

Please reply to: Southampton

RB/rb/9503

Mrs Debbie Rhodes
Winchester City Council
City Offices
Colebrook Street
Winchester
Hampshire
SO23 9LJ

20 May 2021

By Email Only

Dear Debbie

DEVELOPMENT AT WINNALL; FLATS & HOUSES

I am pleased to confirm that we have successfully concluded negotiations in respect of the above project and submit herewith my report.

Background

Winchester City Council (WCC) appointed Wates Construction Limited (Wates) as a design and build contractor under a Pre-Construction Services Agreement (PCSA) via the SCF to work collaboratively to manage the progression of design and costings for an optional design and Build Contract and to achieve a planning consent for the residential development at Winnall.

The contractor appointment under the PCSA required the substantiation of a proposed Contract Sum through Open Book techniques. The design and build Contract is optional for WCC subject to viability and demonstrating Value for Money (VFM).

Wates managed and coordinated the design and planning application process on behalf of WCC in accordance with WCC Requirements and Design Brief.

The services that the contractor provided under the PCSA, in response to the client brief are broadly:

- Supervise, manage, and coordinate the design; RIBA Stages 2 - 4.
- Manage design team meetings, as necessary.
- Engage with all required stakeholders.
- Attend meetings as directed by WCC and produce reports as necessary.
- Undertake Value Engineering (VE) workshops during all RIBA Stages 2 - 4.
- Appointment of design consultants (entering collateral warranties) and the commissioning of surveys, investigations and reports necessary to secure a new planning consent.
- The production of budget estimates throughout the design development RIBA gateway Stages and produce a Proposed Contract Sum prior to planning submission.
- Undertake an Open Book procurement exercise to substantiate a Final Contract Sum in compliance with planning.

WELLING.CO.UK

PROPERTY & CONSTRUCTION CONSULTANTS

London T: 020 8016 4318 Thameside House, Kingsway Business Park, Oldfield Road, Hampton, TW12 2HD
Southampton T: 023 8022 6445 Viceroy House, 6 Mountbatten Business Centre, Millbrook Road East, Southampton, Hampshire, SO15 1HY
South West T: 0333 240 6773 Jubilee Enterprise Centre, 15 Jubilee Close, Weymouth, Dorset, DT4 7SB

Welling is the trading name of Welling Partnership LLP, a Limited Liability Partnership
Registered in England and Wales: No. OC430005
Registered Address: Viceroy House, 6 Mountbatten Business Centre,
Millbrook Road East, Southampton, Hampshire, SO15 1HY



**Incorporated
IMaPS**

I take the opportunity confirm the following details:

Contracting Parties:	Winchester City Council and Wates Construction Limited
Procurement:	Negotiated Contract using the JCT Design and Build Contract 2016 incorporating amendments (to be agreed)
Contract Period:	91 calendar weeks from Date of Possession
Tenure:	Mix of Sub-Market Rent and Shared Ownership.
Total No. of Units:	41 No. for Sub-Market Rent 35 No. for Shared Ownership
Accommodation / Unit Sizes:	<u>Sub-Market Rent</u> 41 No. one bedroom / one person flats @ 40.00m ² <u>Shared Ownership</u> 14 No. one bedroom / one person flats @ 40.00m ² 18 No. two bedroom / three person flats @ 62.00m ² 1 No. two bedroom / four-person house @ 81.10m ² 2 No. two bedroom / four-person house @ 82.60m ²

Financial Matters

The Design and Build Contract Sum is £16,507,355.62. This figure is built-up as follows:

Preconstruction Services:	£1,007,160.68
Building Works:	£12,546,078.84
Preliminaries:	£1,857,514.10
Design Fees and Charges not part of SCF:	£283,885.00
Contingency:	£396,952.38
OH&P:	£415,764.62
Contract Sum (inclusive of design fees and charges but excluding VAT)	£16,507,355.62

The Contract Sum Analysis has been completed correctly and is arithmetically correct.

Open Book procurement – Building Works

The Open Book procurement process required trade packages to be tendered to a minimum of three subcontractors with the resulting tender returns being analysed and compared by Wates.

Subsequently, all tender returns were shared with Welling and thoroughly and extensively reviewed. This resulted in a series of detailed questions being presented to Wates which were reviewed and discussed.

Wates prepared Bills of Quantities (BoQ) to facilitate subcontractors' tender returns for many of the trade packages. These BoQ being based upon the design developed under the PCSA and submitted to planning and in accordance with the legacy WCC Design Brief (refer later in this report). As part of the Welling review of the tender submissions the BoQ's were also examined for reasonableness and where required questions were raised to Wates, which can separately be evidenced by the provision of the Welling tender assessment, upon request.

It can be confirmed that each of the trade contractors whose tenders were carried forward to the Contract Sum were the most commercially competitive in all instances and without exception. It is noteworthy that the trade packages become fixed, and Wates carry the risk of any variations, provisional sums, fixed price allowances, and the like, save for any provisional sums carried forward into the main Contract (refer later in this report). Furthermore, there are several trade packages where the range in tender return values were significant and therefore consequently Wates retain the risk relative to any pricing adjustments that trade contractors may apply between the point of concluding the Open Book process and sub-contract award. There is the potential that this risk could be significant (also refer to the contingency below).

Included within Appendix A is the summary of the trade package values and the composition of the Contract Sum, in further detail to that illustrated above. It is not the intention of this report to cover the detail of the trade package review, other than to confirm that the Open Book process was observed, and the tender returns presented were thoroughly reviewed resulting in extensive questioning of Wates.

It should be noted that in addition to the trade packages, allowances have been included for the upgrade to some of the entrances to the existing blocks (£91,000), provisional sums (refer further below - £63,000) and a provisional allowance for the Shared Ownership specification being applied to all units (£208,000), in accordance with the WCC specification requirements.

Preliminaries

The review of the preliminaries required an assessment of the reasonableness of the items included and allowances made by Wates as this does not follow the Open Book process. Similarly, however to the Open Book process, a review was undertaken by Welling that prompted questions being raised to Wates. It is noted that the staff and management costs being subject to the percentages dictated by the SCF, which Wates are in compliance with.

It can be confirmed that the preliminaries costs are within an expected range for a project of this nature and scale.

Design Fees and Charges - other

It can further be confirmed that the costs associated with the RIBA Stage 5 design and other reports and surveys appear reasonable as does the NHBC Latent Defects Warranty costs.

Contingency and Overheads and Profit

The contractor has applied a general contingency which is typical for a design and build project and is at a percentage within an expected range. This contingency is to cover design develop risk, measurement errors, on-site issues, sub-contractor failure, sub-contractor procurement challenges and the like. This contingency also includes the costs associated with the provision of a performance bond.

The OH&P applied by Wates at 2.75% in accordance with their entitlement under the SCF (including contractors Framework levy).

Abnormal Costs Affecting the Works

The site has a number of abnormal factors which have a significant cost implication to the overall works. All of these are to be dealt with by the Contractor, but I have highlighted the main areas below:

- Demolition of existing structures, including associated asbestos removal (also refer later in this report)
- High Voltage electric main and gas pipe diversions which currently run across the site
- Infrastructure upgrade in the form of an electric substation.
- The flats are constructed in accordance with AECB (Association for Environment Conscious Building) principles.
- The flats are compliant with the Building Regulation Approved Document B requirements of sprinklers and non-flammable materials within the cavities.
- Allowances have been included to achieve Secure by Design Silver standard.
- Solar shading is required in response to overheating modelling.
- There is the presence of asbestos within the ground (also refer later in this report).
- There is an extensive cut and fill exercise due to the existing topography.
- The estate wide environmental improvement works are included.
- The improvement to the existing block entrances have been included.

The costs associated with all of these aspects are covered in the Contract.

CDM Regulations

The Contractor will undertake the statutory duties as Principal Designer. However, you will be required under your own statutory duties as Client to appoint them to act as Principal Designer. You will be required to assess their competency to perform the duties as Principal Designer.

Planning

As you are aware, Planning permission has yet to be granted, however, it will be a requirement incumbent upon Wates to obtain the planning permission (under the PCSA) and satisfactorily discharge all conditions. It should be noted that should the LPA require changes to design prior to Contract award, however unlikely this is, Wates may look to pass on any costs associated with any changes. The requirement to discharge conditions, including material approvals post-Contract is a requirement incumbent upon Wates.

Design Standards

A Nationally Described Space Standards (NDSS) audit has not been undertaken as part of this report; however, it was a requirement under the PCSA to achieve NDSS minimum GIFA's. Should an audit be required, this can be undertaken upon request.

Design Brief, AECB Principles and Preliminaries documents

The Design Brief (dated 15/04/2021) and AECB Design Supplement (dated 15/04/2021) are with the contractor for their review. Whilst previous iterations of the Design Brief have been working documents during the PCSA phase, the latest version (referred to above) is currently being reviewed by the contractor. The output of this review is still awaited and as such there is the potential that this could result in additional costs not currently included within the Contract Sum albeit any matters identified may be subject to review with yourselves.

The General Matters and Preliminaries document is yet to be shared with the contractor; however, it will form part of the Contract which may require the negotiation of some aspects so as not to adversely impact on the Contract Sum.

Value Engineering

Throughout the PCSA period Value Engineering (VE) was responsibly undertaken due to budgetary pressures. Notwithstanding, only those items which did not impact on the design and quality were considered and taken forward.

However, the contractor during the Open Book tender process received VE proposals from their supply chain in respect to the mechanical and electrical and groundworks packages, which have been taken forward to the Contract Sum. At the time of writing this report, it is understood that the items which still require clarification from the contractor and acceptance from WCC are in relation to the electrical consumer units, towel rails and alternative paving slabs and edgings.

These final items will continue to be closed out, however, until such time as responses are received from Wates the risk remains that if the proposals are not acceptable to WCC (and if a suitable and acceptable alternative is not found) there may be the potential for additional costs if the Design Brief specification is to prevail.

Provisional Sums

The contractor has included approximately ten provisional sums totalling £63,000, which at the time of this report are still being negotiated. Notwithstanding, the contractor has included provisional allowances for the following in relation to statutory utilities, water main diversion (£20,000) telephone diversion (£12,000), EV charging point (£5,000), street lighting connection (£5,000) and new water main connection (£15,000) and general allowance for lowering / diverting of services encountered but not mapped (£2,000). Quotations have been requested by the contractor in respect to the utility works albeit they are awaited and consequently the contractor is unwilling to accept these as firm sums.

The contractor has also identified the risk associated with encountering asbestos in the ground (£2,000), ground obstructions (£1,000) and general ground contamination (£1,000) as provisional sums.

It is noteworthy that further site testing was undertaken by the contractor due to concerns about asbestos in the ground. The subsequent report appeared to suggest that in the location of where the further testing was undertaken the presence of asbestos was limited. However, this statement is made in the context that any testing is not conclusive as it can only relate to where the sample were taken and not to locations outside of this.

Furthermore, the contractor has excluded any allowance for asbestos or contamination within the garages that they have not been able to access. This also extends to any contamination under the existing garages.

This must be seen as a potential risk which the contractor is not willing to accept and why they have qualified this as a provisional sum. This continues to be a point of negotiation; however, it is highly probable that the contractor will not move their position.

Therefore, it is important to stress that a provisional sum when instructed could exceed the allowance and result in additional cost to the Contract. The contractor has however conceded to these being defined provisional sums (i.e., programme / preliminaries allowances included) except for areas that were inaccessible at the time of the surveys being undertaken, such as to the garages (and below the garages).

It would therefore be prudent that the client retains a separately held contingency in respect to potential overspend on the provisional sum items.

Security

The contractor has included for a 10% performance bond (wording to be agreed) to act as security. This sum is included within the contingency.

AECB

It is brought to WCC attention that the design solution to achieve AECB is based upon electric heating and PV panels. This is considered to be the most preferable solution by WCC; however, it will require dispensation to be granted by AECB as it is not considered the most desirable in relation to its sustainability credentials. Therefore, if there were a requirement to consider additional renewable technology, such as air-source heat pumps this may result in additional costs.

This dispensation is currently being pursued, however, at the time of writing the report it has not been granted. Therefore, this could represent a potential time and cost risk.

Highways

Included within the Contract Sum are costs associated with the Section 278 / Section 38 works including bonds, fees and charges. However, at the time of writing the report the extent of which the roads may be adopted has not been agreed with Hampshire Highways. The refuse strategy also requires resolution.

Programme

Wates programme is predicated on the service diversions being the first activity to be undertaken on site. It has been assumed that the Contract will be in place by 01 August 2021 such that utility quotes can be persevered prior to their expiry and orders placed for the utility diversions to commence their lengthy lead in period.

Should the Contract not be in place by 01 August 2021, the contractor has reserved their position relative to any cost or programme implications associated with the utility providers and specifically in relation to the service diversions.

The 91-week duration assessed by Wates appears to be a prudent allowance.

Contract amendments / Contract Particulars

Currently we are in discussion with the contractor to jointly agree suitable contract amendments and Contract Particulars.

Building Control

It should be noted by WCC that the payment of the Building Control fees sits outside of this Contract Sum and is payable by the Council.

Summary and Recommendation

The proposed Contract sum of £16,507,355.61 includes PCSA costs of £1,007,160.68, which would net down to £15,500,194 or £3,057 / m² (when using a GIFA of 5,070 m²) excluding PCSA costs. It should be noted that the Contract Sum includes the following and extensive abnormal items which total £662 / m² (refer below).

Therefore, this nets down to an allowance of £2,395 / m² of GIFA which is within an expected range for a site of this nature, procured in this manner and reflecting the requirements of WCC. It is noteworthy that the high proportion of smaller one bedroom two person flats at 40m² (72% of units) has an impact on the cost per m² of GIFA due to the disproportionate number of bathrooms and kitchens in the total GIFA.

Furthermore, specific requirements such as piling and the configuration and orientation of the buildings requiring solar shading are also included within the Contract Sum albeit not identified separately within the abnormal items listed below.

It should also be noted that in compliance with Approved Document B the flats are to receive sprinklers, which is similarly included within the Contract Sum.

Item	£ included in CSA
Demolition	45,000.00
Cut and fill due to site topography	370,000.00
Estate wide improvement works	1,000,000.00
AECB certified flats	1,200,000.00
Metalwork to cavities	200,000.00
Provisional sums	63,000.00
Works to existing buildings	91,000.00
Service diversions	180,000.00
Shared Ownership specification upgrade to all units	208,000.00
TOTAL	3,357,000.00

Cost per m2 of GIFA for abnormal items	662.13
--	--------

Therefore, in summary, it can be confirmed that the Open Book tender process has been appropriately administered and suitably concluded. The resultant Contract Sum of £16,507,356, which includes all pre-Construction Costs falls within an expected range for a project of this nature when making allowance for all relevant considerations, procurement route and being cognisant of all abnormal items.

Therefore, it can be confirmed the proposed Contract Sum represents value for money and that Winchester City Council are recommend to accept Wates Construction Limited proposal in order to facilitate an expedient start on site.

Whilst WCC have no obligation to proceed to Contract, it is highly probable that should the project be re-tendered at this point on a competitive basis the resulting process would create a significant delay with the prospect of cost increases over the tender and build period. Therefore, subject to satisfying WCC viability assessment and WCC being satisfied to the general competency and financial standing of the Contractor, the project should proceed to Contract with Wates.

I trust that the foregoing observations, comments and recommendation meet with your approval and await your further instructions on this project. In the meantime, if you have any queries, please do not hesitate to contact me.

Yours sincerely



ROBERT BIRCH – Partner



Encl.

Appendix A – Contract Sum Analysis