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SELWAY JOYCE
CONSTRUCTION COST CONSULTANTS

Confidential

Tender Report

for

Design and Build Residential Development

Gateway 3 Stage 2 Contract Sum

at

The Valley
Stanmore, Winchester

for

Winchester City Council
City Offices
Colebrook Street
Winchester
SO23 9LJ

CONTENTS

Tender Report

11 February 2019

1.00 Introduction

1.01 Purpose of Report

This Tender Report has been prepared by SelwayJoyce Limited for Winchester City Council for the sole purpose of reporting on the Gateway 3 stage 2 tender for the residential development at The Valley Stanmore under the Southern Construction Framework.

1.02 Southern Construction Framework (SCF) Tender Process

Following the stage 1 tender process of mini-competition 1 and mini-competition 2 to procure a main contractor, as reported in our Tender Report of 27th March 2018, Drew Smith, part of the Galliford Try Group, were appointed.

Drew Smith were contracted under the Pre-Construction Services Agreement to complete RIBA Stage 4 design, draft the Contractors Proposals and obtain competitive trade tenders to populate a Contract Sum Analysis to culminate in a Contract Sum that they would enter into via JCT Design and Build contract to build The Valley residential development.

The second stage tender was governed by the tendering rules of the Framework and the contract procedures in the mini-competition documentation for the project defined in the Employers Requirements.

For the second stage tender Drew Smith were tasked with inviting a number of appropriate trade contractors from their supply chain to secure a minimum of three competitive subcontract for each trade, analysing the returns, making recommendations and incorporating into the Contract Sum Analysis.

Selway Joyce reviewed the submission and negotiated all the trade package returns, site preliminaries, material costs and the application of the mini-competition rates and percentages to agree a contract sum for recommendation to Winchester City Council.

2.00 Tender

2.01 Tender Invitation

The project was broken down into 25 trade packages and 105 invitations were issued averaging 4 per trade with a minimum of 3 in any one trade.

2.02 Tender Return

72 trade tenders were returned averaging 3 per trade.

5 Of the smaller trades totalling £407,000 (2.4% of the overall contract sum) returned only 2 tenders with the remainder achieving 3 or more.

We are satisfied that Drew Smith through due process have attempted to achieve the required 3 returns for all packages only failing due to the size of the packages and the amount of construction work that was currently being tendered at the time.

2.03 Locality

Drew Smith were required to incorporate local subcontractors preferably in Hampshire, or failing that neighbouring counties in their tender list not just for the obvious reasons of travelling cost, green issues, etc. but also to employ local labour for the benefit of the local economy.

This was not always possible; however, Drew Smith have achieved this goal in all but 6 trades which is a significant success.

2.04 Tender

The tender process took place during October and November 2018 culminating in the initial tender submission on 5th December 2018.

Selway Joyce attended Drew Smith's office on the above date and received the tender in the sum of £18,160,909.87.

At this point in time not all of the subcontract tenders were in and the tender sum was considered as "work in progress".

In checking the application of the mini-competition rates and mark ups on the trade tenders minor errors were found that brought the contract sum down below the eighteen million mark on first inspection.

Over the following two months further tenders were received that when combined with the results of our examination and negotiation reduced the tender sum in its eleventh iteration to £16,999,477.28.

2.00 Tender (Cont'd)

2.04 Tender (cont'd)

The budget excluding direct Winchester City Council fees and costs stands at £14,260,598.

Budget over spend is therefore £2,830,856.86.

3.00 Tender Analysis

3.01 Generally

The analysis relates to the final tender sum of £16,999,477.28, reference to previous iterations is only made to demonstrate a point where it is deemed helpful in the understanding of the process.

3.02 Compliance

Within the Contractors Proposals there are a number of issues raised in the form of clarifications and caveats.

Drew Smith are currently extracting all those issues of non-compliance into a single Derogation List for the avoidance of doubt during the construction stage.

The most significant item is a proposed value engineering of the window specification to an alternate supplier which has saved approximately £131,000. Planners are currently considering this option, if it were not approved the tender sum would increase to £17,130,221.06

The residual derogations were partially agreed during the design development stage leaving a modest number which are currently being considered.

WCC are currently reviewing the technical aspects of the Contractors Proposals.

3.03 Fixed Cost

Drew Smith have calculated potential increased costs over the duration of the project to be able to submit a fixed price tender.

Trades have been analysed depending on when they occur in the programme with early trades having low allowances and latter trades higher allowances. The net result is an inflationary allowance of 2.28% over the duration of the 88 week contract programme. Assuming an average spend per month then the allowance could be considered as the inflationary allowance to mid-point of contract, i.e. at week 44 which when projected to an annual rate equates to a rate of 2.7%.

The Building Cost Information Service All-In Tender Price Index for the period 1Q2019 to 1Q2020 gives an annual inflationary prediction of 4.05%.

It is our opinion that the approach to the calculation of the fixed price allowance is valid and represents a competitive approach.

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3.00 Tender Analysis (cont'd)

3.04 Contractors Risk

It is the market norm for contractors to include a risk allowance in design and build fixed price tenders to cover design issues, tender cost issues, errors and omissions.

Selway Joyce have not placed a design and build contract in the last 10 years where this has not been a feature of the contract sum.

Drew Smith are no exception to this approach and have included a sum equal to 2.43% of the gross contract sum.

Historically the allowance tends to start at a level of between 3.5% and 5% and following negotiation ends at between 2.5% and 3.5%.

Drew Smith have initiated the discussion at slightly less than the lower end of the range. We have tried to negotiate this down, but they have argued the point that they have tendered at a rock bottom allowance which leaves them nowhere to go.

As a concession they have offered to take the risk in the ground which currently sits with WCC.

To put this into perspective, ground works at £4,014,885 represents 29% of the net construction cost and whilst surveys, investigations and CAT scans have taken place it is impossible to confirm all the risks in the ground are known and have been financially accounted for.

Archaeological surveys and ground investigations have taken place and nothing has been found, however, the risk does remain and is not covered by Drew Smith's offer. To the best of our knowledge archaeology would be the only remaining ground risk owned by WCC.

To be able to pass this risk on to Drew Smith within their risk allowance is worthy of consideration.

3.05 Provisional Sums

The only provisional sums included in the contract are as follows:

Utility services at £855,146

Ceramic tiling at prime cost supply at £15.00/m2

3.00 Tender Analysis (cont'd)

3.05 Provisional Sums (cont'd)

Utility services have been quoted by the statutory suppliers, however, the quotations are likely to expire before contract award so an increased cost allowance has been included in this regard to cover cost increases. Furthermore, street lighting columns

have yet to be confirmed so the allowances are considered provisional.

Whilst the utility services allowance cannot be categorically confirmed as a worst-case Drew Smith are in discussions with the services providers and are cautiously hopeful of reducing the electrical services costs due to a slightly reduced energy requirement.

3.06 Employer Risk

The Employers financial risks, other than those embodied in the contract particulars are:

A. provisional sums out lined in 3.05 above
B. archaeological finds
C. ground conditions unless Drew Smith's offer to take the risk is accepted
D. Employer generated changes
E. Rejection of the window VE proposal
F. Issues with remaining derogations
G. Third party issues

The Employer contingency included in the budget has been absorbed by Drew Smith in their risk allowance.

If Drew Smith's offer to take the risk of ground conditions was rejected we would expect to be able to negotiate a reduction in the quantum of their risk allowance to convert back into an Employer contingency. At this point in time a firm reduction has not been negotiated and the best indication we have been given is that it is possibly between £50,000 and £100,000.

If an Employer contingency were required within the contract sum it would need to be introduced increasing the contract sum.

In our experience there is a relatively even split between design and build contracts that do include an Employers contingency and those that don't. In this instance to include a contingency in the contract may give the wrong impression indicating the Employers consideration that change would occur.

It may be in the Employers best interest to hold a contingency outside the contract that the Contractor is unaware of.

4.00 Budget Comparison

4.01 Budget Comparison

The budget was initially calculated by Selway Joyce at £14,260,598 in mid late 2017 and was based upon the information available at that time.

When Drew Smith were appointed they undertook a budget review resulting in their budget of £14,158,620 based upon the information available at that time.

The elemental comparison can be seen at Appendix A.

Whilst it can be seen that each trade is at variance to the cost plan it should be noted that the budget allowance of £412,678 for inflation has been spread through the trades in the tender.

The three largest differences between the budget and the tender are as follows:

1. Groundworks extra £1,944,838 – At the time of both budgets the engineering solution was in its early stages and the huge affect of the site topography was not fully appreciated. In brief the structural solution included the addition of sheet piling, Section 278 works, increase in length and height of retaining walls, additional road works, additional public area regrading and paths, significant extra excavation and cart away, concrete work and tanking.

2. Statutory works extra £455,146 – This is due to a combination of additional service diversions that were unknown at budget stage and the impact of the two sites. Scottish and Southern require 2 substations, one for each site with connecting HV cables that substantially increases the utility costs, but also has a significant impact on builders works associated with trenching, pits and the like.

3. Materials extra £327,224 – The materials element of the tender essentially covers brickwork and carpentry materials purchased direct by Drew Smith for their labour only brick layers and carpenters. The increase is due to a combination of additional brickwork associated with retaining walls, elevated external walls, increased costs and the spit between material and labour packages.

5.00 Cost Options

5.01 Omission of Phase 1b

Phase 1b comprising 2 type A, 2 type B, 1 type C houses and the works to 59 Battery Hill to allow site access could be omitted from the scope of works at a saving of £968,937.

This phase of the works is particularly expensive due to the demolition works and sheet piling required to form the site access and retain the integrity of 59 Battery Hill and neighbouring properties.

5.02 Phase 2b

Phase 2b comprising 9 houses in terraces D, E and F could be omitted from the scope of works at a saving of £1,089,264.

Whilst not as expensive to build as Phase 1b this Phase is more expensive than the flats due to the fact they are houses which are intrinsically more expensive than flats and due to the cost of vehicle access and the affects of the ground slope.

6.00 Summary

In tabular form the financial result of the Gateway 3 Stage 2 tender is summarised below

A valid tender has been submitted and negotiated including a value engineered window specification with ground risk transferred to Drew Smith and no Employer contingency at:	£16,999,477.28
This tender is over budget by:	£2,830,856.86
If the value engineered window proposal was rejected the contract sum would increase to:	£17,130,221.06
If the ground risk transfer were rejected there would be a saving of the order of:	£50,000 - £100,000
If an Employers Contingency were included in the contract sum this world be an extra	£Extra
Phase 1b could be omitted comprising 5 new houses and works to 59 Battery Hill at a saving of	£968,937.30
Phase21b could be omitted comprising 9 new houses at a saving of	£1,089,263.82

7.00 Conclusion

Galliford Try Limited in the guise of their subsidiary company, Drew Smith, have complied with the rules of the Southern Construction Framework and the contractual requirements of Winchester City Council and in conjunction with Selway Joyce have negotiated a tender in the sum of £16,999,477.28.

Options and potential scope reductions will alter the tender sum to a greater or lesser extent as detailed in Section 5 herein.

We believe the tender to be valid and following due process is market derived and is open for acceptance by Winchester City Council.

C Hore
Director
SelwayJoyce Limited

11 February 2019

APPENDIX A

BUDGET/CONTRACT SUM COMPARISON

THE VALLEY - STANMORE
BUDGET/CONTRACT SUM ANALYSIS

11 February 2019

PACKAGE		COST PLAN			TENDER	COMPARISON
		Gateway 2 Cost Plan	Transfers (Cost Plan)	Final Cost Plan Figure	Contract Sum Analysis Tender Rev J 7 February 2019	Budget Variance
Nr	Title	£	£	£	£	£
1	Bricklayer	£896,929.00	£17,765.10	£914,694.10	£ 1,022,160.27	£107,466.17
2	Concrete Floors	£243,644.00		£243,644.00	£ 387,822.32	£144,178.32
3	Steelwork	£804,100.00		£804,100.00	£ 726,742.48	-£77,357.52
4	Carpenter	£368,438.00	£5,775.00	£374,213.00	£ 344,558.75	-£29,654.25
5	Scaffolding	£587,901.00		£587,901.00	£ 487,720.84	-£100,180.16
6	Roof Tiling	£326,196.00	£10,500.00	£336,696.00	£ 284,597.29	-£52,098.71
7	Plumber	£1,007,200.00	£3,947.80	£1,011,147.80	£ 947,683.21	-£63,464.59
8	Electrician	£574,242.00		£574,242.00	£ 477,101.10	-£97,140.90
9	Lift Installation	£28,000.00		£28,000.00	£ 37,053.71	£9,053.71
10	PVCU Windows	£236,451.00	£13,817.30	£250,268.30	£ 340,053.51	£89,785.21
11	Dylining	£621,833.00	£37,537.50	£659,370.50	£ 704,420.68	£45,050.18
12	Kitchen Order	£308,000.00	-£293,000.00	£15,000.00	£ 17,838.84	£2,838.84
13	Decoration	£138,159.00	£2,887.50	£141,046.50	£ 197,738.05	£56,691.55
14	Pumped Insulation	£15,580.00	-£15,580.00	£0.00	£ -	£0.00
15	Insulation	£13,167.00	£15,580.00	£28,747.00	£ 14,677.35	-£14,069.65
16	Tiling	£37,680.00		£37,680.00	£ 41,065.22	£3,385.22
17	Mastic	£39,478.00	-£39,478.00	£0.00	£ -	£0.00
18	RC Frame	£93,060.00	-£93,060.00	£0.00	£ -	£0.00
19	Screeder	£155,348.00		£155,348.00	£ 219,988.89	£64,640.89
20	Carpets and Flooring	£241,037.00	£3,947.80	£244,984.80	£ 216,272.88	-£28,711.92
21	Photo voltaics	£64,600.00		£64,600.00	£ 56,744.19	-£7,855.81
22	Groundworks	£1,976,987.00	£93,060.00	£2,070,047.00	£ 4,014,885.16	£1,944,838.16
23	Fencing	£98,629.00		£98,629.00	£ 78,690.80	-£19,938.20
24	Demolition & Asbestos Removal	£15,000.00		£15,000.00	£ 11,282.88	-£3,717.12
25	Landscaping	£144,139.00		£144,139.00	£ 190,558.06	£46,419.06
26	Metal Rainwater Goods	£80,315.00		£80,315.00	£ 111,439.26	£31,124.26
27	Wardrobes	£57,750.00	-£57,750.00	£0.00	£ -	£0.00
28	Mansafe	£10,500.00	-£10,500.00	£0.00	£ -	£0.00
29	Materials	£1,113,495.00	£304,550.00	£1,418,045.00	£ 1,745,269.11	£327,224.11
30	Stats	£400,000.00		£400,000.00	£ 855,146.13	£455,146.13
31	Alu Cladding			£0.00	£ 146,844.33	£146,844.33
32	Tree Works			£0.00	£ 25,461.20	£25,461.20
33	Variations to Pre-con			£0.00	£ 30,884.16	£30,884.16
34	CLIENT Prov Sum Signage			£0.00	£ 10,000.00	£10,000.00
38						
	Packages Total	**£10,697,858.00**	**£0.00**	**£10,697,858.00**	**£13,744,700.67**	**£3,046,842.67**
	Site Management	£1,041,068.87		£1,041,068.87	**£1,089,389.00**	£48,320.13
	Management Prelims	£541,976.70		£541,976.70	**£618,511.53**	£76,534.83
	Fixed Prelims	£149,530.00		£149,530.00	**£149,530.00**	£0.00
	Construction Design Fees	£626,890.00		£626,890.00	**£594,815.88**	-£32,074.12
	PCSA Design fees	£5,939.00		£5,939.00	**£5,939.00**	£0.00
	Design Contingency	£305,000.00		£305,000.00	£305,000.00	£0.00
	Sub-total	**£2,670,404.57**	**£0.00**	**£2,670,404.57**	**£2,763,185.41**	**£3,139,623.51**
	OHP @ 2.9%	£387,679.60		£387,679.60	£478,728.70	£91,049.10
	Insurances			£0.00	£12,862.50	£12,862.50
	Inflation	£412,678.25		£412,678.25	Included	-£412,678.25
	Client Contingency (TBC)	£0.00		£0.00	£0.00	£0.00
	Sub-total	**£800,357.85**	**£0.00**	**£800,357.85**	£491,591.20	-£308,766.65
	TOTAL	**£14,168,620.42**	**£0.00**	**£14,168,620.42**	**£16,999,477.28**	**£2,830,856.86**

Exempt classification removed by Monitoring Officer 06/08/26

Appendix 2

Financial Viability Summary – The Valley, Stanmore

Heading	Analysis	Criteria
Units	32 x 1 bed flats (AFF) 7 x 2 bed flats (AFF) 23 x 2 bed flats (SO) 1 x 3 bed flat (AFF) 11 x 2 bed houses (AFF) 2 x 3 bed houses (AFF) 1 x 3 bed bungalow (AFF)	
Estimated total scheme cost	£18,931,151	
Sales Income	£2,162,000	
Net scheme cost (excluding grant)	£16,769,151	
Market Value of dwellings	£18,365,800	
Net scheme cost as a % of market value	91.30%	< 95%
Net present value	£169,741	> £0
Interest Cover	118%	>= 110%
Loan repayment year	39	
Rent as % of open market rent	70% 1 bed flats 75% all other affordable units 2.75% of remaining equity for SO properties	Affordable properties maximum 80%, subject to not exceeding LHA
Rents per week based on 52 week year (AFF)	1 bed flat £125.84 2 bed flat £147.12 3 bed flat £173.08 3 bed bung £211.87 2 bed house £155.77 3 bed house £210.37	

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