



DECISION OF THE EXECUTIVE MAYOR

Tuesday, 13th September, 2016

at

Hackney Town Hall, Mare Street, London, E8
1EA

Tim Shields
Chief Executive

Governance Services

The press and public are welcome to attend this meeting

AGENDA

Tuesday, 13th September, 2016

ORDER OF BUSINESS

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Access and Information

Location

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Ward Councillors may be contacted at their surgeries or through the Members' Room at the Town Hall (020 8356 3207).

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- The Legal Adviser to the committee; or
- Governance Services.

If at all possible, you should try to identify any potential interest you may have before the meeting so that you and the person you ask for advice can fully consider all the circumstances before reaching a conclusion on what action you should take.

1. Do you have a disclosable pecuniary interest in any matter on the agenda or which is being considered at the meeting?

You will have a disclosable pecuniary interest in a matter if it:

- relates to an interest that you have already registered in Parts A and C of the Register of Pecuniary Interests of you or your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner;
- relates to an interest that should be registered in Parts A and C of the Register of Pecuniary Interests of your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner, but you have not yet done so; or
- affects your well-being or financial position or that of your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner.

2. If you have a disclosable pecuniary interest in an item on the agenda you must:

- Declare the existence and nature of the interest (in relation to the relevant agenda item) as soon as it becomes apparent to you (subject to the rules regarding sensitive interests).
- You must leave the room when the item in which you have an interest is being discussed. You cannot stay in the meeting room or public gallery whilst discussion of the item takes place and you cannot vote on the matter. In addition, you must not seek to improperly influence the decision.
- If you have, however, obtained dispensation from the Monitoring Officer or Standards Committee you may remain in the room and participate in the meeting. If dispensation has been granted it will stipulate the extent of your involvement, such as whether you can only be present to make representations, provide evidence or whether you are able to fully participate and vote on the matter in which you have a pecuniary interest.

3. Do you have any other non-pecuniary interest on any matter on the agenda which is being considered at the meeting?

You will have 'other non-pecuniary interest' in a matter if:

- i. It relates to an external body that you have been appointed to as a Member or in another capacity; or
- ii. It relates to an organisation or individual which you have actively engaged in supporting.

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- i. Declare the existence and nature of the interest (in relation to the relevant agenda item) as soon as it becomes apparent to you.
- ii. You may remain in the room, participate in any discussion or vote provided that contractual, financial, consent, permission or licence matters are not under consideration relating to the item in which you have an interest.
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Further Information

Advice can be obtained from Gifty Edila, Corporate Director Legal, HR and Regulatory Services, on 020 8356 3265 or email Gifty.Edila@hackney.gov.uk



FS 566728



TITLE OF REPORT: Bridge House Phase 2 Contractor Procurement CONTRACT APPROVAL Key Decision No. NH K50	
DECISION OF THE DEPUTY MAYOR 13 th September 2016	CLASSIFICATION: Open with exempt appendices If exempt, the reason will be listed in the main body of this report.
WARD(S) AFFECTED Homerton	
CABINET MEMBER Cllr Philip Glanville Housing	
KEY DECISION Yes REASON Costs	
GROUP DIRECTOR Kim Wright, Group Director, Neighbourhoods and Housing	

1. CABINET MEMBER'S INTRODUCTION

- 1.1 At its meeting in July 2011 the Council's Cabinet agreed the Estate Regeneration Programme. The Cabinet report outlined the Council's approach to the development of a strategy for the delivery of high quality new build housing and improved living standards across a number of housing estates in the Borough. The Programme was updated and approved by Cabinet in March 2014 and again in October 2015.
- 1.2 In approving the Programme, Cabinet also agreed a portfolio as opposed to a site-by-site approach to the regeneration of housing estates. This approach enables the Council to combine development of schemes which have potential to generate a surplus with those that require a net investment. Bridge House Phase 2 will deliver 28 social rented homes, 39 shared ownership homes and 8 outright sale homes so requires investment from the portfolio.

2. GROUP DIRECTOR'S INTRODUCTION

- 2.1 The Estate Regeneration Programme is based on the delivery of mixed tenure developments. Based on current market conditions the Programme is forecast to be self-funding, but each individual scheme will be subject to robust financial viability testing. This report is seeking approval to appoint a preferred contractor to deliver Bridge House Phase 2. The Council has procured the preferred contractor via the OJEU compliant Network Housing Framework. The recommendation is made on the basis of both cost and quality.

3. RECOMMENDATION(S)

The Deputy Mayor is recommended to:

- 3.1 **Note the process of tender evaluation used in the selection of the preferred bid.**
- 3.2 **Approve the selection of Bidder A (see Exempt Appendix 2) to proceed to the second stage of the tender process as the preferred contractor to undertake the construction of mixed tenure housing at Bridge House Phase 2.**
- 3.3 **Approve the proposal to enter into a Pre-Contract Services Agreement with Bidder A on the terms set out in Exempt Appendix 2.**
- 3.4 **Approve the selection of Bidder B (see Exempt Appendix 2) to proceed to the second stage of the tender process as the reserve contractor to undertake the construction of mixed tenure housing at Bridge House Phase 2, and delegate authority to the Director of**

Regeneration to invite the reserve contractor to proceed to the second stage of the tender process if necessary.

- 3.5 Authorise the Group Director of Neighbourhoods and Housing and the Group Director of Finance and Corporate Resources to approve the appointment of Bidder A (or Bidder B if the reserve bidder is used) at the completion of the second stage of the tender process to undertake the construction of mixed tenure housing at Bridge House Phase 2.**
- 3.6 Approve the proposal to enter into a JCT Design and Build contract and any other ancillary legal documentation relating thereto with Bidder A (or Bidder B if the reserve bidder is appointed) for the construction of mixed tenure housing at Bridge House Phase 2 on such terms as shall be agreed by the Director of Legal. The contract will include a contingency of 5% (of the final contract sum) to be held by the Council for scheme variations during the construction period.**
- 3.7 Note that in respect of the 8 outright sale homes, the recommended procurement strategy for Bridge House Phase 2 requires the Council to make use of the authorities granted by Cabinet on the 18th July 2016 in respect of the direct development and disposal of those homes.**

4. RELATED DECISIONS

- 4.1 At its meeting on the 18th July 2011 the Council's Cabinet agreed the Estate Regeneration Programme. The Programme was updated and approved by Cabinet in March 2014 and again in October 2015. Bridge House Phase 2 is a key site within the Programme.**
- 4.2 At its meeting on the 11th December 2012 Cabinet Procurement Committee approved proposals for the selection of a developer partner for the construction of mixed tenure housing at St Leonard's Court, Bridge House and Marian Court, and Colville Phase 2.**
- 4.3 The Delegated Powers Report of the Corporate Director of Housing recommending the selection of a developer partner for the construction of mixed tenure housing at St Leonard's Court, Bridge House and Marian Court, and Colville Phase 2 was approved on the 24th August 2012.**
- 4.4 At its meeting on the 18th July 2016 Council's Cabinet approved the Council's Sales and Marketing Strategy, authorising the Director of Regeneration to implement the Sales and Marketing Framework in relation to shared ownership and outright sale disposals generated via both the Estate Regeneration and Housing Supply Programmes, and**

authorising the Director of Strategic Property and the Director of Regeneration to dispose of leasehold and freehold interests in the shared ownership and outright sale homes developed or to be developed as part of those Programmes.

5. REASONS FOR DECISION/OPTIONS APPRAISAL

5.1.1 This report outlines the process that has been followed in selecting a preferred bidder for the regeneration of Bridge House Phase 2. It also considers and sets out the recommended approval for the direct disposal of the 8 outright sale homes on the scheme, as necessitated by the recommended Procurement approach.

5.1.2 If the recommendations in section 3 are approved, the Council will enter into the second stage of the tender process. At the conclusion of this second stage the Council will enter into a JCT contract with the preferred bidder, who will have successfully demonstrated a track record of outstanding quality of construction and sound financial standing.

5.1.3 The JCT contract requires the successful bidder to:

- Construct in full the 28 social rented and 39 shared ownership units for retention by the Council;
- Construct in full the 8 outright sale units for disposal by the Council; and
- Carry out public realm and infrastructure works.

5.1.4 This approach will involve the Council taking responsibility for the direct disposal of all 8 outright sale homes as well as the 39 shared ownership homes on the development. This will realise the ambition, set out in the previous reports to Cabinet and CPC concerning the Estate Regeneration Programme (ERP), the Council has to directly deliver a limited number of outright sale homes on some of the smaller sites within both the ERP and the Housing Supply Programme.

5.2 ALTERNATIVE OPTIONS (CONSIDERED AND REJECTED)

5.2.1 At its Cabinet meeting in July 2011, and subsequently in March 2014 and again in October 2015, the Council agreed an extensive Programme of redevelopment and regeneration across a number of its estates.

5.2.2 In the past, the Council's approach to the regeneration of sites such as Bridge House Phase 2 was to consider site specific solutions – either in the form of a joint-venture or by means of a straightforward land disposal.

- 5.2.3 The current approach provides the opportunity to combine development of schemes which have the potential to generate a surplus with those that require a net investment. Based on current assumptions regarding values and costs this approach allows the Estate Regeneration Programme to be self-funding.
- 5.2.4 This approach to estate regeneration is based on creating mixed and balanced communities with different tenures, and a mix of land uses, that are well designed and integrated. Cabinet has agreed that the Council is able to fund the new developments through a combination of prudential borrowing, following changes in HRA legislation, and the contribution of receipts from the outright sale homes within the proposed new mixed tenure estates.
- 5.2.5 The Council owns and manages several thousand homes, and as such has an in-depth understanding of and expertise in the affordable housing sector. In addition, the Council has recently successfully delivered new build housing at Goldcrest Mews, Dunnock Mews, and Bridport House under the Local Authority Newbuild Initiative, as well as projects at Alexandra National House and the Bridge House Garages site. Accordingly, the Council's approach to regeneration seeks to utilise its expertise, understanding and financial capacity to build (and retain) quality new affordable housing, while granting long leasehold interests for outright sale units for a monetary consideration.
- 5.2.6 The option of entering a development agreement on this scheme was discounted due to the small number (8) of outright sale units being delivered. The profit requirements of a private developer under such an arrangement renders this a less financially attractive option for the Council.

6. PROJECT PROGRESS

6.1 Developments since Business Case approval

- 6.1.1 The initial CPC report covering this project set out and gained approval for the selection of a developer/contractor to be carried out via the publication of an Official Journal of the European Union Notice through the Restricted Procedure in accordance with the EU Directive and EU Treaty and the Public Contracts Regulations 2006 and 2009.
- 6.1.2 In line with that approval in December 2012 an OJEU procurement process was commenced for developer/contractors to construct the mixed tenure housing at Colville Phase 2, St Leonard's Court, and Bridge House & Marian Court. Following the assessment of PQQs for this opportunity eight developer/contractors were shortlisted.

- 6.1.3 This procurement did not proceed under the OJEU process as proposed above due to the differentiation in the evolving programmes of the three projects. All three became subject to Compulsory Purchase Orders, which resulted in delays to the programme and the three projects subsequently proceeding out of sequence. It was decided that this OJEU process would be abandoned and the shortlisted developers were duly informed of the reason.
- 6.1.4 Following this the decision was taken in conjunction with the Council's corporate procurement team to instead seek bids for Bridge House Phase 2 through the OJEU compliant Network Housing Framework. A two stage procurement process was agreed, as follows.

Network Housing Framework – Preliminary Stage, Sifting Brief

- 6.1.5 The tender process to date has consisted of a number of stages which commenced on 21st January 2016 with the issue of a sifting brief to the 14 contracting parties that form the Network Housing Framework. The Sifting Brief included 5 questions which each contractor was required to answer. 7 of the 14 (see Exempt Appendix 1) expressed an interest by submitting a sifting brief response on the 22nd February 2016.
- 6.1.6 On evaluation of the sifting brief responses, the 4 highest scoring companies were selected to participate in the next stage and receive the full Invitation to Tender (ITT).

Network Housing Framework – Stage 1, ITT Stage

- 6.1.8 The ITT was issued to the 4 shortlisted bidders on 8th March 2016 with a tender return date of 12 weeks later (4th May 2016).
- 6.1.9 After issuing the tender documents, 2 of the shortlisted bidders pulled out due to capacity issues. The 3 remaining (non shortlisted) bidders from the Sifting Brief stage were approached in order of their performance at the Sifting Brief Stage and 1 of these bidders confirmed their interest in receiving the Stage 1 ITT, taking the total to 3 bidders. Due to the third bidder receiving the tender documents later than the other two bidders as a result, an extension was granted to all 3 bidders until 20th May to return their tenders.

Site Visits

- 6.1.10 During Stage 1 of the ITT process bidders were asked to put forward similar exemplar projects that would demonstrate their commitment to the high design standards, quality of workmanship, and health and safety standards that the Council expects for schemes within the ERP. Each bidder nominated 2 sites and 1 of these sites was visited by members of the project team and representatives of the Bridge & Marian Residents Steering Group. The views and impressions formed

from these visits were also taken into consideration when evaluating and scoring the Stage 1 bids.

JCT Design and Build

6.1.11 Companies who made the decision to express an interest in tendering did so on the basis that the form of contract would be the JCT Design and Build Contract 2011 with Employer's Amendments.

Sales and Marketing Strategy

6.1.12 The option of the Council developing, marketing and selling the outright sale units itself is being recommended as the most appropriate approach for this site. The Council intends to implement a direct sales approach as with a limited number of outright sale disposals (8) financial exposure and risk in line with the principles agreed by Cabinet on the 18th July 2016 as part of the report governing the Council's approach to Sales and Marketing for the outright sale homes within the ERP and HSP is minimal.

6.1.13 The Sales and Marketing Strategy approved in principle by that report will be implemented in detail on Bridge House Phase 2 by:

- Selecting a residential sales agent from the Strategic Property Services Framework Agreement (or alternative approved Framework Agreement or internal process);
- Agreeing a guide price (including minimum achievable sales values) and other relevant parameters within which the agent can negotiate effectively;
- Agreeing guide values in line with current Hometrack data and comparable information supplied by the sales agent;
- Implementing all associated procedures to be agreed internally by Regeneration, Strategic Property Services and Legal; and
- Ensuring quarterly progress, finance and risk monitoring at strategic level through the Housing Development Board

6.2 Strategic Context

6.2.1 Promoting mixed communities in well-designed neighbourhoods, where people can access high quality affordable homes, is one of the six key priorities of Hackney's Sustainable Community Strategy 2008 – 2018. The regeneration of housing estates will assist in meeting and delivering on this key Mayor's Priority.

6.3 Policy Context

6.3.1 The regeneration of housing estates and their wider neighbourhoods is a key objective of the Council. In July 2009, the Cabinet agreed a report titled 'Housing Renewal Programme New Development

Strategy', which set out a new approach to housing regeneration. This report was followed up with the Cabinet's approval of the Council's Estate Regeneration Programme in July 2011, March 2014, and October 2015.

6.4 Consultations/Stakeholders

6.4.1 Extensive consultation has been undertaken with the relevant bodies representing resident interests across the estate and the neighbouring area. Statutory consultation has also been undertaken as part of the planning process.

6.4.2 The regeneration of the Bridge & Marian Estate has been progressed in close consultation with residents over the past 10 years. The estate has a dedicated Regeneration Steering Group which is well attended by residents from across the estate. The Bridge House Phase 2 scheme was designed by Hawkins Brown and received planning approval in 2012. Residents helped shape the proposals during the design phase through a series of consultation events held from the concept stage up to the submission of the planning application. A Section 73 application setting out some minor improvements to the design was submitted to the planning authority in September 2015 and residents were again kept informed of the minor amendments and the rationale for them. Additional communications regarding the scheme were provided via newsletters and through community outreach on the estate by the Project Officer and the dedicated Independent Tenant and Leasehold Advisor.

6.4.3 Residents were offered the opportunity to act as resident representatives and to participate in the tender evaluation process with officers. Two resident representatives attended the site visits and also helped to evaluate specific sections of the bids. They also attended the interviews and participated in evaluation panel discussions.

6.5 Risk Assessment/Management

6.5.1 Individual risks and the associated mitigating actions are set out below:

Risk	Likeli hood	Impact	Over all	Action to avoid or mitigate risk
	L – Low; M – Medium; H - High			
Contractor going into liquidation during construction which would jeopardise the delivery of the	L	H	M	Responses to the ITT included the latest financial statements for each of the bidders, which have been checked. A Parent Company Guarantees will be requested if appropriate.

scheme				
Fail to reach agreement in second stage of the tender process which would result in serious delays and increase the cost of the delivering the scheme	M	L	L	<p>The majority of the contract sum has been agreed at Stage 1. The main pre-construction and construction costs, overheads and profit percentage, and lump sum costs are as set out in Appendix 2.</p> <p>A Pre-Construction Services Agreement (PCSA) will be entered into with the preferred bidder prior to Stage 2 commencing. During this stage fortnightly project team meetings will be held with the contractor and EA to discuss the detailed design progress and to discuss and scrutinise second stage prices once the contractor has the detailed work packages back from their subcontractors. Any variation from the provisional sums as set out in this report will be approved via a DPR as part of the preferred bidders' appointment at the completion of the second stage.</p> <p>If agreement with the preferred contractor cannot be reached during Stage 2 then the second highest scoring contractor from Stage 1 (the reserve bidder) will be engaged. It should be noted that in this scenario the Council will have paid a non-refundable sum to the preferred contractor for works completed under the PCSA (as per recommendation 3.3 above).</p> <p>However, all work and intellectual property paid for and developed during the PCSA period including surveys and developed design will be owned by the Council. Therefore if the Council and the preferred contractor fail to reach agreement at the end of the second stage the work completed during the PCSA would not be abortive and could be utilised by the reserve contractor at no extra cost to the Council. We will ask the preferred bidder to obtain quotes for all surveys for assignment</p>

				<p>once and this will allow the liability rights to cross to another party. This will permit the reserve bidder to be fully entitled to rely on the survey work.</p> <p>The bidder will also use this period to place orders for the main groundworks so the agreed start on site date can be achieved. These orders will be at the contractor's risk and as such the Council will not carry any cost liability should the Council and the preferred contractor fail to reach agreement at the end of the second stage, although reasonable abortive costs will be paid which are identified before the order is placed in the event of cancellation. The process for agreeing this is set out in Appendix 2.</p>
The quality of the scheme does not meet expectations resulting in an unsatisfactory outcome which doesn't meet the SCS objectives	L	H	L	<p>The detailed tender documentation - the drawings, specifications, Employer's Requirements (developed with the input of housing services) provide a robust framework to ensure that the proposals are delivered as designed and specified.</p> <p>The Council have appointed an Employer's Agent team, including Site Inspectors and Clerk of Works, from the Council's established Employer's Agent (EA) Framework. The EA Scope of Services clearly communicates the Council's aspirations for achieving a high quality and rigorous monitoring role in order to minimise defects and deliver quality. The scope also requires that the EA provide a specialist Clerk of Works for Landscaping and for Mechanical & Engineering Packages – areas most vulnerable to poor quality delivery.</p> <p>The preferred bidder has confirmed they will retain the Council's original design team, which should further help to ensure the quality of the design is carried through into delivery. This</p>

				architect team understand the Council's vision, know the detail, and have produced a very high quality design. By retaining them that experience and understanding is continued which should ensure the end product is of a high quality.
Complex construction issues and cost implications	M	M	M	The Council has already carried out structural, topographical, measured internal and external, asbestos and environmental surveys. A Quantity Surveyor from the EA team has been working on the cost plan throughout the design and planning phase and this was approved before the tender process commenced. The Quantity Surveyor will also act for the Council during the construction phase.
Delay in appointment leads to lack of confidence from the market leading to bidders withdrawing from process or trying to increase their prices	M	H	M	There is a level of anxiety in the market following the EU referendum result. By progressing with the appointment as per the tender programme the Council will be able to provide certainty and confidence to the market and avoid this risk materialising. It is therefore important to ensure that there is no delay to progressing the appointment of the preferred bidder to the second stage.
Outright sale risk	M	M	M	<p>The Council's exposure to the housing market as a result of the direct disposal of the eight outright sale properties is £4m. The exposure is £8m for the shared ownership properties.</p> <p>For the outright sale properties, a reduction in property prices will impact both the scheme and programme. However, this impact has been modelled and a 10-20% reduction in values can be managed within the overall programme finances.</p> <p>Any greater level of change will require further changes to either the scheme or the Programme, for example making</p>

				<p>amendments to the tenure mix or delivery programme. The Council has a wide range of options for dealing with such an eventuality, as set out in detail in the October 2015 ERP update report to Cabinet. Quarterly progress, finance, and risk reporting will take place through the Housing Development Board, and alternative options will be implemented as necessary at the appropriate time should this risk materialise.</p> <p>In a worst case scenario, should it not be possible to dispose of the outright sale properties due to a complete collapse in values and/or demand, they could be converted to either shared ownership or social rented (perhaps for a limited period of time).</p> <p>For conversion to Shared Ownership, if market values reduce it is likely that buyers will be able to purchase a greater % of initial equity, resulting in a similar level of forecast receipts being generated on first tranche sales. Whilst there is a risk that this would impact on the long term financial performance of the scheme, it should not impact on the short term debt cap issues within the HRA.</p>
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Market Testing (Lessons Learnt/Bench Marking):

6.5.0 The process of tendering the works through the Network Housing Framework has tested the market thoroughly. The tender returns, in terms of the contract sum, have been benchmarked against the EA's pre tender cost plan and the Council's financial model assumptions. Further details can be found in Appendix 2b.

6.6 Whole Life Costing/Budgets

6.6.1 The pre tender cost plan for the scheme is set out in Appendix 2b.

6.6.2 Commentary on the scheme's development costs are included in the finance section of this report below. The ongoing operational costs of the 28 social rented properties and the management costs and

arrangements for the communal areas of the block are included in the HRA business plan. Shared ownership and outright sale property owners will be recharged, through a service charge, a proportion of the management, cleaning and maintenance cost for the communal areas and shared elements of the blocks. The social rented properties will pay rent calculated in line with the formula rent principles and make a contribution to pooled tenant service charge costs in the usual way.

6.7 SAVINGS

- 6.7.1 The project will deliver high quality mixed tenure homes and contribute to the regeneration of the Borough. This will provide better value for money for Hackney residents and provide the basis for the Council to continue delivering a high quality and cost effective housing service.

7. SUSTAINABILITY ISSUES

7.1 Equality Impact Assessment and Equality Issues

The process of advertising the project through the Network Housing Framework, which was established via a thorough and comprehensive OJEU process, is a fair way to attract a wide range of vetted construction firms capable of undertaking the works. The Sifting Brief and the ITT responses established the bidders' policies, good practice and commitment with regards to Equality and Diversity. All bidders evidenced their understanding of the mixed community at Bridge House & Marian Court and committed to ensuring that all consultation would be accessible and to engage in a variety of different communication methods in an effort to reach all residents, including the most vulnerable and hard to reach.

7.2 Environmental Issues

- 7.2.1 High quality, sustainable housing, using sustainably sourced materials and a carefully designed public realm, will replace the existing, poor quality homes. Photovoltaic panels form part of the scheme and the energy produced will be [utilised within the block to serve the landlords supply, core areas. Any excess electricity produced will be fed back into the grid netting the Council an income. The project is a car free development which provides substantial cycle parking. The building works will also include soft landscaping which will improve the ecological value of the site.

7.3 Economic Issues

- 7.3.1 The construction work will provide significant opportunities for local training and employment. It is a requirement of the contract for the successful bidder to provide a range of opportunities for local residents. The preferred bidder has committed to the following:

	Activities	Numbers
1	Local labour. Percentage of operatives on site to be residents of Hackney	25%
2	School/college/University visits – number of students	75
3	School/college Workshops – number of students	300
4	Research projects	1
5	Work experience for 14-16 years – number of students	4
6	Work experience for 16+ years – number of students	6
7	Apprentices – existing (safeguarded)	4
8	Apprentices – project initiated	4
9	Adult Improvers – number of people	26
10	Health and Safety training - number of people	6
11	Construction Skills Certification Scheme (CSCS) – number of people	50
12	Vocational qualifications - number of people	4
13	Short courses - number of people	12
14	Progression of trainees/adult improvers into sustainable employment (26 weeks and over)	8
15	Progression into employment (6 months plus)	4

8. TENDER EVALUATION

8.1 Evaluation

- 8.1.1 The sifting brief resulted in positive responses from 7 interested contractors. The sifting brief examined and tested the applicants' past experience in the field of new build and regeneration, financial standing and health and safety. At the conclusion of the preliminary sifting brief stage 4 companies were asked to submit detailed tenders.
- 8.1.2 After confirming the 4 contractors moving to the first stage tender, 2 of them dropped out due to capacity issues. The next highest scoring bidders from the sifting brief stage were approached and 1 of these bidders confirmed their interest, taking the total to 3 bidders.
- 8.1.3 The Council issued the first stage ITT documents to the 3 shortlisted contractors and received 3 tenders back on 20th May 2016. During the Stage 1 tender period between March 2016 and May 2016, the Council received several requests for further clarification on a range of issues from the short listed bidders.
- 8.1.4 All 3 tenders received were reviewed and verified. All tenders were found to be compliant and were evaluated in full.
- 8.1.5 As previously agreed by CPC, the tenders were evaluated on the basis of 30% for Quality and 70% for Price. The results of the evaluation are summarised below:

Bidder	Quality Score	Price (Cost & Receipt) Score	Total Score	Ranking	Notes
Bidder A	23%	61.70%	84.70%	1	Preferred bidder
Bidder B	19.80%	63.93%	83.73%	2	Reserve bidder
Bidder C	13.20%	70%	83.20%	3	

8.1.6 The tendering strategy agreed was a two stage process. Bidders were required to provide the following at the first stage:

- An indicative pre-construction and construction programme
- Brief method statements
- Detailed pre-construction and construction preliminary costs
- Overheads and Profit percentages
- Lump sum costs for packages which are sufficiently designed
- Indicative budget costs advised by the Council's EA for packages not sufficiently designed
- CV's for proposed site and head office staff

Tender Outcome – Price

8.1.7 In relation to the pre-construction and construction preliminary costs bidders submitted a fixed price.

8.1.8 In relation to overheads and profit bidders submitted a fixed percentage to be applied to the overall contract sum. For the purpose of evaluation this was converted to a price.

8.1.9 In relation to the lump sum costs for packages which are sufficiently designed bidders obtained competitive subcontractor tender package prices and submitted these as part of their bid as fixed prices.

8.1.10 In relation to the indicative budget costs advised by the Council's EA for packages not sufficiently designed, bidders were asked to use the following provisional sums:

Provisional Work Package	Provisional Sum
Piled foundations including piling mat and pile tests	£350,000
Substructure including reinforced concrete	£ 650,000

ground beams	
Reinforced concrete frame	£2,400,000
Mechanical Services Installation	£1,280,000
Electrical Services Installation	£379,000
Communications, Security, CCTV and Control Install	£255,000
Lightning Conductor Installation	£60,000
Builders Work in Connection with Services	£115,000
Total	£5,489,000

8.1.11 All four costs as set out above (8.1.7 – 8.1.10) were added together to form a total price. This price accounted for 70% of the score. The bids have been scored on the basis that the bidder providing the lowest price to the Council scores the highest. Other bidders have been scored in relation to how their price compares with the highest scoring bidder. The panel members conducting this element of the evaluation were as follows:

- Corporate Finance – Simon Theobald
- External Cost Consultants and Employer's Agent – Michael Snell and specialist QS team, Potter Raper Partnership
- Project Manager – Hannah Dalgleish

Tender Outcome – Quality

8.1.12 Bidders were required to submit 7 method statements, each statement carrying a different weighting. Where necessary further clarification and information was sought. Each method statement was scored out of 5. The scoring criteria was as follows:

- 0 Points - Response is wholly unsatisfactory / No response provided.
- 1 Point - Response is unsatisfactory with major areas of concern
- 2 Points - Response contains some omissions or weaknesses
- 3 Points – Indicates acceptable response
- 4 Points – Indicates a very good response with the potential for added value
- 5 Points – Indicates an excellent response with evidenced ability to achieve added value

8.1.13 Each method statement was scored by a panel member or team of panel members with expertise in the subject of the method statement. Where a team of panel members were scoring a method statement, a consensus score was reached following individual scoring. Please see

below for the tender evaluation panel details and the quality weighting breakdown:

Quality (based on assessment of Method Statements)	30%	Panel Member
Method Statement 1 : Programme	Pass/Fail	<ul style="list-style-type: none"> Employer's Agent Michael Snell, Potter Raper Partnership, (PR) Project Manager – Hannah Dalgleish
Method Statement 2 : Project Delivery	10%	<ul style="list-style-type: none"> Employer's Agent – Michael Snell, (PRP) Project Manager – Hannah Dalgleish
Method Statement 3 : Designers and Engineering Team	4%	<ul style="list-style-type: none"> Project Manager – Archika Kumar Employers Agent – Michael Snell, PRP Project Manager – Hannah Dalgleish
Method Statement 4 : Maintaining Integrity of Design	5%	<ul style="list-style-type: none"> Project Manager – Archika Kumar Employer's Agent – Michael Snell, PRP Project Manager – Hannah Dalgleish
Method Statement 5 : Sustainability	1%	<ul style="list-style-type: none"> Employers Agent – Michael Snell, PRP Project Manager – Hannah Dalgleish
Method Statement 6 : Community involvement	5%	<ul style="list-style-type: none"> ITLA – Rob Williams Resident Representatives (1) Employer's Agent – Michael Snell, PRP Project Manager – Hannah Dalgleish
Method Statement 7: Local Employment, Training and Supply Chain	5%	<ul style="list-style-type: none"> Employment and Training Manager - Javad Ossoulia. ITLA – Rob Williams Resident Representatives (1) Project Manager – Hannah Dalgleish

Interviews

8.1.16 The 3 shortlisted bidders were then interviewed by the following evaluation panel

- Council's Project Manager (x2)
- Employer's Agent
- Directorate Procurement Manager
- Employment and Training Manager
- Source Partnership (ITLA) R
- Resident representative

The interviews were not scored, but the scores of the qualitative assessment were adjusted where appropriate if clarifications or responses were provided which were considered to have affected the score.

8.1.17 The interviews were an opportunity to meet senior company personnel and seek confirmation of their commitment, priority, attitude and approach to delivering the Bridge House Phase 2 scheme. It was also an opportunity to meet the key members of the proposed on-site delivery team and test their ability to deliver the proposal as tendered.

8.1.18 The interviews were not an opportunity to discuss the bidders' financial proposals, which were considered fixed and final. However, some of the questions posed sought to confirm and test the validity of the contents of bidders' tenders, the clarifications issued, and the findings of the site visits.

8.2 Conclusion

8.2.1 Bidder A has the highest total score following a comprehensive evaluation of both their quality and financial submissions.

8.2.2 Bidder A is a high quality contractor who can meet the objectives of the Council in delivering a mixed tenure residential scheme. Bidder A has committed to ensuring that the integrity of the design and the vision for the scheme, developed with resident's support, is delivered as per the planning permission, with any changes permitted only in consultation with the Council.

8.2.3 Bidder A has committed to working with the Council to manage the delivery of the construction. During the second stage tender process they will further develop the detailed design and finalise the packages of work not fixed in the first stage. This will also potentially mean identifying any savings that can be made where possible which do not lessen the quality of the development.

8.2.4 Bidder A is committed to the Local Labour, Ways into Work and local supply chain requirements of the Council and to working with the Council to maximise these.

8.2.5 Bidder A is committed to engaging with residents across the estate and wider community. They are a founding member of the Considerate Contractors Scheme and will work to minimise disturbance to local residents, keeping them informed and offering opportunities for participation throughout the process.

8.2.6 A full analysis of all the bids is appended at Exempt Appendix 2.

9. CONTRACT MANAGEMENT ARRANGEMENTS

9.1 Resources and Project Management (Roles and Responsibilities)

9.1.1 The necessary resources and skills to ensure that the project will be successfully managed have been identified and are either available within the Council or have been procured externally.

9.1.2 The project delivery team is:

- Project Sponsor – Director, Regeneration
- Project Head of Service – Head of Estate Regeneration
- Project Manager – Project Manager, Estate Regeneration
- Design Advice – Design Manager, Estate Regeneration
- Legal - internal Planning Solicitor, Property Solicitor, and Procurement Solicitor supported by consultant legal team at Pinsent Masons
- Procurement – Directorate Procurement Manager
- Employer's Agent – Potter Raper Partnership
- Finance – Corporate Financial Advisor

9.1.3 If the recommendations set out in Section 3 are agreed then the Council will enter into a Pre-Contract Services Agreement (PCSA) with the preferred contractor and there will then be a 20 week period for the bidder to submit final prices for those provisional sums not confirmed at the first stage. The bidder will also use this period to place orders for the main groundworks so the agreed start on site date can be achieved. These orders will be at the contractor's risk and as such the Council will not carry any cost liability should the Council and the preferred contractor fail to reach agreement at the end of the second stage, although reasonable abortive costs will be paid which are identified before the order is placed in the event of cancellation. The process for agreeing this is set out in Appendix 2. Under the PCSA the preferred bidder will progress with the detailed design development, review all the surveys procured by the Council and obtain any necessary licences and notices.

9.1.4 Each tenderer submitted their pre-commencement costs as part of their response to the ITT. The preferred contractor's pre-commencement costs during the PCSA period are included in the fixed costs as set out in Appendix 2 on which the Stage 1 tender evaluations were based. However, all work and intellectual property paid for and developed during the PCSA period including surveys and developed design will be owned by the Council. Therefore if the Council and the preferred contractor fail to reach agreement at the end of the second stage the work completed during the PCSA would not be abortive and could be utilised by the reserve contractor at no extra cost to the Council.

- 9.1.5 The finalisation of the contract sum during Stage 2 will be progressed and agreed via an open book process. The Project Manager and EA will meet with the preferred contractor on a fortnightly basis as part of a sequence of project team meetings to review the detailed design development, pricing information and to manage and mitigate any risks that may arise.
- 9.1.6 The majority of the contract sum has been fixed at the first stage. As outlined above, £5,489,000 has been allocated as provisional sums. The EA has provided a benchmark cost for each item and during the second stage the contractor will be asked to provide their actual prices for these works, derived from competitive subcontract tenders, via an open book process. The EA and Project Manager will have the ability to challenge any of these costs based on comparisons with the pre-tender cost plan. It is not envisaged there will be any considerable deviations from the forecast provisional sums and any deviations will in any event have to be fully justified and evidenced by the contractor.
- 9.1.7 The fortnightly meetings will act as the main method of managing the PCSA period. The Project Manager will also internally report back on progress through the established Estate Regeneration Programme reporting and governance structures.
- 9.1.8 If during the second stage there are major issues arising over price, quality or programme the Project Manager and EA will have to make a decision on whether these can be mitigated. If it is felt that any issues cannot be satisfactorily resolved, the Council will have two options:
- 9.1.8.1 The reserve contractor will be invited to proceed to the second stage of the tender process in line with Recommendation 3.3 above
 - 9.1.8.2 Authority will be sought from CPC to carry out a new procurement process.
- 9.1.9 Once the final contract sum has been agreed, a Delegated Powers Report setting out the outcomes of the PCSA process and the final price will be prepared by approval in line with the recommendations set out in Section 3, before entering into contract with the preferred bidder.
- 9.1.10 In terms of the pre-construction and construction periods, the project will be managed on a day-to-day basis by the Project Manager in the Council's Estate Regeneration team. The building contract element of the Agreement will be administered by the Council's Employer's Agent. The Employer's Agent will carry out monthly valuations of works completed on site and certify the value of these works. Weekly progress meetings will take place until the contract is on site. Thereafter, fortnightly meetings will take place. The Project Manager will report via the established Estate Regeneration Programme quarterly reporting mechanisms, with any major risks flagged up to the

Housing Development Board. The Employer's Agent and Clerk of Works role has been set up specifically as a comprehensive monitoring role to ensure that the quality of workmanship and finishes of both the homes and public realm are delivered as intended.

Key milestones and dates		
1	Report to the Deputy Mayor seeking approval to Appoint Contractor to Second Stage	12 th September 2016
2	Issue Standstill Letters	12 th September 2016
3	Expiry of Standstill period	22 nd September
4	Enter into PCSA Agreement with preferred bidder	23 rd September 2016
5	Design and mobilisation completed	27 th January 2017
6	Consideration of Delegated Powers Report by GD-FCR and GD-N&H - Stage 2 Contract Award	31 st January 2017
7	Signing of Contract	20th February 2017
8	Start on site	March 2017
9	Completion of all affordable units at Bridge House Phase 2	October 2018
10	Completion of scheme	End of 2018

10. COMMENTS OF THE CORPORATE DIRECTOR OF FINANCE AND RESOURCES

- 10.1 The scheme's cost plan develops and changes throughout the development process, with design decisions made to ensure the project remains within the schemes agreed financial parameters and the overall programme remains viable. When going out to tender the cost plan used in the financial model was £17.9m with a further £400k for contingency.

- 10.2 The tender returns were all within reasonable parameters of the cost plan. The tender returns included provisional sums of £5.5m or 30% of the contract sum. Whilst there is a risk around these provisional sums, the Employers Agent will provide a robust challenge of these items to ensure Value for Money.
- 10.3 If the costs of the provisional sums were to increase, up to a 10% variation could be managed within the scheme's contingency, although any variations are unlikely to be this excessive.
- 10.4 It is noted that (up to) an additional 5% of the final contract sum will be held by the Council for scheme changes/variations during the construction period.
- 10.4 The scheme includes 8 outright sale and 39 shared ownership properties where the Council will receive the sales receipts and the benefit of any increase in capital values. In total, with assumed 40% first tranche equity sales for the shared ownership, the Council is set to receive £12m in initial capital receipts for this scheme. Whilst there is uncertainty in the financial markets as a result of the decision to leave the EU, shared ownership properties will likely become a more attractive home buy option as a result, and any price reductions for the outright sale homes could therefore result in greater levels of initial equity sales, which would enable the modelled receipts to still be achieved.
- 10.5 The remaining financial risk relating to the outright sales is outlined in section 6.5.1 with alternative options and 'exit strategies' that can be considered. However, it should be noted that whilst a 10% reduction in prices would have a limited impact on the viability of this scheme, which could be managed, it would have a greater impact on other schemes within the regeneration programme – although the risk is hypothetical, as these schemes are not yet committed/approved.

11. COMMENTS OF THE DIRECTOR OF LEGAL

- 11.1 The Deputy Mayor is asked to agree the recommendations in paragraph 3 regarding the appointment of a contractor to undertake the works for the development at Bridge House Phase 2.
- 11.2 The Council has undertaken a procurement process using the Network Housing Framework to appoint a bidder to undertake the works. Details of the process are set out in this Report.
- 11.3 The process is a two stage tender, therefore the appointment of the successful bidder involves engaging it to undertake initial pre-contract services whilst finalising details of the substantive works contract to be entered into in due course. Subject to the successful conclusion of

such details the successful bidder will be appointed as the contractor to undertake the construction of the housing by a Delegated Powers Report as set out in paragraph 3.5.

- 11.4 Legal Services will assist with the drafting and execution of the Pre-Contract Services Agreement as requested and will provide further comments on the Delegated Powers Report to appoint the bidder.

12. COMMENTS OF THE DIRECTORATE PROCUREMENT MANAGER

- 12.1 The DPM confirms that the Network Housing framework is OJEU compliant and available for use by Hackney as a public body. The first stage award is based on the most economically advantageous tender, the summary of which can be found at paragraph 8.1.5. The evaluation was rigorous and the scores reflect the performance of the bidders' submissions.
- 12.2 The report notes that work undertaken as part of the PCSA stage should not be prove to be abortive should the reserve bidder be called upon. The DPM has advised officers to ensure that the information gathered, under the PCSA, is warranted so that it can be relied upon and used by any other party going forward. Officers should also note that the reserve bidder may also wish to develop their own ideas using their own teams which may require additional funding from the client.
- 12.3 At this point there is almost 70% cost certainty. Officers must ensure that the £5.5m worth of provisional sums are interrogated closely to ensure that the costs continue to be as expected.
- 12.4 When the works commence Officers shall ensure that the work packages are carefully monitored by the contractor and the representative client team members so that the works are completed as designed and that the highest standard of delivery is achieved. Resources are in place to facilitate this and officers must ensure that these are diligently employed.
- 12.5 The DPM will continue to support officers as necessary.
- 12.6 Potential bidders were not advised, within the Invitation to Tender, that a reserve bidder position would be adopted. Senior officers have requested that this be added in order to maintain some competitive tension during the PCSA period. The award of contract letters must clearly state that a reserve preferred bidder position is being added with a time limit for the preferred bidder to reach a final financial position and sign the JCT contract. The preferred bidder should regularly be reminded of this in order to preserve the Council's competitive position. This does not disadvantage the preferred or any

other bidder however the reserve bidder must be asked if they will accept the position.

- 12.7 If the reserve bidder is to be called upon, the time that will have elapsed since the tender submissions were returned would be beyond that which tenderers were required to hold their prices. This may result in a bid price being adjusted for inflation.
- 12.8 The winning bidder has stated that they would require 21 weeks to complete the PCSA stage as opposed to the 12 weeks specified within the tender. This will undoubtedly incur an additional 8 weeks' worth of management costs to the project however the EA advisors have acknowledged that this is a more reasonable period of time to complete this piece of work. Officer should seek agreement that the tendered sum will remain valid during this period.

APPENDICES

Exempt Appendix 1: List of Contractors

Exempt Appendix 2: Bridge House Tender Award Report

EXEMPT

By Virtue of Paragraph(s) 3 Part 1 of schedule 12A of the Local Government Act 1972 this report and/or appendix is exempt because it contains information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

BACKGROUND PAPERS

None

Report Author	Hannah Dalgleish Project Manager Hannah.dalgleish@hackney.gov.uk
Comments of the Corporate Director of Finance and Resources	Simon Theobald Finance Projects Simon.theobald@hackney.gov.uk 0208 356 4304
Comments of the Director of Legal	Patrick Rodger, Senior Lawyer, Legal Services (020) 8356 6187 Patrick.Rodger@Hackney.gov.uk

**Comments of Directorate
Procurement manager**

Angela Phillips,
(020) 8356 4557
angela.phillips@Hackney.gov.uk

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