide improved living conditions, housing quality, accessibility, public realm and community facilities presents a compelling case that the redevelopment is in the public interest. The EHIA sets out the potential risks and how the council has sought to mitigate these risks through a range of measures focused on engagement, rehousing assistance and compensation options.
57. The redevelopment programme is informed this assessment and the works will be delivered in accordance with the action plan in the assessment.

### **Health impact statement**

58. The EHIA sets out how the redevelopment programme has the potential to contribute to improved health outcomes for existing and future residents and to help tackle health inequalities through improved living conditions and improved public realm and green space. The report also sets out a number of risks related to health including the environmental effects of works which the council is seeking to mitigate through effective planning of the works and considerate construction impacts.
59. The Tustin Estate redevelopment has been selected by the Urban Health Initiative to become a case study of an exemplar construction project in reducing air pollution and improving air quality. As part of the project, a target for a 30% reduction in emissions from Non-Road Mobile Machinery has been set. The developer has made a commitment in their bid to meet this target.

60. Residents have been consulted on the draft Construction Management Plan which sets out how the site will be managed during construction and how health and safety risks will be minimised. As the Construction Management Plan also covers all other elements of the construction works for the overall scheme, consultation will be ongoing.

### Climate change implications

61. The scheme has been designed to minimise carbon emissions as far as possible. The construction of the overall scheme is estimated to deliver a 94% on site carbon emissions saving compared to a baseline development. The climate change implications of the main construction works will be considered in a future cabinet report to enter into the Development Agreement.

62. A bid for £700,703.45 Green Buildings Fund was approved by planning committee on September 1 for energy efficiency improvement works at Manor Grove including:

- Insulated roof decking on the new roofs
- Solar panels
- Wall insulation
- New double glazed windows
- Replacement of gas boiler systems with air source heat pump systems including mechanical ventilation and new radiators.

### 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 following social value commitments will be delivered as part of the contract:

<b>Commitment</b>	<b>Phase 1</b>	<b>Phase 2</b>	<b>Phase 3</b>	<b>Phase 4</b>	<b>Total</b>
Jobs for Southwark residents (at least 26 weeks)	40	53	20	53	166
Training courses for Southwark residents	40	53	20	53	166
Apprenticeships for Southwark residents	10	13	5	13	41
Work experience placements for Southwark residents	8	10	4	10	32

<b>Commitment</b>	<b>Phase 1</b>	<b>Phase 2</b>	<b>Phase 3</b>	<b>Phase 4</b>	<b>Total</b>
Graduate/management trainees from Southwark	2	2	0	2	6
Guaranteed interviews for Southwark residents	21	25	9	25	80
Jobs advertised to Southwark residents	100%	100%	100%	100%	100%
Educational workshops	6	7	3	8	24
Meet the buyer events for local suppliers	1	1	0	1	3
Staff volunteering hours	52	62	22	63	200

65. For Phase 1 the approximate value of the social value benefit is around £15m.
66. The developer has been consulting residents on what they would like to see from a social value offer. This will form the Residents Charter and will be a commitment within the DA.
67. The commitments will be monitored and managed by the Senior Project Manager (Southwark Construction), supported by Pulse Consult and reported to the Resident Project Group meeting and the monthly Tustin Community Association meeting. The social value commitments are in the DA and therefore enforceable by the council on the developer.

### **Economic considerations**

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 developer has made a commitment to the payment of LLW to all directly and sub-contracted staff on the project.
69. The developer has committed to 20% of the construction costs being spent with local suppliers over the course of the whole scheme. The council is working with the developer to ensure all opportunities are advertised to the local economy.
70. Both the Development Agreement and Building Contract that will be used to deliver the Tustin Estate Rebuilding project contain the following provision in respect of the Blacklisting Regulations:

“The Developer shall and shall procure that all staff and sub-contractors comply with the requirements of the Employment Relations Act 1999 (Blacklists) Regulations 2010 (the “Blacklists Regulations”) and shall ensure that it will not during the term of this Agreement be a party to or concur in any discriminatory employment practice which could be construed

as blacklisting or boycotting any person who sought employment with the Developer in breach of the Blacklists Regulations.”

### **Social considerations**

71. The scheme will provide new high quality council homes providing improved living conditions for existing and future residents. The scheme will also provide improved public realm and green spaces.

### **Environmental/Sustainability considerations**

72. Across the whole redevelopment project, the council’s approach to procurement of the design, development and construction processes ensures a requirement to maintain and improve sustainability.

73. The developer has committed to improving sustainability by ensuring at least 90% (by weight) of non-hazardous construction, demolition and excavation waste will be diverted from landfill and demolition waste will be reused in the main construction works where possible.

74. The council defines green jobs as:

“employment in an activity that directly contributes to - or indirectly supports - the achievement of the UK’s net zero emissions target and other environmental goals, such as nature restoration and mitigation against climate risks.”

75. Construction jobs created on sites achieving greater than 50% on-site carbon savings vs Part L of Building Regs will meet this definition. As this site will deliver 94% carbon savings vs Part L, this means that all the construction jobs in Phase 1 will meet the definition of green jobs. If subsequent phases achieve similar levels of carbon savings then they too will create green jobs.

76. The development will be connected to the SELCHP District Heat Network, and as part of this expansion of the district heat network the following green jobs will be created:

<b>Phase</b>	<b>Roles</b>	<b>Number</b>
Construction Phase	Traffic management operative	1
	General foreman /supervisor	1
	General labour (Civil construction - non-qualified)	2
	Assistant quantity surveyor	1

Phase	Roles	Number
	CAD Engineer	1
	Project management team - 1 Intermediate (part of a wider team)	1
	Project management team - 1 Graduate (part of a wider team)	1
	Local trades (buy some material locally) - Linked to many indirect jobs including Consultants (RIBA 4 design, TM, etc), Trades (construction suppliers, temporary rentals, others);	10
Operations and Maintenance Phase (throughout the 25 year contract)	Engineer - Billing and Metering, call-outs	1
	Engineer - ECI, Mechanical and H&S	1
	Contract Admin	1
	Indirect (statutory inspections, O&M works, material traders, etc)	Many

### Market considerations

77. BY Development (trading as Linkcity) is a private organisation that operates out of the UK. Linkcity is part of Bouygues UK which is wholly owned by Bouygues Bâtiment International, a subsidiary of Bouygues Construction which is based in France.
78. Linkcity has under 50 employees. Bouygues UK has over 250 employees. Linkcity and Bouygues have a national area of activity.

### Staffing implications

79. There are no additional staffing implications. Staffing needs will be met through existing structures.
80. External project management and Quantity Surveyor services have been appointed to support the delivery programme.

### Financial implications

81. 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.
82. The Phase 1 cost includes £4,034,460.40 previously approved for enabling works. This figure has been deducted from recommendation 3. It also includes £4,454,100 of provisional sums. There is potential for £1,120,811

of value engineering. The council will ensure any value engineering doesn't affect quality and the impacts consulted on with residents.

### Cashflow

	Phase 1	Phase 2	Phase 3	Phase 4	Total
2022/23	£ 10,918,000				<b>£ 10,918,000</b>
2023/24	£ 49,720,000				<b>£ 49,720,000</b>
2024/25	£ 36,194,000	£ 6,298,000			<b>£ 42,492,000</b>
2025/26	£ 2,168,000	£ 14,843,000			<b>£ 17,011,000</b>
2026/27		£ 22,158,000	£ 4,469,000		<b>£ 26,627,000</b>
2027/28		£ 6,101,000	£ 19,290,000		<b>£ 25,391,000</b>
2028/29			£ 9,741,000	£ 18,868,000	<b>£ 28,609,000</b>
2029/30				£ 28,730,000	<b>£ 28,730,000</b>
2030/31				£ 13,103,000	<b>£ 13,103,000</b>
<b>Total</b>	<b>£99,000,000</b>	<b>£ 49,400,000</b>	<b>£ 33,500,000</b>	<b>£ 60,701,000</b>	<b>£ 242,601,000</b>

83. The Phase 2-4 costs are estimates. There is some uncertainty and risk of construction costs increasing due to market changes. The report recommends that the Strategic Director of Housing and Modernisation in consultation with the Strategic Director of Finance and Governance approves Phases 2-4, but if Phases 2-4 costs individually exceed the estimated costs by 20%, further approval will be required by cabinet
84. If the recommendations in this report are agreed the council are only committed to the phase 1 spend. Before the costs for later phases are confirmed, Linkcity and Bouygues will conduct an open book tender process on all of the individual packages that make up each future phase, and these costs will then be reviewed by the council's quantity surveyor to ensure they are accurate.
85. The costs for each future phase will then be considered through the council's governance process as set out in paragraph 83. If the council declines to fund future phases then it will liable for any costs that Linkcity and Bouygues have incurred developing that phase so far.

86. The table below sets out the estimated costs of the four phases:

	<b>Scheme costs</b>
Phase 1	£99,000,000
Phase 2	£49,400,000
Phase 3	£33,500,000
Phase 4	£60,701,000
<b>Total</b>	<b>£242,601,000</b>

87. These costs will be incurred between financial years 2022-2030. The schedule of fees will be established within the contract agreement.

88. These costs will be funded from resources supporting the Housing Investment Programme.

89. This report also notes the council costs to support the delivery of the project, including professional fees and planning contributions. This is subject to a separate report.

90. The current approved budget is £19.47m. The table below sets out the variation:

Current approved budget	£19,470,000
Additional council costs	£32,391,214
Development Agreement	£242,601,000
<b>Total</b>	<b>£294,462,214</b>

91. The scheme has been allocated £31m GLA grant funding. A further grant application to increase this to £41m is currently being considered by the GLA

92. Estimated council receipts are £11,900,000, to be received 2026/27. The amount is based on the estimated profit income that will be made from Linkcity delivering the 220 private units as part of the Tustin development. Linkcity are currently intending to deliver these units as Build to Rent homes. There will be an overage clause included in the contract.

93. A General Fund bid and potentially an Educational Capital bid will be made for the school which is in Phase 3 and is subject to approval.

94. A report will go to Planning Committee requesting to use Community Infrastructure Levy funds for the school.
95. A bid for £700,703.45 Green Buildings Fund was approved by planning committee on 14 September 2022.

### **Investment implications**

96. This contract enables construction works to start on programme.

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

97. Not applicable.

### **Legal implications**

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

### **Consultation**

99. The redevelopment programme is the outcome of a resident led feasibility and options programme carried out between July 2019 and March 2021, culminating in the Landlord Offer and a resident ballot in March 2021. There has been ongoing consultation with residents on all elements of the scheme through the monthly Resident Project Group meeting, the monthly Tustin Community Association meeting, design meetings, regular drop-in sessions and the monthly Tustin newsletter.
100. Consultation on the developer tender process took place with the Tustin Resident Project Group and the Tustin Community Association. Residents were members of the evaluation and interview panel and took a prominent role in evaluating submissions.
101. The developer will work with the council to continue to consult extensively with residents on site management through the established resident consultation structure including the monthly Resident Project Group meeting, the monthly Tustin Community Association meeting, regular drop-in sessions, the Tustin newsletter and noticeboard boards. In addition there will be a community coordinator and resident liaison officer.
102. The council consulted on the DA through the Resident Project Group meeting in July 22.

### **Other implications or issues**

103. None.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Strategic Director of Finance and Governance (H&M 22/094)**

104. This report seeks cabinet approval to award the Tustin Estate Development Agreement contract (Phases 1-4) to BY Development Ltd (trading as Linkcity) for the estimated sum of £242,601,000 for a period of eight years, commencing on 1 November 2022. The contract forms part of the Tustin Estate Low Rise Redevelopment Programme, which is expected to deliver 690 new homes, of which 443 will be affordable homes, as well as community facilities, a replacement school and commercial premises.
105. As outlined in the financial implications section of the report, at this stage the council is committing to phase 1 of the development agreement. The cost of future phases, which are not included in the contract sum, will be significant and are required to complete the redevelopment programme. These are provided as estimates in the closed version of this report. The report sets out the arrangements and controls in place to review the costs of those phases.
106. To incorporate the Development Agreement fully into the council's Housing Investment Programme, cabinet approval is also sought for a variation to the Programme, the details of which are set out in the closed version this report. Because of the scale of this project, it is recognised at this time that these costs will be a call on borrowing and will therefore be reflected in future treasury strategy reports and in revenue budgets with regard to the cost of borrowing in HRA and General Fund budget monitoring reports and the Policy and Resources Strategy for 2023-24 and beyond.

### **Head of Procurement**

107. This report seeks approval from cabinet to award the Tustin Estate Development Agreement contract (Phases one to four) to BY Development Ltd (trading as Linkcity) in the estimated sum of £242,601,000 for a period of eight years, commencing on 1 November 2022.
108. Cabinet notes details of the procurement exercise is detailed in paragraphs 22 to 34 and 37 to 39, management and monitoring of the contract are detailed in paragraphs 41 to 45, the risks are detailed in paragraph 46, the impact on equalities, health and climate change are detailed in paragraphs 53 to 62, social value commitments are detailed in paragraph 63 and confirmation of the payment of LLW is detailed in paragraph 68.

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

109. The Director of Law and Governance notes the contents of this report which seeks the approval of the cabinet to the award of the Tustin Estate Development Agreement contract (Phases 1-4) to BY Development Ltd (trading as Linkcity) in the estimated sum of £242,601,000 for a period of

eight years, commencing on 1 November 2022. The cabinet's approval is also sought for a further variation of the Housing Investment Programme as detailed in the closed version of this report. Furthermore, cabinet is requested to delegate Phases 2 to 4 to the Strategic Director of Housing and Modernisation in consultation with the Strategic Director of Finance and Governance as outlined in paragraph 3. Paragraph 4 of this report requests that the cabinet delegates the property related matters to the Director of Planning and Growth in consultation with the Head of Property.

110. 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.
111. The procurement was carried out in two stages. The stage 1 involved the award of a PCSA and was approved by the Strategic Director of Housing and Modernisation on 18 November 2021, in consultation with the Cabinet Member Council Homes and Homelessness. Since that time, Linkcity have worked to complete the Pre-Construction Services Agreement (PCSA). As part of the scope of the PCSA, Linkcity, through Bouygues, obtained prices for Phase 1 work packages from suppliers and sub-contractors on an open book basis. Paragraph 19 of this report highlights that the council's appointed Quantity Surveyor reviewed the prices and confirmed the costs provided value for money when benchmarked against other sites. Stage 2 of the tender process is to enter into a Development Agreement with BY Development (trading as Linkcity) for the delivery of the scheme including the construction works outlined in this report. Linkcity will contract Bouygues to deliver the works. The works will be delivered by a combination of Bouygues and specialist sub-contractors
112. Paragraph 27 highlights that there has been an increase in costs due to the market uncertainties and inflation and the table in paragraph 46 of this report highlights that there is a high likelihood that costs of the works may increase. As a mitigation, a contingency has been added to the estimated contract value which will be held client side in case of cost increases as set out in the closed report. A further mitigation, as highlighted in paragraph 46 is that the Pagabo framework has safeguards in place to control costs for the delivery phase and ensure best value. Further identified risk of this contract and how they can be mitigated are outlined in paragraph 46 of this report.
113. Cabinet's attention is drawn to the Public Sector Equality duty (PSED General Duty) under the Equality Act 2010, which requires public bodies to have regard, when making decisions, to the need to eliminate discrimination, advance equality of opportunity and foster good relations between persons who share a relevant protected characteristic and those who do not share it. Cabinet is specifically referred to the community, equalities (including socio-economic) and health impacts at paragraphs 48 to 60 out the consideration that has been given to equalities issues which should be considered when approving the recommendations in this report.

114. 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 81 to 95 of this report confirm the financial implications of the award.

**Director of Exchequer (for housing contracts only)**

115. Not applicable.

**BACKGROUND DOCUMENTS**

<b>Background documents</b>	<b>Held At</b>	<b>Contact</b>
Tustin Estate Low Rise Re-development Delivery Programme	Constitutional Team / Tooley Street	Paula Thornton Paula.thornton@southwark.gov.uk
<b>Link (please copy and paste into browser):</b> <a href="https://modern.gov.southwark.gov.uk/mglIssueHistoryHome.aspx?Id=50025098&amp;optionId=0">https://modern.gov.southwark.gov.uk/mglIssueHistoryHome.aspx?Id=50025098&amp;optionId=0</a>		

**APPENDICES**

<b>No</b>	<b>Title</b>
Appendix 1	Gateway 2 - Contract Award Approval: Procurement of a Delivery Partner (Developer Contractor) for the Tustin Estate Low Rise Redevelopment Programme (Open)
Appendix 2	Equality and Health Impact Assessment, 21 March 2022
Appendix 3	Site Plan & Phasing plan showing building numbers

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor Darren Merrill, Cabinet Member for Council Homes and Homelessness	
<b>Lead Officer</b>	Michael Scorer, Strategic Director of Housing and Modernisation	
<b>Report Author</b>	Cat Janman, Southwark Construction	
<b>Version</b>	Final	
<b>Dated</b>	6 October 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
Director of Exchequer (for housing contracts only)	No	No
<b>Contract Review Boards</b>		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
<b>Cabinet Member</b>	Yes	Yes
<b>Date final report sent to Constitutional Team</b>		6 October 2022