

27-37 HIGH STREET, SWANLEY PROJECT BUDGET UPDATE

Cabinet - 18 March 2021

Report of: Strategic Head of Property and Commercial

Status: For Decision

Key Decision: Yes

Executive Summary:

On 17 November 2020, Council approved the redevelopment of 27-37 High Street, Swanley, to provide 17 new residential units and a business hub with an estimated total project budget of £5,624,039.

The project received a Getting Building Fund grant of £1.49m upon condition of the scheme meeting a challenging timetable set by Government. As a result, the project was placed on an accelerated programme, and has met all its milestones to date. In particular, demolition work has started on site and the Council has now received tenders to undertake construction work.

Officers have now evaluated the tenders and there is a preferred bidder. However, the tenders have exceeded the envisaged cost estimates set for the construction and there is now a need to augment the project budget if the high quality scheme originally envisaged for this gateway location is to be maintained.

Portfolio Holder: Cllr. Peter Fleming

Contact Officers: Strategic Head of Property Ext. 7099

Recommendation to Cabinet:

- a) Approves the addition of £490,000 to the current project budget of £5,624,039.
- b) Notes that the additional funding to the project is funded from the Council's Capital Reserves.

Reason for recommendation: To provide additional funding to the project, which will allow the Council to make an award to the preferred contractor and thereby deliver the scheme within the agreed timetable set by the GBF grant agreement.

Introduction and Background

- 1 The proposed scheme at 27-37 High Street, Swanley, obtained planning permission in May 2020 for a residential-led mixed use scheme of 17 flats and a business hub.
- 2 An economic appraisal suggests that the economic and regeneration outcomes associated with this project will be of significant benefit to Swanley, and thus merits public funding intervention. Government consequently considered this an important project to help with the post Covid-19 economic recovery and facilitate the regeneration of the sub-region. As a result, in August 2020, Government approved an allocation of £1.490m from the Getting Building Fund (GBF). In November 2020, Council fully approved the project allowing a demolition contract to be awarded.
- 3 Conditions tied to the GBF grant are challenging and include the need for the project to meet an accelerated delivery programme. To date the Council has met all its milestones and on the 5 February 2021, received three compliant tenders for the new build construction.
- 4 The tender evaluation panel (consisting of officers and external consultants in project management, cost consultancy and architecture) has been evaluating the submissions and in particular noted significant variances to the envisaged contract sums the Council had been advised to budget. As part of the tender evaluation process (and equalisation process) the Council was able to identify the main determinants in this variation, but was also able to agree on a preferred bidder should additional funding be made available.
- 5 The variance in construction cost can be attributed to, amongst other reasons:
 - Higher preliminary costs (due to Covid-19 measures and required traffic management measures),
 - Higher construction costs (due to increased costs in materials),
 - Higher risk margins (associated with Brexit supply chain issues and potential site abnormalities)
- 6 These unexpected cost increases will require the total project budget to be increased by £490,000.
- 7 According to the original project timetable, the Council was due to make an award by the end of February, but is unable to enter into contract until additional funding is agreed by Cabinet. This will result in a 1-month delay to our planned programme, however, the revised timetable is still within the GBF grant agreement's parameters. It is also important to note that the additional funding amount being requested remains within the acceptable

tolerance levels of the GBF grant agreement, and hence the original Business Case does not require variation.

- 8 The Council has had to use its “urgency procedures” to ensure a decision can be made by Cabinet on 18 March 2021, as officers were only able to confirm the project variance at the end of February. Additionally, a decision is urgently required to appoint the preferred contractor so that the construction programme can meet the GBF grant agreement’s challenging timetable. Furthermore, the preferred bidder is only able to hold its fixed sum contract for a set period of time (as per the tender requirements).

Project Budget

- 9 Preliminary cost estimates were prepared by external property consultants and cost consultants and were reviewed by the project team. While competitive tenders were sought the proposed contract sums from the respective bidders included unexpected cost increases and cost items.
- 10 As per the tender process, all the bidders were requested to provide further information and clarity about their pricing schedules and to provide potential value engineering options. Responses were carefully reviewed by our external cost consultants and by the project team. The draft bills of quantity and the price variances were closely scrutinised.
- 11 The total project budget approved by Council in November 2020 was £5,624,039 and is now estimated at £6,114,039. This is a difference of £490,000; a variance of 8.71%.

Other options Considered and/or rejected

- 12 The Project Team has considered various value engineering options, and these have been factored into the revised total project request. While there may be other value engineering options available, these can only be explored with the preferred bidder once an award has been made.
- 13 The Project Team has considered delaying the project to re-design and re-specify the contract, but this is not feasible as the delay will not be within the grant funding agreement’s tolerance thresholds. As a result, the Council would lose its grant. The loss of grant would render the entire project unviable. Furthermore, a delay will expose the project to further price fluctuations that the market is experiencing.
- 14 A further option available to the Council would be to abort the scheme. As demolition works have already commenced, this will result in a vacant plot. New party wall support measures will need to be deployed to protect

adjacent structures. Aborting the project will result in a sunk cost in excess of £680,000, but does not include consequential remediation.

Key Implications

Financial

An increase of £490,000 to the project's previously approved capital budget of can be accommodated within the approved Capital Programme from the Capital Reserve allowance.

The report to Council in November 2020 to approve the project notes that the project is to be funded from capital receipts from the sale of residential units in the scheme, and that rental receipts may also be used. This still remains feasible together with other capital receipts.

Legal Implications and Risk Assessment Statement

The Council approved the project in November 2020 and appropriate due diligence was undertaken at the time to define the project and its budget.

The tender exercise for a main build contractor is compliant with the Public Contract Regulations 2016 and the Council's Procurement Rules.

The Council can now only award a contract if additional funding is made available to the project.

The Getting Building Fund Grant Agreement specifies matters that may trigger the need for a change request and also clearly outlines the timetable that the project must meet. The increase in budget and the revised timetable remain within the Grant Agreement's tolerance levels.

The increase to the total project budget of £490k is a decision that can be made by Cabinet in accordance with paragraph 2.25 of the Financial Procedure Rules which authorises virement by Cabinet of sums not exceeding £500,000.

The use of the Council's urgency procedures, as per the General Exception to publicity in connection with Key Decisions under paragraph 16 of Appendix A to the Constitution, is considered justified given the reasons outlined in this report.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users relating to this report.

Conclusions

Given the economic and social benefits associated with the scheme, costs associated with progressing the scheme to date, and given the ability to fund the additional costs through capital receipts, it is recommended that the project's total budget is increased by £490k. This will allow the project to proceed and continue to achieve the conditions stipulated in the GBF Grant Agreement.

Appendices

None

Background Papers

None

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