

Item No.	Classification: Closed	Date: 24 November 2014	Decision Taker: Chief Executive
Report title:		Gateway 2 - Contract Award Approval Direct housing delivery – Proposed new build general needs housing at Masterman House garage site, Lomond Grove, SE5 – appointment of contractor for main construction works	
Ward(s) or groups affected:		Camberwell	
From:		Head of Regeneration – Capital Works	

Not for publication by virtue of category 3 paragraph 10.4 of the Access to Information Procedure Rules of the Southwark Constitution

RECOMMENDATION(S)

That the Chief Executive approves:

1. The award of the main works contract for the general needs housing at Masterman House garage site, Lomond Grove, SE5, to Geoffrey Osborne Limited, in a sum of £5,432,704, for a contract period of 60 calendar weeks commencing on 26 January 2015 (excludes 4 weeks mobilisation period starting from 17 December 2014);
2. A provisional allowance for an anticipated design fee claim in the sum of £110,000 for the main works contract (sum excluded under paragraph 1, see paragraph 27), settlement of which will be subject to a further report;
3. The additional works to be undertaken in the existing Masterman Tower for reasons given in paragraphs 28 - 32, in the estimated sum of £123,023, to be completed under a separate contract.

BACKGROUND INFORMATION

4. The October 2012 cabinet meeting approved proposals for working up the following schemes as Phase 1 of the overall programme for the direct delivery of new council housing on council owned sites:

Phase 1A comprise of the site at Willow Walk.

Phase 1B is divided into 2 lots.

Lot 1:

- Sites of Southdown House and Gatebeck House, East Dulwich Estate
- Clifton Estate, garage site fronting Clayton Road
- Masterman House, garage site fronting Masterman Tower block
- Cator Street extra care – vacant area fronting the existing learning and resource centre
- Cator St (Centre of Excellence) – refurbishment and retrofitting works to the existing learning and resource centre

Lot 2:

- Nunhead Green Site B
- 169 Long Lane - former Borough and Bankside housing office
- 80 Sumner Road - vacant former housing site

5. Gateway 1 proposals for procuring contractors and construction works for the various sites, under the Improvement and Efficiency South East (iESE) regional framework arrangements for construction and management using the design and build method was approved by the leader of the council on 21 January 2013.
6. On 28 February 2013, the cabinet member for regeneration and corporate strategy approved the appointment of Mott MacDonald Ltd ("Mott MacDonald") under the iESE/GPS professional consultancy framework. Mott MacDonald was appointed to provide the following multidisciplinary services for the Phase 1B development under the iESE/GPS professional consultancy framework:
 - Lead Consultant/Project Manager/ Client's Agent
 - Architect
 - Quantity Surveyor
 - Structural Engineer
 - Building Services Engineer
 - Civil Engineer
 - CDM Co-ordinator
7. On 18 October 2013, the cabinet member for regeneration and corporate strategy approved the appointment of Geoffrey Osborne Limited and Morgan Sindall plc for the project sites under Lots 1 and 2 respectively, to provide pre-construction (Stage 1) services under the iESE contractor framework.
8. In May 2014, the Chief Executive approved the gateway 2 report to appoint Geoffrey Osborne Limited, under the iESE contractor framework to carry out enabling works on the Masterman garage site. These works were satisfactorily completed in July 2014.
9. This project has obtained approval for partial funding from the GLA. One of the criteria for the funding was that the project needed to complete by March 2016.
10. In summary, the proposed development at Masterman comprises:
 - 15 new council flats for social rent and 10 new flats for market sale contained in a part 3 / part 5 storey block, with a mixture of 1, 2 and 3 bedroom apartments;
 - associated landscape works and play area.
11. The site location plan can be found in Appendix 1. The bar chart given in Appendix 2 shows the overall project programme and highlights activities relating to the main works package in red.

Procurement project plan (Key Decision)

12. The procurement plan is as follows:

Activity	Completed by/Complete by:
Forward Plan for Gateway 2 decision	October 2014
Approval of Gateway 1: Procurement Strategy Report	21 Jan 2013
Issue Notice of Intention	N/A
Invitation to tender	Dec 2013
Closing date for return of tenders	11 Aug 2014
Completion of evaluation of tenders	13 Nov 2014
Issue Notice of Proposal	N/A
DCRB Review Gateway 2	24 Nov 2014
CCRB Review Gateway 2	N/A
Notification of forthcoming decision – Five clear working days	1 Dec 2014
Approval of Gateway 2: Contract Award Report	8 Dec 2014
Scrutiny Call-in period and notification of implementation of Gateway 2 decision	N/A
Alcatel Standstill Period (if applicable)	N/A
Contract award	16 Dec 2014
Add to Contract Register	17 Dec 2014
Contract start	17 Dec 2014
TUPE Consultation period	N/A
Publication of award notice in Official Journal of European (OJEU)	N/A
Contract completion date	March 2017
Contract completion date – if extension(s) exercised	N/A

KEY ISSUES FOR CONSIDERATION

Description of procurement outcomes

13. The intended outcome of this procurement is to deliver a new build general needs housing block of flats, ready for occupation, by March 2016.
14. Subject to the approval of this gateway report for the works contracts, the project when completed will comprise 15 new council flats for social rent and 10 new flats for market sale.

Key/Non Key decisions

15. This report deals with a key decision.

Policy implications

16. The proposed development forms part of the overall Direct Delivery programme to develop 1500 new council homes by 2018. Homes delivered as part of the Direct Delivery programme will assist in increasing the supply of good quality affordable housing and will contribute the following targets;
 - Policy 5 of the Core Strategy sets a housing target for the borough of 24,450 net new homes between 2011 and 2026 (1,630 per year).
 - The London Plan sets the borough a housing target of 20,050 net new homes between 2011 and 2021 (2,005 per year)
 - Core Strategy policy 6 sets an affordable housing target of 8,558 net affordable housing units between 2011 and 2026.
17. Sharing the benefits of economic growth and regeneration is an underpinning principle in implementation of the Southwark Economic Development strategy 2010 - 2016. Direct Delivery has the potential to support the strategy by engaging with housing partners and council contractors to identify and develop entry points for priority groups to access local employment and training opportunities, promote and develop apprenticeships and work placements and embed local economic benefits into procurement.

Tender process

New build main works:

18. The selection process for the contractor followed standard procedures and working practices set out in the iESE framework arrangements as outlined in the Gateway 1 report dated 21 January 2013. The Gateway 1 provides further detailed information on the main features and benefits of the iESE framework arrangements.
19. As previously stated in the gateway 1 report, a mandatory feature of the iESE framework arrangements is the early involvement of the contractor by means of a transparent, two-stage process, comprising:

Stage 1 (pre-construction)

- Fully developing the consultant's design proposals from RIBA Work Stage E onwards
- Packaging and competitively tendering the works on an open book basis
- Submitting Contractor's Proposals and Pricing Document, including the proposed contract sum, for decision by the council.

Stage 2 (construction) – subject to a separate Gateway 2 approval

- Carrying out and completing the works in compliance with the contract documents for:
 - enabling works (where necessary)
 - main works

20. The process described in paragraph 19 would give rise to the following gateway reports:
- From the Stage 1 process - a gateway 2 report for preconstruction services (the first gateway 2 report)
 - From the Stage 2 process:
 - a gateway 2 report for enabling works (the second gateway 2 report)
 - a gateway 2 report for main works (this report)
21. With this two stage approach to procurement, there is an expectation and likelihood that the contractor appointed for pre-construction services would be appointed for the works contract, subject to the formal decision of the contracting authority to proceed.
22. This report deals with the third gateway 2 report as outlined in paragraph 20 above for the project at Masterman only. The procurement and appointment of a main contractor for the other sites listed under Phase 1B of paragraph 4 will be subject to separate gateway 2 reports.
23. The design and specification for the project was developed by the consultant team under the direction of Mott MacDonald Ltd, which together with the overall scheme proposals were issued to Geoffrey Osborne Ltd in the form of Employer's Requirements. Final information was issued to the contractor on 20 December 2013.
24. Following the process of design development and packaging of the scheme proposals, the contractor obtained competitively tendered prices for the various packages which, together with their construction phase core costs (previously tendered and reported in the Gateway 2 for pre-construction services) combine to make up the proposed contract sum for the main works.
25. It is to be noted that when the contractor carried out their procurement process, they encountered difficulties in obtaining competitive quotations from their sub-contractors and suppliers. This is a result of the current high demand of construction work in London and low supply of labour and materials. The procurement period was also slightly lengthened because of this. The proposed contract sum and contractor's proposals were to be submitted on 21 July 2014 but was received on 11 August 2014. Throughout the process, the council officers and the consultancy team was kept informed of the progress and regular updates including the issuance of procurement schedules by the contractor.
26. Tendered prices and an apportionment of relevant core costs for the main works package were submitted as part of the contractor's proposals to the council and the consultant quantity surveyor for evaluation on 11 August 2014, in the proposed sum of £6,424,484.
27. It is anticipated that the contractor will submit an additional design fee claim. There have been a number of changes to the design since the employment's requirements were issued to the contractor in December 2013. The design changes were a result of detail design development, further consultations with planning division, secured by design and officers from housing management and maintenance. The additional fee claim will be interrogated and evaluated thoroughly by the consultancy team and council officers prior to agreeing to a settlement sum.

Masterman Tower works:

28. Following consultations with the council's compliance team, the advice received was that the existing 17-storey Masterman House had only one fire escape route, this was found to be inadequate as a previous second egress was blocked up. Additional work was suggested at the ground floor lobby area of the tower block to enable a second escape route via the back of the building.
29. The enabling works contract (paragraph 8 above) included cutting off a slab that extended from Masterman Tower forming the roof of the existing garages. Officers from Housing (Major Works) advised that there was water ingress into one of the ground floor flats. The external wall to the flat comprised of a single brick wall construction, and had previously suffered from continual damp problems. As an interim measure and to prevent further ingress of water, Geoffrey Osborne Ltd was asked to install a temporary felt and batten solution protective layer to the external wall as they were on site at that point in time while a permanent solution comprising a cavity wall with appropriate insulation was detailed.
30. The scope of the Tower block works include:
 - Installing the temporary external protective layer
 - constructing the permanent brick cavity wall solution including necessary foundations and drainage
 - constructing a new fire-rated wall in the ground floor lobby area complete with new fire-rated doors for egress
31. The contractor advised that there was a long lead-in delivery period for the bricks. As there was a need for a close match with the existing Tower block facade bricks, the contractor requested for an early order.
32. The proposed external wall works and works to the ground floor lobby area was discussed with officers from the Housing (Major Works), council's compliance team and Building Control, and was found to be acceptable. Geoffrey Osborne Ltd was then requested to quote for the permanent solution and that the works would be a direct appointment with the council. Geoffrey Osborne Ltd submitted a price of £123,023 for the proposed works.

Tender evaluation

New build main works:

33. Discussions were held between the contractor, council officers and the design team to clarify a number of items in the proposed scope including correction of any arithmetical errors.
34. The contractor's pricing was arithmetically checked and the consultant quantity surveyor confirmed and agreed with the contractor that there was an error in the carrying forward of figures in the preliminaries in the proposed tender sum. The contract sum analysis was corrected to £5,469,119.
35. Clarifications on certain matters not limited to the extent of the graphics on the hoarding, relevance of some site investigation works, allowances for a part-time

instead of a full-time resident liaison person, rates for demolition and removal of possible contamination, and subsequent reduction in associated preliminaries, costs for inflation, overheads & profits and insurances due to the above clarifications, led to the contract sum being revised to £5,432,704.

36. The consultant quantity surveyor confirmed that the percentage fees for overheads and profits for the project was in line with the iESE framework rates at 2%. The consultant quantity surveyor further confirmed that the percentage fees for insurances were in line with the iESE frameworks rates for the project.
37. The contractor's contract sum analysis for the main works for the project was evaluated by the consultant quantity surveyor, who was satisfied a bona fide price submission was made and that this was competitively priced,

Value for money (VfM) appraisal

38. The proposed contract sum analysis has been identified as being higher than what would be deemed value for money for this project. The reasons for the increase are:
 - Overheating of the construction market due to current demand leading to significant increases in sub-contractors costs for labour and materials. This equates to approximately 60% of the cost increase.
 - Size and scale of project – the relatively small scale project coupled with the overheated market has further increased the costs as sub-contractors are not prepared to undertake small scale work where profit margins are significantly less. Generally greater reductions in cost are found in larger schemes, where a more standardised and repetitive approach can be adopted to achieve an economy of scale. Smaller schemes in contrast tend to be bespoke and constrained by such factors as orientation, proximity to adjoining structures and difficult site logistics, and have a higher ratio of common areas to residential units, making them less economic and commercially attractive.
 - Sub-contractor packages – the contractor has received disappointing responses from their supply chain with regard to their tender packages. Per paragraph 25, although the procurement process was protracted, the minimum number of competitive quotations were received for the main work packages.
 - The extent of project-specific abnormal costs (that is construction costs that are not typical for the development) accounts for an additional sum stated in paragraph 39. These abnormals are not limited to the following: inclusion of a lift with robust specification for the 5-storey development (this is to provide longevity, specification of durable and hard wearing components and finishes), piling, composite windows (for durability and less maintenance), higher specifications for the external wall (to achieve better energy efficiency), provision of pv, installation of glass balustrading.
39. The resultant value for money comparison is shown in the table below, indicating that the difference between the BCIS Benchmark rate and the comparable rates from Geoffrey Osborne's proposed contract sum for the project is 7.5%:

Item	Masterman	
	£/m ²	Total £
1. OSBORNE'S PROPOSED CONTRACT SUM:		
Base build	1,990	4,733,398
Abnormals	294	699,306
Osborne's Total	2,284	5,432,704
2. BCIS BENCHMARK RATES:		
Base build	1,830	
Abnormals	294	
BCIS Benchmark Total	2,124	
3. VALUE FOR MONEY COMPARISON:		
Osborne's Build rate	2,284	5,432,704
BCIS Benchmark rate	2,124	5,052,129
Difference	160	380,575
% Difference	7.5%	

40. To mitigate and to further reduce the price in order to provide a scheme that is in line with a value-for-money rate, the council could carry out one of the following

- Continue to negotiate with the contractor to obtain further savings by allowing them to continue to re-tender packages to provide further savings. It is considered that this will not produce the significant savings required and in addition further costs may be incurred due to inflation as well as project programme will not be achieved .
- Undertake a re-tender exercise with other contractors or invoke the 'reserve contractor status' under the Partnering Agreement described under paragraph 51.

41. Acceptance of Geoffrey Osborne's proposals rather than re-tendering is recommended for the following reasons:

- Re-tendering will incur significant programme delays (estimated from six to nine months depending on procurement approach adopted) as well as abortive costs for design and management fees;

- There is no certainty that costs will reduce if the project was competitively re-tendered, particularly in the current market;
- Time and effort spent by Mott MacDonald and council officers with Geoffrey Osborne in fully developing acceptable design proposals and on the control and management of risk would have to be re-established with the new contractor;
- Knowledge and understanding of the council's quality expectations, particularly in low maintenance costs would also have to be re-established with a new contractor;
- The partial GLA funding mentioned in paragraph 9 above will be lost as it is subject to completing the project by March 2016; and
- Even if the 'reserve contractor status' in the Partnering Agreement was invoked, there is no certainty that Morgan Sindall plc can or will take the additional project as it would be subject to their current workload. The option of bringing in the reserve contractor is not being taken up because of the substantial delay and additional/abortive costs that this is likely to incur as summarised in paragraph 42 of the closed report.

42. In summary, the estimated costs of re-tendering the works could be in the sum of:

- Re-tendering process (estimated from six to nine months depending on procurement approach adopted) as well as abortive costs for design and management fees and inflation, in the estimated sum of £608,000, and
- The loss of GLA funding in the sum of £286,000.

The estimated total sum for re-tendering the works could amount to £894,000 in abortive pre-construction fees and loss of GLA funding. This substantially outweighs the 7.5% VfM variance from the benchmark rate under paragraph 39.

Conclusion

43. Based on the foregoing evaluation and the high risk of uncertainty that further savings could be made, Geoffrey Osborne Ltd has submitted acceptable Contractor's Proposals for the main works package and their price in the sum of £5,432,704, is therefore, recommended for acceptance.
44. The proposed form of works contract for the Stage 2 contractor appointment is JCT Agreement Design and Build 2005 (Revision 2 2009), incorporating council's standard and special amendments to the conditions of contract as advised by the contracts section of legal services.

45. Based on the foregoing evaluation, Geoffrey Osborne Ltd had submitted acceptable contractor's proposals for the main works package and their price in the sum of £5,432,704, is therefore, recommended for acceptance. A breakdown of the contractor's pricing for the main works as submitted by the contractor and the revised sums is included in Appendix 3A.
46. The contractor is in the process of developing their construction stage health and safety plans for the site. Written confirmation is required from the CDM-Coordinator that their construction plans were received and had been sufficiently developed before the main works commence.

Masterman Tower works:

47. The contractor's rates for the preliminaries were in line with that which was quoted for the main works. The contractor's pricing was arithmetically checked and found to be correct. A breakdown of the contractor's pricing for the Masterman Tower works as submitted by the contractor and the revised sums is included in Appendix 3B.
48. The contractor is in the process of developing their construction stage health and safety plans for the individual sites. Written confirmation is required from the CDM-Coordinator that their construction plans were received and had been sufficiently developed before these works commence.

Plans for the transition from the old to the new contract

49. Not applicable.

Plans for monitoring and management of the contract

50. The project clienting, including the management and administration of the consultant and contractor appointments, will be run and resourced through the through the regeneration - capital works team in conjunction with the Housing - Major Works team. Progress with the contract works and performance of the consultant team will be subject to constant scrutiny and monthly formal review, including reviews on cost, programme and quality. The experienced officer client team will use a number of mechanisms for monitoring and controlling the financial and programme performance of the contract, including:

- Strategic cost plan, which will be regularly reviewed and updated
- Monthly financial statements by the consultant quantity surveyor/contractor
- Monthly appraisals of progress against the contract programme
- Monthly progress reports by:
 - The lead consultant
 - Main contractor
 - Other design consultants
- Monthly progress meetings on site
- Tracking and chasing actions on critical issues
- Monthly 'look ahead' meetings with principals / directors
- Periodic project team 'look ahead' workshops covering key phases of work and risks
- Risk and issues logs

51. In addition, Geoffrey Osborne Limited was required to enter into a Partnering Agreement with the council and the contractor for Lot 2 that is Morgan Sindall plc. This agreement overlays the separate contracts between each contractor and the council and provides a mechanism for managing performance and efficiencies across the Direct Delivery Programme, embracing topics such as supply chain development, continuous improvement, employment and training opportunities and reserve contractor status. The form of agreement was included in the mini-competition documents at the point of procurement of contractors.

Identified risks for the new contract

52. An assessment of risks and mitigation measures has been conducted, as follows:

RISK		RISK LEVEL	MITIGATION ACTION
1.	Contractor has inadequate resources and management arrangements to deliver the main works project	Low	Ensure prior to appointment – (1) that the contractor plans to deploy adequate resources and is willing to supplement additional resources to the project, if required. (2) that the contractor proposes to put adequate management arrangements in place to deliver the project.
2.	Insolvency of framework contractor	Low	An up-to-date Experian check was obtained and this found the contractor to be at 'low risk'. Geoffrey Osborne Limited to provide of a performance bond as a condition of contract. Include provision for 'reserve contractor' in the works contract packages. Closely monitor performance of firms once appointed.
3.	Award of contract delay disrupts pre-ordering programme	Low	Adhere to procurement timetable. Allow provision within contract sum for cancellation charges and costs.
4.	Construction delays on site due to: <ul style="list-style-type: none"> • Hidden obstructions below ground • Contamination below ground • Discovery of antiquities • Unexploded bombs 	Low	Desktop studies and non-intrusive surveys have been undertaken to anticipate and plan for potential hazards on site. Investigation and remediation works undertaken in enabling works contract have de-risked the site in readiness for the main contract works.
5.	Construction delays on site and	Low	Pre-order components with long

RISK		RISK LEVEL	MITIGATION ACTION
	additional costs		delivery period. Ensure that site operations are thoroughly and realistically planned by the contractor, prior to commencement of the works. Allow appropriate contingency provision in the programme to cover possible loss and expense claims arising from delay and disruption of the works. Include Liquidated Damages for non-completion of contract by the contractor.
6.	Significant design and/or latent defects emerge post completion.	Low	Quality control regime to be put in place. Clerk of works to be employed.
7.	Default by key subcontractor/supplier.	Low	A select list of well established sub-contractors by trade maintained by the main contractor, which includes financial health checks and performance monitoring.
8.	Belated, uncoordinated or contradicting client instructions.	Low	Ensure effective forward planning, communications and co-ordination with all relevant parties to the decision-making process.
9.	Failure of contractor to co-ordinate effectively with statutory undertaker gives rise to programme delay.	Low	Contractor to maintain early dialogue with utilities companies to ensure compliance with their technical requirements and lead-in times.

Community impact statement

53. The proposals to increase the supply of affordable, good quality homes will benefit households in need from all Southwark's communities.
54. When construction works commence on site, those living in the vicinity of the new developments may experience some inconvenience and disruption in the short-term, while works are taking place but that 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 the effect of development in that local area.

Sustainability considerations

55. The Public Services (Social Value) Act 2012 requires the council to consider a number of issues including how what is proposed to be procured may improve the economic, social and environmental well-being of the local area. These issues are considered in the following paragraphs which set out economic, social and environmental considerations.

Economic considerations

56. The successful works contractor will be expected to deliver direct benefits to the local community and local residents. It is proposed that these benefits will be delivered through some or all of the following possible means:
- Supply chain and procurement with local businesses;
 - Use of local labour and training initiatives, including a construction employment, skills and training scheme linked to the council's Building London Creating Futures programme, which aims to match local residents with construction vacancies especially where these are linked to key development sites and regeneration activities;
 - A commitment to construction apprenticeships in proportion to the size and scale of the development; and
 - Corporate social responsibility and sustainability.

The contractor will be expected to demonstrate the above benefits throughout the construction of the project.

57. The Planning Consent Conditions for the projects included targets for employment and training opportunities. The indicative target requirements was included in the mini-competition pack of information and made known to the tenderers. Discussions will be held with the contractor on their detailed proposals for implementation on award of the main works contract.
58. Construction personnel and, once occupied, staff, residents and visitors using the new building are likely to bring economic benefit to local traders through increased trade.

Social considerations

59. The project will provide new high quality general needs affordable housing for local people in need of suitable accommodation from the council's housing register.
60. The appointed contractor will carry out the works under the Considerate Contractor scheme, which seeks to minimise disturbance and disruption in the locality during the construction phase.
61. 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. It is expected that payment of the LLW by the successful contractor for this contract will result in quality improvements for the council. These should include a higher calibre of multi-skilled operatives that will contribute to the delivery of works on site and will

provide best value for the council. It is therefore considered appropriate for the payment of LLW to be required. Anticipated benefits include a more incentivised workforce and improved staff retention. Following award, these quality improvements and any cost implications will be monitored as part of the contract review process.

Environmental considerations

62. The Code for Sustainable Homes requirements will cover the construction process as well as design and specification and will set targets for minimising the adverse environmental impact of carrying out the works for each project.
63. The project brief 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 (MMM): 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.
64. 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, including locally produced materials and, where possible, timber from renewable resources.
 - Selection of contractors should take into account their environmental policies;
 - 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;
 - Ensuring project achieves Code for Sustainable Homes criteria

Market considerations

65. The successful tenderer is a private organisation.
66. The successful tenderer has over 250 employees.
67. The successful tenderer has a national area of activity.

Staffing implications

68. The staff resources deployed to this procurement is sufficient to meet the proposed timetable.
69. The project will be resourced by existing staff, within existing budgets.

70. Officer time relating to the management of this project is funded from existing revenue budgeted resources. Consideration will be given to an alternative treatment dependant on the current accounting rules and regulations. Should any of the revenue costs be allowable as capital costs, these will be included within the expenditure to be set against the existing approved capital programme budget.

Financial implications

71. The cost of the contract including the estimated design cost and the additional works at the existing Masterman Tower is £5,665,727 as reflected in the report. These costs form part of the budget of £6,648,746 allocated to this scheme under the Direct Delivery programmed works. This budget will be incorporated into the Housing Investment Capital programme and a new capital code will be set up to monitor the cost of this scheme.
72. The above costs and budget will be met from the overall budget allocation of £54,081,345 for the various Direct Delivery projects under Phase 1B (including this scheme) recently approved by Housing Investment Board on 26 November 2014. This capital budget variation to the Housing Investment Programme will be included in the 2014/15 quarter 3 capital monitor report to cabinet for formal approval.
73. It is expected that the "Direct Delivery" capital programme will be funded from a combination of grants, S106 Affordable Housing fund, the element of RTB receipts that are ring-fenced for the construction of new homes and receipts from homes for sales properties.
74. As part of the expected funding, an application will be submitted to Planning Committee in February 2015 to release some of the S106 Affordable Housing Funds towards the delivery of the phase 1B schemes. To date the total funds received under S106 Affordable Housing agreements is £48,033,755 and further funds are expected in the future which will contribute towards the overall Direct Delivery Programmes.
75. Soutwark has also successfully bid for the GLA grant "Building the Pipeline". The total grant award is £6,844,021. However, it is expected that some of the grants may not be utilised due to conditions and time restrictions placed on this grant aid by the GLA.
76. The table below shows the budget profile for this scheme. This will be reflected as part of the 2014/15 quarter 3 capital refresh and budget profiling exercise

	2014/15	2015/16	2016/17	Total
Initial Enabling Cost	£983,019.00			£983,019.00
Additional Works		£119,948.00	£3,075.00	£123,023.00
Design Cost		£110,000.00		£110,000.00
Contract Works	£1,135,047.00	£4,161,839.00	£135,818.00	£5,432,704.00
Total	£2,118,066.00	£4,391,787.00	£138,893.00	£6,648,746.00

77. The projected financial position on the council's entire Housing Investment Programme indicates a significant gap in resources against the projected expenditure on the total programme across the years. Whilst the overall cost of the Direct Delivery Programme across the full term is expected to be funded from a combination of grants, S106 Affordable Housing Funds, right to buy receipts and sales receipts, there will be cash flow implications for the council with regards to the timings of the expenditure being incurred and income from sources such as S106 and grants. This position needs to be monitored closely on an annual basis to ensure there are sufficient resources to fund the council's overall Housing Investment Programme.
78. Staffing and any other costs connected with this contract will be contained within existing departmental revenue budgets.
79. The 'for sale' units are to be sold by private treaty by a sales agent managed and appointed by the council's property team and the receipts re-cycled into the Housing Revenue Account.

Investment implications

80. Nil

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

81. Not applicable

Legal implications

82. All legal implications regarding this award are dealt with in the body of the report. The report has been reviewed by officers from legal services.

Consultation

83. The design brief for general needs have been developed in consultation with 'user client' officers and make it clear that the council is seeking developments that are not only attractive and functional in their design but also durable, easy to maintain and with low running costs.
84. The council has consulted with the neighbouring tenants & residents associations (T&RAs) before design proposals are finalised and during the pre-construction services stage. A thorough consultative exercise with local residents and T&RAs was carried out throughout the planning process. This included a letter/leaflet drop, laminated notices and public meetings/ exhibition. Additionally, the council consulted with the area neighbourhood office a number of registered providers and private landlords where applicable. Further consultations will be held prior to the main works commencing on site.

Other implications or issues

85. A performance bond will be provided by Geoffrey Osborne Limited.
86. A check on the financial standing of Geoffrey Osborne Ltd was also undertaken in November 2014. The company was classified as "low risk".

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

87. This report is seeking approval for the award of the main works contract for the general needs housing at Masterman house garage site. The report explains that phase 1B of the direct housing delivery programme has been divided into two lots. Each of the lots was awarded to separate contractors through the IESE professional contractor framework to initially deliver the pre-construction (stage 1) services. There is an expectation that the same contractor would be appointed for the works contracts subject to certain criteria being met to ensure value for money.
88. The report advises that contract sum analysis was identified as being higher than what would be deemed as value for money for this project. Paragraphs 40 – 42 sets out the alternative routes that could be taken to test value for money and concludes that these alternatives would not achieve any better value for money than that of the existing contractor.
89. Paragraphs 50 - 51 outlines the monitoring and management arrangements that will be in place during the life of the contract. This should go some way to ensure that a satisfactory outcome is achieved.

Director of Legal Services

90. This report seeks approval of the award of the main works contract for general needs housing at the Masterman House garage site, which forms part of a corporate programme for the delivery of new council housing.
91. The estimated value of the proposed works was such that the procurement of the contract would be subject to the application of the EU Procurement Regulations. The report explains that a decision was taken to procure contractors from an existing (iESE) constructor framework, which had itself been procured following an EU compliant competitive tendering exercise. The report also describes the two-stage process prescribed by the iESE framework agreement under which framework contractors are engaged in separate and distinct pre-construction and construction phases of the project.
92. The report notes that the council's interests are to be safeguarded through the inclusion of specific amendments to the standard JCT conditions of contract and that appropriate measures will be put in place to manage the progress of the works and to ensure that delays and other risks to their timely completion are carefully monitored and managed.
93. The decision to approve the proposed contract award is one which is to be taken by the chief executive under the council's Contract Standing Orders ("CSOs") in line with the departmental scheme of delegation. CSOs also require that no contract may be awarded unless the expenditure has been included in approved revenue or capital estimates or has been otherwise approved by, or on behalf of the council. The report the details of the capital budget which has been set aside to fund the proposed contract works and other costs associated with the project.

Strategic Director of Finance and Corporate Services (CAP14/114)

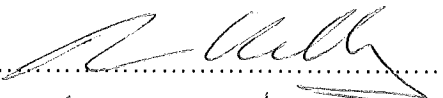
94. The report is requesting delegated approval from the chief executive to award the works contract package entitled "Direct housing delivery – Proposed new build general needs housing at Masterman House garage site, Lomond Grove, SE5" for the sum of £5,432,704 to Geoffrey Osborne Ltd and an allowance of £110,000 for the anticipated design fee claim. The report also requests approval for the addition works of £123,023 for works in Masterman Tower. The financial implications indicate that the total budget allocated to this scheme is £11,649,682.
95. The report indicates that the VFM comparison undertaken demonstrates that the tender cost is 7.5% higher than the BCIS benchmark rate and the report also highlights the reasons for the variation. The strategic director of finance and corporate services notes that the costs of re-tendering in terms of abortive costs and loss of GLA funding will significantly outweigh any potential savings from re-tendering.
96. The financial implication details the funding arrangements for these costs and it is noted that the additional capital budget of £54,081,345 agreed by the Housing Investment Board recently for the Direct Delivery Projects phase 1b will be included in the 2014/15 quarter 3 capital monitor report to cabinet for formal approval.
97. The strategic director of finance and corporate services notes the financial implications which indicates that the overall cost of the Direct Delivery Programme across the full term is expected to be funded from a combination of grants, S106 Affordable Housing Funds, right to buy receipts and sales receipts but the cash flow implications for the council with regards to the timing of the expenditure and expected income from the above sources needs to be closely monitored.
98. The internal governance arrangements within the department need to be transparent with clear lines of responsibility for managing and delivering the projects within approved budgets.
99. Regular and robust monitoring of the Housing Investment Capital Programme will be required to ensure there are sufficient resources to fund the overall programme on a yearly basis.
100. Staffing and any other costs connected with this contract to be contained within existing departmental revenue budget.

Head of Specialist Housing Services (For Housing contracts only)

101. Not applicable.

FOR DELEGATED APPROVAL

Under the powers delegated to me in accordance with the Council's Contract Standing Orders, I authorise action in accordance with the recommendation(s) contained in the above report.

Signature 
Designation *Chief Executive*

Date *19.12.14*

BACKGROUND DOCUMENTS

Background documents	Held At	Contact
Project records	Regeneration - Capital Works, 160 Tooley Street, SE1 2QH	Bruce Glockling - 020 7525 0138

APPENDICES

No	Title
Appendix 3A	Breakdown of Contractor's Prices – Masterman new build
Appendix 3B	Breakdown of Contractor's Prices – Masterman Tower works

AUDIT TRAIL

Lead Officer	Stephen Platts, Director of Regeneration	
Report Author	Bruce Glockling, Head of Regeneration – Capital Works	
Version	FINAL CLOSED	
Dated	09 December 2014	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Head of Procurement	Yes	Yes
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Head of Specialist Housing Services	No	No
Cabinet Member	No	No
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	No	No
Cabinet	No	No
Date final report sent to Constitutional/Community Council/Scrutiny Team	9 December 2014	

BACKGROUND DOCUMENT – CONTRACT REGISTER UPDATE - GATEWAY 2

Contract Name	Direct housing delivery – Proposed new build general needs housing at Masterman House garage site, Lomond Grove, SE5
Contract Description	Proposed new build general needs housing at Masterman House garage site, Lomond Grove, SE5 – appointment of contractor for main construction works
Contract Type	Works
Lead Contract Officer (name)	Bruce Glockling
Lead Contract Officer (phone number)	020 7525 0138
Department	Chief Executive's Department
Division	Regeneration - Capital Works
Procurement Route	Single supplier negotiated tender
EU CPV Code (if appropriate)	Not applicable
Departmental/Corporate	Departmental
Fixed Price or Call Off	Fixed Price
Supplier(s) Name(s)	Geoffrey Osborne Limited
Contract Total Value	£5,432,704
Contract Annual Value	Not applicable
Contract Start Date	December 2014
Initial Term End Date	March 2017
No. of Remaining Contract extensions	Not applicable
Contract Review Date	Not applicable
Revised End Date	Not applicable
Comments	Nil

This document should be passed to the member of staff in your department responsible for keeping your departmental contracts register up to date.

On approval of your report by the decision maker, please forward a copy of this document to Tracey Webb in the corporate procurement team. The contract details will be recorded on the corporate contracts register and a summarised version published online.