



Draft and Confidential

Key Decision Report of the Corporate Director

Officer Key Decision	Date: 18/11/2019	Ward: Junction
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APPENDICES 1 and 2 TO THIS REPORT ARE EXEMPT AND NOT FOR PUBLICATION

SUBJECT: Main contract award for 19 new homes on Wedmore Estate

1. Synopsis

- 1.1 This report seeks the approval of the Corporate Director of Housing to award a Design & Build construction contract to Willmott Dixon Limited to build 19 genuinely affordable council homes on the site of Wedmore Estate car park and playground using New Build Contractor Framework 2014-2018, which has been procured and approved by the Executive.
- 1.2 A mini-competition has been undertaken in accordance with the New Build Contractor Framework 2014-18 and policies and procedures adopted by the council.
- 1.3 The contract is for the construction of 19 new council homes with associated amenity space, communal storage space, provided in a new residential block ranging from two to six storeys in height, along with bicycle storage, and improvements to the public realm on Wedmore Estate.

2. Recommendations

- 2.1 To approve the award of a Design and Build (D&B) construction contract to Willmott Dixon Limited (Willmott Dixon) for the sum of £8,605,013 (exclusive of VAT) as outlined in this report to construct 19 council homes and provide associated estate improvements.
- 2.2 To note the requirement under 5.1 Financial Implications to re-prioritise schemes within the current 3-year capital programme in order to accommodate the net cost pressure in the sum of an estimated £1.958m arising in respect of this contract award. In respect of the new site finder programme, it is important to note that the 30 year business plan estimates

demonstrate this to be affordable, assuming the indicative ratio of social rented : private sale builds is 70 : 30.

3. Date the decision is to be taken: 18th November 2019 as detailed in the Forward Plan.

4. Background

- 4.1 The purpose of this report is to appoint a suitably qualified main contractor to carry out the construction of the 19 new homes.
- 4.2 Pre-planning resident consultation on a development of 19 units (including seven for private sale) was undertaken between July and November 2016. A planning permission for a mixed-tenure scheme was granted on 23 April 2018 under reference P2017/4763. Following a successful bid to the Greater London Authority (GLA), the scheme is being currently revised to flip the all the proposed private properties to social rent to provide genuinely affordable council homes.
- 4.3 The accommodation schedule of a scheme for social rent is as follows:

Tenure / Bedsize	1 Bed/2p	2 Bed/4p	2 Bed/4p Wheelchair accessible units	3 Bed/5p	TOTAL
No. of homes for social rent	3	7	2	7	19

- 4.4 The proposals will result in a diminution of Rights of Light of adjoining residential property owners. Therefore, to enable the implementation of the planning application without a risk of injunction proceedings, the land comprising the project site was appropriated from housing to planning purposes by the decision of the Executive taken on 11 July 2019. A council's representative is liaising with the affected owners to agree financial compensation.
- 4.5 Following responses to Stage One tender carried out in accordance with the provisions of the New Build Contractors Framework 2014-2018, a Pre-Construction Service Agreement (PCSA) for early enabling works up to the value of £165,000 was awarded to Willmott Dixon Limited in January 2019 and a target price of £7.75m was agreed.
- 4.6 The PCSA was extended and increased by £40,000 to facilitate a re-design reflecting amended tenure of the scheme and its value-engineering.
- 4.7 An updated tender of £8,605,013 (exclusive of PCSA) for the construction of the 19 new council homes was received from Willmott Dixon in August 2019. It is this updated tender submission that forms the subject of this award report.

Estimated Value

- 4.8 The development is to be funded through the council's new build housing budget and the grant received from the GLA, which has enabled conversion of seven units from private sale to social rent (see sections 4.2-4.2).
- 4.9 The value of the main works contract to be awarded is £8,605,013 (exclusive of the previously awarded PCSA). The estimated contract period is 69 weeks.
- 4.10 The contract value has increased by £1m (or 13%) compared to the target price of £7.75m that was agreed in January 2019. The costs increase is mostly driven by the abnormalities that have been identified and to a lesser extent by the higher costs of the estate works. The key abnormalities are:

- Requirement for extensive parking bays suspension to facilitate construction deliveries
- Disposal costs for contaminated soil discovered during further site investigations
- Detailed design led to higher costs of:
 - Construction of retaining walls across the public realm
 - Reconstruction of a retaining wall along Whittington Park
 - Complicated roof structure designed to match existing historic buildings

- 4.11 The proposed contract sum is reflective of £300k of savings identified through value-engineering exercise with the most significant saving achieved by the removal of a basement level and re-arrangement of the plant room and communal facilities.
- 4.12 The build cost has been benchmarked against other council's new build schemes. Despite higher than average cost per square metre, the Employer's Agent confirmed that the contractor has market tested the works on a competitive tender basis and the contract sum is considered to represent current market values for the scheme.
- 4.13 The Employer's Agent and the Cost Consultant (Summers Innman LLP) are satisfied that the price submitted by Willmott Dixon is reasonable given the following:
- The contractor's tender has been undertaken in accordance with the council's New Contractor Framework procedure with an open book approach.
 - The contractor's tender has been market tested and the most competitive price has been sought.
 - The Employer's Agent requests for information or revisions have resulted in saving of £188k on work packages.
 - Despite price per square meter being higher than the council's benchmark, the proposed price for the works represents current market value.

Summers Innman LLP have therefore recommended that the council should consider proceeding with Willmott Dixon for this project.

4.14 **Timetable**

- Key Officer Decision – November 2019
- Start on site – Q1 2020
- Completion – Q2 2021

Procurement Process

- 4.15 Willmott Dixon Limited have previously been appointed by Islington Council to Lot 2 of New Build Contractor Framework 2014-2018 (The Framework) following a competitive tendering exercise in accordance with EU procurement legislation.
- 4.16 Willmott Dixon have submitted a Stage 1 tender in response to the council's mini-competition carried out in accordance with the Framework provisions. Willmott Dixon have received the highest scoring out of three bidders who submitted their responses and have been awarded a PCSA contract in January 2019.
- 4.17 At Stage 2 Willmott Dixon have submitted a proposed contract sum of £8,605,013 which has been value engineered (see section 4.10 above) and which achieves Value for Money (see section 4.12 above)

- 4.18 Willmott Dixon can be awarded the main contract by the Corporate Director of Housing using New Build Contractor Framework 2014-2018, which has been procured and approved by the Executive.

Key Considerations

- 4.19 The construction of the new block on Wedmore Estate will help to address the shortage of council homes in the borough by creating 19 genuinely affordable homes for social rent, including two wheelchair accessible homes.
- 4.20 Best Value has been considered in terms of balancing the number and the standard of the new council homes to be delivered as well as ensuring that an experienced and reliable contractor is appointed. An 'open book' review and value engineering exercise have been undertaken to ensure the scheme has been tendered competitively and that costs have been reduced where possible, without compromising the quality of the new homes or the public realm improvements.
- 4.21 All contractors appointed to the Framework have been required to sign up to paying their own employees, and those employed by their sub-contractors, the London Living Wage. In addition, Willmott Dixon have allowed for an apprenticeship for the duration of the project – this is in line with the Employment and Training Code 2018 as detailed in Appendix S of the 2019 LB Islington's Employer's Requirements.
- 4.22 Further, all framework contractors have 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. The Employment Relations Act 1999 (Blacklist) Regulations 2010 explicitly prohibit the compilation, use, sale or supply of blacklists containing details of trade union members and their activities. Following a motion to full Council on 26 March 2013, all tenderers will be required to complete an anti-blacklisting declaration. Where an organisation is unable to declare that they have never blacklisted, they will be required to evidence that they have 'self-cleansed'. The council will not award a contract to organisations found guilty of blacklisting unless they have demonstrated 'self-cleansing' and taken adequate measures to remedy past actions and prevent re-occurrences.
- 4.23 The new council homes will be built to high standards in terms of environmental sustainability, meeting Level 4 of the Code for Sustainable Homes. They will be very energy efficient meaning they will be cheaper to run for the residents who live in them, helping to keep down the cost of living.

Business Risks

- 4.24 The business risks associated with this procurement are limited given the ongoing involvement of Willmott Dixon in this project, their experience and knowledge of the site and the previous work they have undertaken. During the PCSA period Willmott Dixon have undertaken further site surveys and have developed the detailed design proposals in accordance with the site conditions. This has enabled Willmott Dixon's to submit an informed Stage 2 tender including only ca.£15k of costs to be confirmed and a minimal risk contingency of 1%.
- 4.25 Although the Stage 2 tender was higher than the target price agreed, the Employer's Agent advised that re-tendering of the scheme would not necessarily result in a better price and would generate additional costs and delays associated with the tendering process and introducing a new contractor.

4.26 The following relevant information is required to be specifically approved by the Executive in accordance with rule 2.8 of the Procurement Rules:

Relevant information	Information/section in report
1. Nature of the service	This report seeks approval for the appointment of a main contractor for construction of 19 genuinely affordable social rented homes. See paragraph [2.1]
2. Estimated value	The estimated value is £8,605,013. See paragraph [4.9]
3. Timetable	The timetable is outlined in this report. See paragraph [4.14].
4. Procurement Process	The outcome of the procurement options appraised are described within this report. See paragraphs [4.15 - 4.18].
5. Key Consideration of: Social benefit clauses; London Living Wage; Best value; TUPE, pensions and other staffing implications	Social economic, environmental considerations, equality, diversity and inclusion form part of the contractor's submission. See paragraphs [4.19 – 4.23].
6. Any business risks associated with entering the contract	Business risks are as described in this report See paragraphs [4.24 - 4.26].
7. Any other relevant financial, legal or other considerations.	See paragraphs [5.1 - 5.6]

5. Implications

Financial implications:

5.1 Table 1 below sets out the capital expenditure budget and financing included in the approved 3-year capital programme (2019/20 to 2021/22) and the anticipated budget post 21/22 in respect of the Wedmore scheme, comprising the build of 19 social rented properties.

The expenditure budget of £7.101m included estimated construction related costs of £6.110m and fees of £0.991m. In terms of the financing, at budget setting assumed scheme specific capital resources (RTB 141 receipts & GLA Grant) totalled £2.122m.

In addition, prior years' expenditure totals £.387m.

The balancing net capital cost of £4.980m was planned to be financed from a combination of other non-scheme specific capital resources such as S106, the LA share of RTB receipts or borrowing.

Table 1 – Wedmore Estate scheme – Capital Expenditure Budget and Financing included in approved 3- year capital programme (2019/20 to 2021/22) and the anticipated budget post 21/22

	£000's
Prior Yrs Exp.	£387
Approved at Budget Setting 19-20 for the 3 years 19-20 to 21-22 + 18-19 spend in advance	
GROSS EXP. BUDGET in 3 YR approved	
Prog.	£6,308
Future anticipated Budget - post 2122	£793
	£7,101
Scheme Specific Resources RTB 141s + GLA grant	-£2,122
NET	£4,980

Table 2 below sets out the latest expenditure forecast in respect of the Wedmore scheme based on the tenure split agreed at budget setting (the expenditure forecast of £9.660m includes the construction price as submitted by this report's recommended contractor - £8.605m) this indicates an increase in expenditure of £2.559m.

The increase in expenditure gives rise to an increase in access to RTB 141 receipts in the sum of £0.601m.

As such the 3year capital programme budget pressure totals £1.958m.

In terms of value for money (para. 4.10) sets out the key reasons for the construction price increase from that which was estimated at budget setting. The report also confirms (para. 4.13) that an independent expert has undertaken a detailed review/assessment of the preferred contractor's costings and has confirmed that in their view the price is reasonable and represents value for money.

Table 2 – Wedmore Estate scheme – Latest expenditure forecast and variance to the original budget.

	£000's
Prior Yrs Exp.	£387
Latest Forecast	
GROSS EXP.	£9,660
Scheme Specific Resources RTB 141s + GLA grant	-£2,723
NET	£7,324
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INCREASE in GROSS EXP.	£2,559
Increase in 141s & GLA grant	-£601
NET Pressure	£1,958

In terms of affordability this £1.958m budget pressure can be accommodated within the 30 year HRA business plan. The impact of increased borrowing to fund the shortfall can be accommodated within the business plan in the short term & in the medium/long term the

business plan would need to reflect a reduction in the ratio of social rented : private sale builds, in respect of the new site finder programme, from an indicative ratio of 80 : 20 to an indicative ratio of 70 : 30 so as to accommodate the increased borrowing costs arising from an increase in construction prices across a number of schemes within the current new build programme.

In terms of this contract award it is anticipated that around 20% of contract costs will be incurred in this financial year, as such the majority of expenditure will be incurred post the start of the next financial year 2020/21 and as such this budget pressure will not impact in the current financial year.

However, a decision to progress with this scheme now by awarding this contract will potentially place a strain on the availability of the capital budget provision in respect of the current overall 3-year new build programme & will therefore require other schemes to be re-prioritised/delayed to beyond the current 3-year approved capital programme envelope 2019/20 – 2021/22.

The Director of New Build is confident that this budget pressure can be managed in the short term by re-prioritising schemes that are at post planning/feasibility stage and as such not imminently at contract award stage and therefore not adversely impacted by being slipped forward.

The next 3-year capital programme is due to be reviewed and considered as part of the 2020/2021 budget setting cycle and it is as part of this process that individual scheme budgets and sources of financing will be re-visited, in light of anticipated increases in construction costs, in the context of affordability and the HRA business plan.

Legal Implications:

- 5.2 Under Section 9 of the Housing Act 1985 the Council has power to provide housing accommodation by building houses on land acquired for that purpose or by converting buildings into houses.

Willmott Dixon Ltd has been appointed as a Framework Contractor for the New Build Programme 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.

Willmott Dixon Ltd submitted the highest scoring tender through a mini-competition between Lot 2 Contractors appointed to the Framework. As the successful Stage 1 contractor, they were invited to submit a tender for the main construction works. The award of a Stage 2 build contract for the construction of 19 new homes on Wedmore Estate is subject to the council being satisfied that the price represents VFM and is otherwise acceptable to the council.

In considering the recommendation in this report, the Director should have regard to the information set out in the report and be reasonably satisfied that Willmott Dixon Ltd's tender represents VFM.

Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

- 5.3 The new homes will be required to meet the requirements of Code of Sustainable Homes Level 4.

- 5.4 It will be essential during both the pre-construction and construction periods to ensure the contractor adheres to environmental legislation, particularly around waste regulations. 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.
- 5.5 During any site works, the contractor will be required to carefully manage local nuisance issues such as noise, dust, air pollution and vibrations during groundworks. Particular attention will be required in terms of health and safety, site set up, delivery arrangements and shared access for smaller construction vehicles, estate parking and pedestrians. Travel to and from the site will need to be managed carefully to reduce the impact of vehicular emissions and traffic congestion in what is already a predominantly residential area.

Resident Impact Assessment:

- 5.6 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.

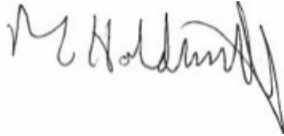
A Resident Impact Assessment (RIA) was completed on 22 May 2019 which identified that there would be minimal negative impacts, primarily affecting the then existing residents and leaseholders. The new scheme will provide new homes to wheelchair users, families, young people, older people, social and private residents. In addition, the communal amenity space will be for all residents to enjoy and this will provide an opportunity for socio-economic benefits.

6. Reason for the decision

- 6.1 Willmott Dixon are one of the contractors who had been appointed to Lot 2 of the New Build Contractor Framework 2014-18. They have provided cost values and design fee percentages acceptable to the council's appointed quantity surveyor (QS) in order to undertake the main construction contract for this new build project. While the price was higher than expected the QS has since satisfied himself that through a series of checks and comparisons, both with Islington's own schemes and the wider construction market in London, as well as through the value engineering exercise, that the contract price submitted by Willmott Dixon is fair and acceptable.
- 6.2 It is therefore recommended that a Design & Build construction contract is awarded to Willmott Dixon) for the sum of £8,605,013 to construct 19 genuinely affordable social rented homes and provide associated estate improvements.
- 6.3 **Record of the decision:** (to be completed after 5 days on the website and re-sent to Democratic Services)

7. I have today decided to take the decision set out in section 2 of this report for the reasons set out above.

Signed by:



Corporate Director of Housing

Date 18.11.2019

Appendices

- Exempt Appendix 1 – Wedmore Estate Value for Money report – compiled by the cost consultant, Summers Inman
- Exempt Appendix 2 – Revised contract sum breakdown – compiled by the cost consultant, Summers Inman
- Appendix 3 - Resident Impact Assessment

Background papers: None

Final report clearance:

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