

DRAFT AND CONFIDENTIAL
Report of: Corporate Director Housing and Adult Social Services

Key Decision	Date	Ward(s)
Delegated Authority Corporate Director of Housing and Adult Services	26 January 2017	Bunhill

Delete as appropriate	Exempt	Non-exempt
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The Appendix to this report is exempt and not for publication

SUBJECT: CONTRACT AWARD FOR THE CONSTRUCTION OF 93 NEW HOMES, COMMUNITY FACILITIES AND ASSOCIATED IMPROVEMENTS FOR THE KING SQUARE ESTATE: DEVELOPMENT PHASE TWO, EC1V

1. Synopsis

- 1.1 Through building new council homes we can help tackle the cost of living crisis faced by many of our residents by creating more jobs for local people that pay the London Living Wage (LLW) and training opportunities, including apprenticeships, and help increase the supply of decent, genuinely affordable homes.
- 1.2 This report seeks approval to award a Design and Build (D&B) construction contract for the development of 93 new homes, new community facilities and associated estate and public realm improvements for Phase Two of the King Square Estate Development (KSE) for the sum of £30,851,778. A robust procurement process has been undertaken for the two-phase delivery in accordance with the Council's Procurement Rules and current LBI New Build Contractors Framework.

2. Proposed Decision

- 2.1 To award the King Square Phase Two Construction contract (D&B) to Higgins Construction Plc in the sum of £30,851,778 for the construction of 93 new homes, new community facilities and associated improvements for the King Square Estate, London EC1V.

Date on which proposed decision is to be taken: 3 February 2017

The proposed decision is a key decision because the value of the contract exceeds £1m. The contract

award is under a framework. Corporate Directors have authority to award capital contracts under a framework agreement in excess of £5m provided that the spend has been approved as part of the council’s capital programme.

The proposed decision was included in the Forward Plan.

3. Background

3.1 The King Square development scheme was granted Planning approval in April 2015 following extensive consultation with local residents of the King Square Estate and other key stakeholders. The development comprises 6 new housing blocks on five infill sites, within, and adjacent to, the King Square Estate, EC1V. The scheme is split into two Phases and will deliver a total of 140 new homes, a new community facility, improved estate communal facilities, community nursery and extensive landscaping and public realm improvements. 70% of the new homes are **affordable dwellings** (of which 94 are for social rent and 4 shared ownership). The **42 private** residential for sale units will help finance the new homes, facilities and improvements.

3.2 The development sites in Phase 2 are mainly surplus car park/garage areas and surplus education land (part of the Moreland School site that will be appropriated for housing purposes on completion of the new school).

3.3 **Scope of Works:** The two phases will be delivered as follows:

PHASE ONE (under construction) : 47 units -100% social rent Contract Value: £ 12.3M	BLOCK E : 25 units for Independent Living
	BLOCK F : 22 new homes (redevelopment of Turnpike House Annex (flat No’s 3-11)
Environmentals Phase 1	New secure community garden and food growing area.
PHASE TWO: 93 units plus Contract Value: £ 30.8M	BLOCK B : Terrace of houses replacing garages providing 10 x 3-beds and 1 x 2-bed W/C accessible house (all social rent)
	BLOCK C: 12 x 2-bed’s above new Community Centre plus a 1x 3-bed w/c accessible flat (all social rent)
	BLOCK D 1: 36 units private OMS on Goswell Road BLOCK D2: 33 units - mixed tenure
Estate regeneration works	Upgrade and refurbishment of Nursery at Rahere House. Estate Improvements to existing block facilities: new bin shelters and bike storage
Environmental works Ph2	Main landscaping works package at end of Phase 2 including new pedestrian spine and improved entrances to the estate on Goswell Rd and Central St, as well as new pedestrian link to Gard St at entrance to new Moreland School.

3.4 Programme:

Phase 1: started on site in January 2016 and is completing September 2017, delayed three months due to significant archaeological findings of human bones found on site.

Phase 2: is starting on site in May 2017 and completing by spring/summer of 2019. This will however depend on the new Moreland School completing to programme, and the necessary service diversions affecting the site being completed on time.

3.5 PHASE 2 Dwelling Mix:

Tenure: The overall tenure split for the King Square development is: 67 % Social Rent (SR); 3% Shared Ownership (SO) and 30% Private.

Phase 2 will deliver 93 units of which: 47 units social rent (SR); 4 shared ownership (SO); and 42 private for sale (all the OMS for the scheme).

Dwelling type:

The detailed breakdown in terms of type/size for the 93 units in Phase 2 is:

Total	PHASE 2		PHASE 2		Ph1 & 2 TOTAL		as	
	Units	%	HR's	%	Dw. Units	%	HR	%
1-Bed	17	18.3%	34	11.9%	42	30.0%	84	20.9%
2-Bed	64	68.8%	192	67.1%	86	61.4%	258	64.3%
3-Bed	12	12.9%	60	21 %	12	8.6%	60	14.9%
Total units	93	100%	286	100%	140	100.0%	401	100%

PHASE 2: detailed breakdown by Block:

3.6

Dwelling Type/ Size	BLOCK B	BLOCK C	BLOCK D1	BLOCK D2	Total Units	%
1-bed 2P	-		1	12	13	14 %
2-bed 3p	-	-	4		4	4.3%
2-bed 4p	-	12	30	15	57	61.3%
3-bed 5 p	10		1		11	11.8%
1-Bed 2p (Wheelchair)				4	4	8.6 % w/c access units
2-bed 3p (Wheelchair)				1	1	
2-bed 4p (Wheelchair)	1			1	2	
3-bed 5p (Wheelchair)		1			1	
Total units	11	13	36	33	93	100%

- 3.7 **Demolition:**
33 garages opposite Rahere House will be demolished... There is no demolition of residential units

4. Procurement Process

- 4.1 Baily Garner Consultants, the Employers Agent and Quantity Surveyor appointed by the council for both phases of this scheme, have undertaken a mini-competition in accordance with the provisions of the New Build Contractors Framework 2014-18.

All Framework contractors have signed up to paying their own employees, and those employed by their sub-contractors, the London Living Wage (LLW). They also signed a declaration to confirm that they have not and/or will not participate in the blacklisting of trade union members or activists contrary to the Employment Relations Act 1999 (Blacklisting) Regulations 2010 and the Data Protection Act 1998.

- 4.2 The tender is based on a two-stage open book tender approach, with the two construction phases delivered under separate design & build contracts. The intention is that Phase Two will be awarded to the Phase One contractor subject to the contractor's satisfactory performance on Phase One and agreement of an acceptable design and price for Phase Two. The tender includes a phased programme (see below) and separate second-stage tender pricing the design and works (fixed sum) for Phases One and Two.

Phase 1 procurement

- 4.3 In accordance with the New Build Contractors Framework call off procedure/mini-competition process, all 8 contractors appointed to Lot 2 of the Framework (contracts over £2m) were invited to express an interest in submitting a tender for this ambitious project in April 2015.
- 4.4 The five contractors who expressed an interest were invited to submit a First Stage tender for the D&B Contract (6 May 2015); four tenders were returned on the 12 June 2015. The tenders were evaluated on the agreed quality (60%) /price (40%) award criteria set out in the Invitation to Tender and in compliance with the terms of the Framework. The two front runners were invited to an interview.
- 4.5 The highest scoring First Stage contractor Higgins Construction PLC (Higgins) was awarded a Pre-Construction Services Agreement (PCSA) for Phase One on the 19 July 2015 to carry out further detailed design and enabling works and site surveys in order to firm up the design in consultation with the client and arrive at a fixed price Second Stage tender (submitted in October 2015). Higgins were awarded the Phase One D&B Contract in December 2015 and started on site in January 2016 as per original programme and are progressing well, in spite of programme setbacks due to archaeological finds on the site (see more on performance in section 4.10).

Phase 2 procurement

- 4.6 Higgins were invited to tender for the second stage and submitted their price and proposals for the Phase Two PCSA at the end of May 2016 (reported in the KSE Phase 2 PCSA Award Report in June 2016). They were awarded the PCSA in July 2016 for the sum of £899,681. Higgins submitted their fixed price tender for Phase Two in November 2016 for the sum of £30,851,778. The award of the Phase Two main contract is subject to the contractor's satisfactory performance in Phase One and agreement of an acceptable Phase Two design and contract sum.
- 4.7 Phase Two comprises the larger part of the KSE development. Extensive site and soil investigations and services searches have been conducted to address site risks, augmented due to the extent of land and location of the blocks. Higgins submitted their fixed price second-stage tender for Phase Two based on the following:

- Open book Costs (for transparency purposes);
- Minimum three quotations per subcontract package; and overheads and profit as well as contingency based on their First Stage tender submission (April 2015).
- Additional items relating to enabling works/service diversions that hadn't been fully identified and included at the first stage tender in April 2015.

4.8 More information is provided in the Employer's Agent Baily Garner's report, Value for Money Report KSE Phase 2, which analyses the tender pricing and assesses value for money (VfM) in the present market context, see Appendix 1.

4.9 **Value for Money**

The PCSA allows early involvement of the Contractor in the design, harnessing their knowledge and building experience, whilst enabling client control over the quality of the D&B construction in a spirit of open book and transparency. It allows the contractors to carry out necessary site investigations and surveys to reduce construction risks and pricing thereof. This process also allows for early enabling works and value engineering, thus providing the Council with better value for money in compliance with required design and qualitative requirements.

Baily Garner have checked and assessed Higgins' tender based on an analysis of the

- submitted prices for all subcontracted works packages and materials (open book);
- any provisional items mainly regarding utilities and service diversions and other enabling works;
- Contractors' prelim's and overheads and profit at the percentage rates set out in the First Stage tender submission. The tender pricing has been compared to the Phase One tender and other comparable tenders and assessed within the current market outlook and factors/trends affecting the London residential construction market in particular. Please see Appendix 1 for more details.

The tender pricing has been found to be robustly prepared, and competitive in relation to Phase One pricing. The price is based on a works commencement date of 2 May 2017, so any delays to this could lead to cost increases.

Baily Garner's conclusion is that Higgins tender in the sum of £30,851,778 represents VfM for the council.

4.10 **Quality Assessment**

The submitted tender complies with the relevant Employers Requirements (July 2015) and quality standards as set out in the LBI framework / contract documents.

Higgins' performance in Phase One has been closely monitored and reviewed by Employers Agent Baily Garner acting on behalf of the council, as well as relevant council officers. In spite of the significant disruption caused by the discovery of human bones under the site of Turnpike House carpark, the delay and escalation of costs have been contained. Higgins have proactively managed the works and run the construction site efficiently to the revised programme and budget, in compliance with good practice and to high Health and Safety standards. The site team have engaged with residents, so that we have had zero complaints and have collaborated effectively with the client side project manager and Employers Agent Baily Garner, as well as with other council departments/ sections involved.

A set of Key Performance Indicators (KPI's) has been used to measure performance, the overall score for performance to date is 55/60, equivalent to 'excellent'. For more details see the Value for Money Report by Baily Garner in Appendix 1: Section 7/ KPI form (on page 9 Table 3 of the report).

Following the extensive discussions at design review meetings with Higgins regarding the preparation of their price and further investigative works undertaken to remove conditions and

minimise provisional sums, there are no concerns as to their capability of undertaking the works from a technical and resourcing point of view.

4.11 Programme:

- **Appoint Phase 2 D&B Contractor:** Early February 2017
- **Start on Site (Phase 2):** 2 May 2017*
- Phase 1 Completion and Hand over: September 2017
- **Phase 2 Completion and handover:** Summer 2019

(*The time plan is subject to the completion of new Moreland School on time and vacant possession of land transferred, as well as gas and water service diversions completing by the beginning of May).

5. Implications

5.1 Financial Implications

The residential construction costs of both phases totals £37.5m & non-residential construction, fees, landscaping & contingency totals a further £17.5m leading to a total Phase1 & 2 scheme cost of £55m.

Anticipated receipts from sales are estimated at £30m and from 141 RTB receipts £11.1m leading to a net scheme cost of £13.9m.

This net cost can be accommodated within the overall non scheme specific capital resources available to the new build programme.

5.2 Legal Implications

Under Section 9 of the Housing Act 1985 the Council has the power to provide housing accommodation by building houses on land acquired for that purpose or by converting buildings into houses and to sell part of that accommodation. Accordingly the council may enter into a contract for the King Square Estate Phase 2 development (Section 1 Local Government Contracts Act 1997).

Higgins Construction Plc was appointed to the Council's New Build Development Framework (2014 – 2018) following a competitive tendering exercise in accordance with EU Procurement Legislation. Under the framework agreement a new build works contract may be awarded to a framework contractor following a mini competition subject to a value for money assessment. Higgins Construction plc was awarded the King Square Estate development project, following a mini competition under the Framework, and subsequently entered into a pre-construction services agreement and then a design and build contract for Phase 1 with the Council.

In these circumstances it would be reasonable for the construction contract for Phase 2 to be awarded to Higgins Construction Plc provided that the decision maker is satisfied that their price represents value for money. In reaching his decision the decision maker should have regard to the Employer's Agents report at Appendix 1.

Corporate Directors have authority to award capital contracts under a framework agreement in excess of £5m provided that the spend has been approved as part of the council's capital programme.

5.3 Environmental Implications

An environmental impact assessment was carried out as part of the design development and planning application to ensure that any potential impacts during and post construction are considered and adequate mitigation measures are in place.

It will be essential during both the demolition and construction periods to ensure the contractor adheres to environmental legislation particularly around waste regulations. Clearly defined roles on who is responsible for waste management and disposal, obtaining licences and permits and liability will be essential before work commences. The contractor will be required to implement the waste hierarchy, giving priority to reuse and recycling, and the council has a duty of care to ensure that the contractor has the appropriate waste licences and permits. Full method statements for all activities will be required from the contractor before commencement in order to mitigate these risks.

Careful management of local nuisance issues such as noise, dust and air pollution will be required on site during both the demolition and construction phases, and the contractor should be required to ensure that there is no harm to local biodiversity, including trees. Transport to and from the site should be minimised to reduce emissions and congestion.

With regards to design, the major environmental implications are related to the building materials and energy efficiency. When choosing building materials, whole-life costs, including embedded emissions should be taken into consideration. Where possible, the contractor should minimise the amount of material used and use recycled or sustainably-sourced products (e.g. FSC or PEFC certified timber).

The energy efficiency of the new buildings should be maximised, potentially including the installation of renewable energy. They will meet at least Level 4 of the Code for Sustainable Homes, and will be connected to the Bunhill district heating network.

5.4 Resident Impact Assessment

The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding

A Resident Impact Assessment has been carried out and it has identified that there will be positive impacts on people living in the new dwellings and the immediate neighbourhood. There are no identifiable negative impacts.

A copy of the RIA is available upon request from the author of this report.

6. Reasons for proposed decision

- 6.1 In conclusion, Higgins Construction Plc, the winning contractor from Lot 2 of the LBI Framework 2014-18, has submitted a tender in the sum of £30,851,778 for Phase 2 of the King Square new build project that offers value for money and quality proposals that meet the required standards.
- 6.2 Based on their overall excellent performance to date and progress on Phase One, it is also concluded that Higgins have met the requirements for delivery of Phase Two of the development as set out in the Phase 1 procurement (paragraph 4.2).
- 6.3 It is therefore recommended that the council award the KSE Phase Two contract to Higgins Construction Plc for the construction of 93 new homes, new community facilities and associated estate improvements, as their tendered price forms an acceptable basis for agreeing the final contract sum.

APPENDICES

Appendix 1: (Exempt)

Value for Money King Square Phase 2 Report: This is exempt and not for publication, as it contains exempt information under paragraph 96.4, category 3, of Access to Information Procedure Rules, namely information relating to financial or business affairs.

7. Note of Decision

I have today decided to take the decision set out in paragraph 2 above for the reasons set out in paragraph 6

Final report clearance:



Signed by: Corporate Director – Housing & Adult Social Services

Date: 3/02/2017

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