

Uplands Scheme Completion – Budget Approval

Housing Committee Tuesday, 24 January 2023

Report of: Nicola Cresswell

Purpose: For decision

Publication status: Public

Wards affected: Warlingham East Chelsham & Farleigh

Executive summary:

This report seeks approval for an uplift in the existing approved budget for the redevelopment of Uplands, Warlingham to allow the completion of the scheme by a new contractor following the administration of W. Stirland Ltd. The report includes detail on earlier approvals by this committee, the proposed procurement strategy for selecting a new contractor, the likely costs associated with a project of this nature and the use of the Performance Bond.

This report supports the Council's priority of: Creating the homes, infrastructure and environment we need

Contact officer Nicola Cresswell Housing Development Specialist
NCresswell@tandridge.gov.uk –

Recommendation to Committee:

That:

- A. the Committee approves the procurement of a contractor to complete the redevelopment of Uplands, Warlingham
- B. authority be delegated to the Executive Head of Communities (or their successor) in consultation with the Chairman and Vice Chairman of the Housing Committee, to award the Contract to the most economically advantageous tenderer
- C. the Committee approves the increase in project budget from £4.64m to £5.3m

Reason for recommendation:

To seek Member approval to procure a contractor to complete the redevelopment of Uplands, Warlingham, following the administration of the original contractor, W Stirland Ltd.

Introduction and background

- 1 This Committee approved the redevelopment of the former sheltered scheme at Uplands at its June 2017 meeting and planning permission was subsequently granted on 4th April 2018. The final approved scheme consisted of 4 x 2 bed houses, 4 x 3 bed houses and 13 x 2 bed flats. Work could not commence on the redevelopment until early 2021 as it was linked to the completion of the new sheltered housing scheme – Shallcross at The Court. The delivery of Uplands, like many other developments, was delayed by the pandemic but was progressing well throughout 2022 with the first four houses completed and occupied in June. Unfortunately, and with only a few more months work to complete, the contractor W Stirland Ltd went into administration before it could complete the remaining 4 x 3 bed houses and 13 x 2 bed flats.
- 2 W Stirland Ltd entered administration in September 2022 following a failed buy-out attempt by another contractor. The site has been secured since that date using 24-hour security guards and CCTV at a cost of approximately £2,600 per week. The Council has also incurred other costs associated with the project such as the cost of securing the building containing 13 x 2 bed flats "Block C", removal of the site skip and rental of the scaffolding to the stairwell of Block C. The Council can claim the aforementioned costs from the performance bond that was entered into by W Stirland Ltd when they entered into contract with the Council.
- 3 The Council has re-appointed MEA Consult to undertake the role of Employer's Agent for the remainder of the scheme, the navigation of the administration process, claiming against the Performance Bond and administration of the contract through to completion. In these circumstances it is standard practice to appoint the existing Employer's Agent given their familiarity with the project.
- 4 The appointment of Clerk of Works and LABC have been held in abeyance and inspections will re-commence once a new contractor has been appointed.

Procurement Strategy

- 5 There is usually little appetite for a contractor to finish another contractor's project and assume responsibility for works unseen. This reluctance is often translated into higher prices to offset any risk involved.
- 6 Officers have been approaching contractors on an informal basis to establish the level of interest in the project and our Employer's Agent has produced a procurement strategy that accords with the Council's

Contract Standing Orders to assist the Council in selecting a new contractor to finish the works.

- 7 The Council will seek tenders from 4 selected contractors based on prelims, overheads & profit (OHP), method and project programme. The selected main contractor will then obtain tenders from at least 3 subcontractors for each work package and these will be evaluated in conjunction with the Employer's Agent.
- 8 The above 2-stage approach will be more attractive to prospective contractors but will also maintain competition in the selection of a main contractor and subcontractors throughout and allow works to restart on site earlier.
- 9 It is hoped that the above approach will allow work to restart by April and complete in June/July 2023

Other options considered

- 10 An alternative procurement approach would be to invite lump sum tenders for the complete works from selected main contractors. This process will take longer and delay restarting works. It also has the potential to be more expensive for the Council as well as being a less attractive approach for contractors.

Budget

- 11 The existing approved budget for the redevelopment of Uplands is £4.64m. The value of the contract with W. Stirland was £4,178,159.10 of which £3,447,086 was paid for work completed and valued up to the point of administration. After deducting other scheme expenditure which included Home Loss Payments, architect and consultant fees, the remaining approved budget is approximately £850,000.
- 12 The forecast cost to complete the scheme is estimated at £1.25m. This figure is based on current costs so takes account of the more recent inflationary price rises.
- 13 The Council has a performance bond against which the total possible recovery will be £417,815. The Council can only claim against the performance bond upon completion of the scheme so the new budget includes this outlay.
- 14 Approval is now sought for a new budget for Uplands of £5.3m which includes a contingency of 20% on the estimated cost to complete.

Monitoring

- 15 Officers use a number of mechanisms for monitoring and controlling the financial and programme performance of any contract entered into. The following standard practices are utilised for all council house building projects:
 - Strategic cost plan, which will be regularly reviewed and updated
 - Monthly site meetings and monthly progress reports
 - Monthly financial statements by the contractor and verification by the Employers Agent

- Monthly appraisals of progress against programme
 - Weekly quality inspections and report on construction progress
 - Risk and issues log
- 16 Payment will be made monthly on the basis of a valuation that has been verified and agreed by the Employer's Agent.

Key implications

Comments of the Chief Finance Officer

It is inevitable that completion of the scheme will require an uplift in the budget to take account of price increases and the likelihood that a new contractor will include a premium for completing the work of a previous contractor. Officers will work to ensure that the increased cost is limited. The only alternative is to leave the scheme incomplete which in itself has a financial impact in terms of foregone rent.

Comments of the Head of Legal Services

If Members are mindful to approve the recommendations set out in this report, Officers will need to take a closer eye on the performance of contractors throughout the project, looking for tell-tale signs of contractors getting into difficult. For the procurement to deliver the outcomes outlined in this paper, robust governance and contract management will be critical. KPIs (key performance indicators) will need to focus on the delivery of the project within cost and time parameters. It would also be sensible to ask for collateral warranties from any sub-contractors. Collateral warranties provide two principal benefits: first, they contain covenants from the sub-contractor that they have constructed their works to a good standard. Second, they include "step-in rights" – that is, the right for the Council to "step in" and take over the sub-contract. This can provide an effective route towards completing the project, if a newly appointed main contractor becomes insolvent during the course of the project.

In the current financial crisis, it remains extremely difficult to predict whether a contractor will remain in good financial health for the remainder of the building project. Doing nothing or pausing the project ultimately is not an option as Officers have pointed out that this will increase the Council's costs.

Further legal comments should be sought from Legal Services at the award of a contract stage.

Equality

See original report

Climate change

See original report

Appendices

None

Background papers

None

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