

Item No.	Classification: Open	Date: 13 February 2024	Decision Taker: Strategic Director of Finance
Report title:		Gateway 3 – Variation Decision for variations valued over £500,000 (Works) Slippers Place – Deed of Variation to the Works Contracts	
Ward(s) or groups affected:		North Bermondsey	
From:		Managing Director, Southwark Construction	

RECOMMENDATION(S)

That the Strategic Director of Finance:

1. Approves a variation to the works contract for the development at Slippers Place with Glenman Corporation Limited (Glenman) from £6,939,409 to £8,459,317 an increase cost of £1,519,908 for the reason noted in paragraphs 12-13.
2. Notes the revised total scheme costs from £8,548,562 to £10,576,082 including on-cost further details of which are in the closed report.
3. Notes a revised practical completion date of 5 December 2024.
4. Notes an additional variation to the capital programme in the sum of £1,674,694 is required for the reason noted in paragraphs 44-45.

BACKGROUND INFORMATION

5. In January 2022, the then Strategic Director of Housing and Modernisation approved a Gateway (GW) 2 report to award the main works contract for the Slippers Place development to Glenman for a contract sum of £6,939,409, and noted the estimated total scheme cost of £8,548,562 including fees and contingency.
6. Glenman entered into a JCT Design and Build 2016 contract with the council on 7 April 2022 for a period of 74 weeks, for the construction of an eight storey block, providing 18 new homes for council rent including a new plant room, cycle storage and disabled parking bay.
7. In July 2022, Glenman advised the council and employer's agent Martin Arnold of potential issues with the approved planning drawings noting concerns relating to the location of accessible services and referring to a requirement for an additional evacuation lift due to the building height, changes that should be deemed best practice given the pending new building safety legislation for buildings of 18 metres and above.

KEY ISSUES FOR CONSIDERATION

Key Aspects of Proposed Variation

8. In October 2022, the council received Glenman's updated designs. Following a review of Glenman's proposals it was agreed that the cost to build out the scheme was not financially viable. The review included adjustments to the original building line, the planning department advised that a non-material amendment (NMA) application would need to be submitted and approved for the design changes.
9. The council took advice from the employer's agent who confirmed the delays and re-design of the scheme is a relevant matter under the JCT design & build contract and therefore entitles the contractor to be reimbursed for any loss and/or expense incurred. The council has satisfied themselves that contractually Glenman are entitled to claim additional cost.
10. In February 2023, the council concluded their negotiations with Glenman and agreed (subject to this approval) an uplift fee of 20% against the original contract sum of £6,939,409 pertinent to the matters noted in paragraph 12.
11. In March 2023, Glenman submitted a non-material amendment application (NMA) to the planning department for the change in design. Approval was received in April 2023.

Reasons for Variation

12. This variation is required for the following reason:
 - a. Additional construction materials
 - b. Design consultant fees and submission of non-material amendment application form.
 - c. Uplift cost arising from meeting the 'Employers Requirements' relating to the lift specification.
 - d. Final settlement of all extensions of time, loss and expense including inflation.
13. To prevent any further delays to the project £55,000 of cost associated with the re-design and prelims has been valued by the quantity surveyor and paid to Glenman through the contract contingency as agreed by senior management in Southwark Construction.

Future Proposals for this Service

14. No future proposal recommended for this service

Alternative Options Considered

15. The council sought advice on alternative options. However, these would not have enabled the contract to be concluded without delays and additional cost.

Identified risks for the Variation

16.

RISK	RISK LEVEL	MITIGATION ACTION
<p>1. South East London Combined Heat and Power (SELCHP) Connected to the council district heating system</p>	Med	<p>The contractor's proposal to connect to the district heating system has been discussed and reviewed with Southwark's heating engineers. It has been established that the work involved with the connection is more complex than original anticipated, there are number of statutory services routes connected to the SELCHP pipeline route which will need to be diverted. There is risk that cost may escalate. Any overspend associated with this work will be deducted from the contingency budget.</p>
<p>2. Cost Risk: Further Variations and Changes</p>	Med	<p>There are a number of provisional sum items within the contract relating to utilities connections, service diversions and highway works which will be valued during the course of the contract.</p> <p>The council will undertake further value engineering where necessary to reduce cost.</p>
<p>3. Delays: Contractor delay to Project delivery</p>	Med	<p>Liquidated Ascertained Damages sums have been included as part of the contract and will be claimable should the project overrun without any justification. Any extension of times will be fully scrutinised, justified and costed by the Employers Agent</p>

			(EA) prior to agreement. Project progress will be monitored and slow progress will be addressed in the monthly project meetings.
4.	Contractor Insolvency: Risk the contractor goes into administration and cannot continue with the works during any stage of the programme	Low	A performance bond at 10% of the contract value is in place. The project manager will arrange for quarterly financial checks to be carried out on the contractor.
5.	Reputational Risk: Greater London Authority (GLA) funding air-marked for the project will have to be repaid	Low	75% GLA funding was drawn-down at the project start on site. A final 25% will be received at practical completion. If the project was shelved the council would be liable to repay back the 75% to the GLA.
6.	Quality Risk: The contractor proposing value engineering options with inferior products to the council's Employers Requirements	Low	The EA and project manager will scrutinise all alternative products proposed by the contractor. Data sheets showing the performance of alternative products will be requested from the contractor and a comparison table will be drawn up by the employer's agent prior to agreeing any changes. All changes will be logged on a change management form which will be held in Southwark's Constructions database. A Quality Inspection has been appointed and will attend site visits once a week to check and report on the quality of the contractors work.

Policy framework implications

17. The development of these 18 new homes aligns with the council's principles and visions for a new housing strategy which is aimed at increasing the availability, affordability and quality of homes in the borough. The new homes will play a key role in assisting the council to achieve its target of building thousands of new homes by 2043.

Contract management and monitoring

18. 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.
19. The management and administration of the build contract and the completion of the project will continue to be project managed through Southwark Construction.
20. The contractor's performance is monitored and managed by the EA for the duration of the project. A Clerk of Works from Silver DCC has been inspecting the progress on site once a week and is providing a written report on a weekly basis highlighting the quality of the contractors workmanship, flagging any health and safety issues and will monitor progress against programme. The Project Manager for this scheme will continue to monitor performance on a monthly basis using Key Performance Indicators which is also reviewed by Southwark Construction Programme Management office and the Strategic Lead. Annual Performance Reports will be presented in line with the Contract Standing Orders.

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

Community impact statement

21. The 2020 Route to 11,000 Housing Strategy for Southwark, highlights an acute shortage of council housing and a continuing need for affordable housing. 20,000 residents are currently on the council's waiting list; and there are 52,597 homes in management. The borough is experiencing very high house prices that are outside the reach of many of its residents. It has the highest house prices in the housing sub-region. The average property price in the borough is £654,779 which is an increase of 3.9% in the last year. This compares with the average London property price of £603,855 which is a change of 1.4% in the last year. The rental market in the borough is also experiencing high rent levels with average lower quartile rent for a two bed in excess of £2,000 per month. The average income per house hold is £31,000, making ownership and rental options out of reach.
22. At the time of the 2011 census there were 18,547 overcrowded households in Southwark, a higher number, and a higher percentage (15.3%), than any of the other four boroughs in the sub-region. Over the period 1981-2012 the population of Southwark increased by 34%, the fastest growth in the sub-region by some margin. This helps to demonstrate a continuing need for more homes and particularly for affordable homes in the borough.
23. 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.

24. The proposals to increase the supply of affordable, good quality homes will benefit households in need from all Southwark communities, and will increase the housing options available for older people and people with disabilities.
25. Those households in the vicinity of the new developments may experience inconvenience and disruption in the short term, whilst works are taking place but such communities will benefit in the longer term from the provision of new homes. Particularly as 50%-100% of these homes will be let to existing tenants from the local area subject to an agreed local lettings policy.
26. Local residents will continue to be consulted at each stage of the development proposals as outlined in the charter of principles agreed by cabinet in November 2014. The council will ensure that any residents affected by works will be notified prior to works commencing

Equalities (including socio-economic) impact statement

27. The provision of 18 new council 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% of the new council homes will be allocated to local lettings and 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.
28. The proposals to increase the supply of affordable, good quality homes will benefit households in need from all Southwark communities, and will increase the housing options available for older people and people with disabilities. The equality impact assessment carried out in September 2022 on Slippers Place identified 23 households out of 314 on the estate are in need of a larger home.

Health impact statement

29. Southwark's Construction aim to design and construct quality homes with spacious internal layout and adequate lighting can provide good access to daylight which improves quality of life and reduces energy needed for lighting, and ventilation. Improved sound insulation reduces disturbances from traffic or neighbours which can disrupt sleep and lead to psycho-physiological effects.
30. Having a healthy home promotes overall health and wellbeing, reduces incidences and conditions, keeps people out of hospital and reduces GP visits. Quality housing also plays an essential role in supporting those with mental health conditions.

Climate change implications

31. The development 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. Approval of the change from gas central heating to air source heat pumps will assist to achieve this.

Social Value considerations

32. 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 GW2 report) are set out in the following paragraphs in relation to the tender responses, evaluation and commitments to be delivered under the proposed contract.

33. The council's approach to procurement of design, development and construction process will ensure a requirement to maintain and improve the sustainability of each tendered project.

34. A low energy, efficient and cost effective building engineering services design that keeps running costs to a minimum will be an essential component of the project brief. Key considerations will include:

- Consideration of whole life-cycle costs.
- Sustainable sourcing.
- Incorporation of environmentally benign heating and lighting provision.
- Provision of facilities and equipment to encourage the re-use and recycling of materials including, where practical, water recycling.
- Ensuring projects achieve Code of Sustainable Homes criteria or any successor requirement.

35. Glenman have committed to providing regular reports on their social value commitments tracking actual progress against predicted progress as set out in paragraph 34.

Economic considerations

36. The council is an officially accredited London Living Wage (LLW) Employer and is committed to ensuring that contractors engaged by the council to provide works or services within Southwark pay their staff at a minimum rate equivalent to the LLW rate. The 11,000 new homes programme is a strategically important undertaking for the council and its benefits are expected to be realised in a number of ways, including the recruitment of qualified staff, retention of staff and an improved service delivery to the council. Glenman have confirmed as part of their tender return that they pay their directly employed staff and subcontractors the LLW and have processes in place to monitor this. The project manager at Southwark council

will request further evidence of the LLW payments as works progress on site and Glenman's subcontractor's works packages are fully tendered.

Social considerations

37. The new housing will provide high quality affordable housing for local people in need of accommodation. 50% of these homes will be made available to existing tenants in 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. However, the council is consulting with residents about a new local lettings policy, which could mean that up to 100% of new council homes are let to local residents.
38. The new rented homes will be let at council rent levels.
39. The contractor is obliged to work with council approved local employment and skills agencies to recruit borough residents into construction industry apprenticeships. The requirement outlined in the tender documents was to meet the Fairer Future criteria of 1 apprenticeship per £1m of spend; Glenman confirmed their commitment to provide six apprentices to this project. Glenman Corporation have confirmed in addition to the council's requirements a 13 week apprenticeship placement for one level 2 electrical apprentice will be written into the electrical subcontractor's works package. As the project is still in the early stages of construction no apprentices have been appointed. Glenman Corporation have confirmed apprentices will be procured in the following packages:
 - a. Bricklaying
 - b. Mechanical and electrical
 - c. Painting and decorating
 - d. Landscaping
40. Due to project delays on the site Glenman are still to confirm delivery of their social value commitments. The monitoring of Glenman's contributions will be undertaken once the project is fully up and running.

Environmental/Sustainability considerations

41. 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.
42. 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.

Financial Implications

43. The total value of the contract is £8,459,317.
44. Approval for a variation to the budget was sought in November 2022, in the sum of £8,901,388. The project on-cost which makes up the total scheme cost was excluded from this variation. The cost movement in this report shows an increase of £1,674,694 against the capital refresh budget. This variation was approved by Cabinet in January 2024 in line with the current forecast of £10,576,082 and the new build programme budget.
45. The additional £1,674,694 will be funded from resources that support the New Homes Programme which includes borrowing.

Investment Implications (Housing Contracts only)

46. Not applicable

Legal Implications

47. Please see concurrent from Assistant Chief Executive Governance and Assurance.

Consultation

48. Consultation with residents or a tenant's panel for this variation is not required.
49. Consultation is ongoing with residents as required by Glenman's Resident Liaison Officer including the issuing of monthly newsletters to the local residents keeping them informed on site progress and social value items.

Other implications or issues

50. None to report

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance (H&M 23/082)

51. This report seeks the approval of the Strategic Director of Finance to the variation of Slippers Place new build contract with Glenman for the sum for £1,519,908 for the reasons noted in this report.
52. The report further seeks approval for additional fees and contingency of £2,116,765, making a total scheme cost of £10,576,082. The financial implications section details how these costs will be funded. The increase in costs may result in a change in the planned sources of funding with the aim to reduce borrowing and also impact on the delivery of other schemes within

the New Homes programme, both of which will be subject to further review and evaluation.

53. Any further variations or extensions of the works order beyond the scope of this report will require further approval in line with the council's procurement protocols.

Head of Procurement

54. This report seeks approval from the Strategic Director of Finance to vary the works contract for Slippers Place with Glenman Corporation Limited by £1,519,908 making the total £8,459,317
55. The Strategic Director of Finance notes the reasons for the variation are detailed in paragraphs 8 to 13, the risks are detailed in paragraph 16, the management and monitoring of the contracts is detailed in paragraphs 18 to 20, the impact on equalities, health and climate change are detailed in paragraphs 27 to 31, confirmation of the payment of London Living Wage is detailed in paragraph 36 and there are NO additional social value commitments for this variation.

Assistant Chief Executive- Governance and Assurance (Con/KM/20240118)

56. This report seeks the approval of the Strategic Director of Finance to the variation of the Slippers Place work contract with Glenman as further detailed in paragraphs 1-4.
57. The contract with Glenman was subject to and awarded in accordance with the Public Contract Regulations 2015 (PCR15), and it is therefore necessary to ensure that any additional sums to be made under the contract are permitted within those procurement regulations. Regulation 72 of the PCR15 permits modifications to be made to contracts in certain circumstances, including where the modification has been provided for in the initial procurement/contract documents. Paragraph 12 note the reasons for these changes, which include payments in relation to re-design and delays which are payable under the contract as relevant matters.
58. CSO 2.3 requires that no steps are taken to implement a variation unless the expenditure has been approved. Paragraphs 43-45 confirm the financial implications relating to this variation

Director of Exchequer (for housing contracts only)

59. Not Applicable

Director of Education (for schools contracts only)

60. 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).

Signature: Clive Palfreyman
Date: 8 February 2024
Designation: Strategic Director Finance

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
None

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

* Contract standing order 6.6.1 states that for contract Variations with an Estimated Contract Value of £100,000 or more, the lead contract officer (LCO) must consult with the relevant cabinet member before the decision is implemented.

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.

Not Applicable

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 PAPERS

Background Papers	Held At	Contact
Title of document(s)	Title of department / unit Address	Name Phone number
Gateway 2 – Contract Award	Southwark Construction 106 Tooley Street SE1 5LX	Stuart Davis 020 7525 7201
Link: Issue details - Gateway 2 - Contract Award Approval - Works Contract for the New Homes Delivery programme - Slippers Place Estate Car Park SE16 2ES - Southwark Council		

APPENDICES

No	Title
None	

AUDIT TRAIL

Lead Officer	David Quike-Thornton, Strategic Director of Children's and Adults Services Children's and Adults' Service	
Report Author	Rita Bailey, Senior Project Manager	
Version	Final	
Dated	26 January 2024	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Finance	Yes	Yes
Head of Procurement	Yes	Yes
Assistant Chief Executive – Governance and Assurance	Yes	Yes
Director of Exchequer (for housing contracts only)	No	No
Cabinet Member	Yes	Yes
Contract Review Boards		
Departmental Contract Review Board	No	Yes
Corporate Contract Review Board	Yes	Yes
Date final report sent to Constitutional Team		12 February 2024

