

## Members' Library Service Request Form

Date of Document	18/03/22
Originator	Wendy Mcguire
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Document Title	Design and Build Tenders for Affordable Housing at Levenhall, Musselburgh

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Additional information:

Authorised By	Wendy McGuire
Designation	Head of Housing
Date	23/02/2022

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**REPORT TO:** MEMBERS' LIBRARY SERVICE

**MEETING DATE:** March 2022

**BY:** Executive Director for Place

**SUBJECT:** Design and Build Tenders for Affordable Housing at Levenhall, Musselburgh

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## **1 PURPOSE**

- 1.1 To note the decision to accept a tender from Hadden Construction for the design and build of 12 new council houses at Levenhall, Musselburgh (to be known as Ravensheugh Brae).

## **2 RECOMMENDATIONS**

- 2.1 Members are asked to note the decision of the Head of Housing in consultation with the Executive Director for Council Resources, to accept Hadden Construction Ltd's tender amounting to £2,115,507.05 after checking, correcting and amendment and noting that it is open for consideration until 7<sup>th</sup> February 2022 for the proposed new housing at Levenhall, Musselburgh.

## **3 BACKGROUND**

- 3.1 The Council previously purchased the affordable housing site at Levenhall from CALA Homes in February 2021 with the intention of developing it for council housing.
- 3.2 The affordable housing site has planning permission to deliver 12 housing units with a housing mix as shown below.

4 no. 2 bed/4p terraced houses  
8 no. 1 bed/2p cottage flats

- 3.3 The housing will become part of the Council's HRA Capital Programme for new affordable housing.
- 3.4 Following consultation with the Council's Corporate Procurement Team, tender documents were issued to the 4 no. contractors remaining (one contractor, ESH Construction Ltd. advised that they will no longer be tendering for works in East Lothian) from lot 2 of the Council's own house building framework. The framework contractors are listed alphabetically below:

1	Cruden Building (East) Ltd (Previously Hart Builders (Edinburgh) Ltd)
2	Hadden Construction
3	Lovell Partnerships Ltd.
4	J. Smart & Co.

- 3.5 Only two of the four contractors responded with compliant tender submissions.
- 3.6 J. Smart & Co. and Lovell Partnerships Ltd. did not submit tenders as they both felt this contract would be too small for them to be able to submit a competitive tender. The council's quantity surveyor and development officer also considered using the Scotland Excel and City of Edinburgh Council housing frameworks, but there was a similar lack of interest amongst the contractors on these frameworks. This is an indication of the current high level of house building which is resulting in many building contractors less willing to consider smaller developments.
- 3.7 The following offers were received, listed in ascending order.

Ref	Contractor	Tender amount before checking	Tender amount after checking and amendment	Lowest checked tender amount
1	Hadden Construction	£2,040,242.76	£2,115,507.05	£2,115,507.05
2	Cruden Building (East) Ltd (Previously Hart Builders (Edinburgh) Ltd)	£2,533,364.00	£2,652,664.01	

- 3.8 It shall be noted that the tenders submitted by Hadden Construction and Cruden Building (East) Ltd increased after the tender checking stage. This was due to the purification of a number of tender qualifications submitted along with their tender by the contractors.

- 3.9 In addition to the detailed price checks, the tenders were subjected to an Award Criteria process as required by the EU Procurement Procedure Notice. Given that the framework contractors have already been assessed for quality, the tender evaluation criteria for this project placed an emphasis on price which is weighted at 80% with the quality assessment weighted at 20%.
- 3.10 The quality assessment carried out by the Council's Quantity Surveyor and Development Officer focused on project specific criteria such as local supply chain opportunities, site supervision staff, sustainability and management of the site environment.
- 3.11 On completion of the tender evaluation process Hadden Construction emerged as the highest scoring tenderer. A summary of the evaluation matrix scores is shown below:

<b>Scoring Criteria</b>	<b>Max Score</b>	<b>1st Hadden Construction</b>	<b>2nd Cruden Building (East) Ltd</b>
Price	80	80.00	63.80
Quality	20	15.00	12.92
<b>Total Score</b>	<b>100</b>	95.00	76.72

- 3.12 As indicated above, Hadden Construction's tender price amounting to £2,115,507.05 after detailed checking, correction and amendment is the lowest offer submitted.
- 3.13 The Council's Quantity Surveyor has assessed the Elemental Contract Sum Analyses contained within the tender submission. These figures are higher than would usually be expected due to the ongoing impact of Brexit and Covid which has resulted in shortages across both labour and materials.
- Construction costs have increased very rapidly in 2021 as a result of a number of factors - inflation on materials and labour but also as a result of the supply & demand. The Royal Institute of Chartered Surveyors (RICS) has recently reported the highest rate of increase in building material prices seen for 40 years. The building materials cost index is estimated to have risen by 17.6% during 2021 and the general building cost index by 9.6%.
  - The current high level of house building in the local area and generally across the UK means that tenders are less competitive and contractors are less interested in developing smaller sites (see 3.3 above).
  - The standards specified for the tender, particularly in relation to energy performance are higher than previously in an effort to provide housing which is even more sustainable and contributes to the achievement of net zero. More specifically, the specification requires CO2 emissions to meet Gold Level as defined by the 2020 Building Standards and Silver Level for the other sustainability Aspects. It should be noted that air source heat pumps are specified as the main source of space heating.

- 3.14 The longer term impact is yet unknown and information to date is that we will continue to see uncertainty in cost for some time.
- 3.15 Hadden Construction's offer complies with the employer's brief.
- 3.16 Hadden Construction's list of subcontractors is still to be advised.
- 3.17 The Contract is prepared on a firm price basis in terms of the SBCC Design & Build Contract for use in Scotland 2011 Edition incorporating Amendment Nr. 1 issued March 2015 (DB/Scot 2011) issued by the Scottish Building Contract Committee.
- 3.18 It should be noted that as a result of increasing construction costs, a review of the Scottish Government's benchmark subsidy levels was carried out last year and as a result, the benchmark subsidy level available to Local Authorities has increased from £59,000 to £71,500 (3 person equivalent) per unit for a council social rented unit in "City and Urban" areas which would include Musselburgh. In addition, there are a range of additional allowances which are intended to offset the cost of meeting higher standards of sustainability and new requirements of the Building Standards e.g. £3,000 per unit for the installation of automatic fire suppression systems and £4,000 per unit for the installation of zero emission heating systems. The Scottish Government have also agreed to monitor this closely over the year to determine whether a further review is necessary.
- 3.19 The development at Levenhall is eligible for grant of up to £81,602 per unit, compared to £59,000 per unit previously. Subsidy of £292,035 has already been received in 2020/21 to cover the fees paid to CALA in connection with the acquisition of the site and it is anticipated that the balance of the grant will be paid in 2022/23.
- 3.20 The table below provides a comparison of a similar size project pre Covid, however it is still difficult to present a true comparison as this project will meet Gold level as opposed to silver in the pre Covid project, with air source heat pumps are specified as the main source of space heating.

<b>Construction only Cost</b>	<b>Total Development cost</b>	<b>Pre October '21 Scottish Gov. Benchmark/Subsidy Level</b>	<b>East Lothian Council borrowing requirement</b>
Pre Covid - £135,000 per unit	£174,000	£59,000 per unit	£76,000 works/unit £115,000 total / unit
Post Covid - £176,292 per unit	£204,270	<b>October '21 increased Scottish Gov Benchmark/Subsidy Level</b>	

		£81,602 per unit	£94,690 works/unit £122,668 total/unit
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- 3.21 It is anticipated that construction will start in summer 2022, once CALA have concluded their development, and our contractor has obtained Building Warrant approval with completion by summer 2023.

#### 4 EQUALITIES IMPACT ASSESSMENT

- 4.1 As these properties are being delivered under the terms of the Affordable Housing Policy a specific IIA is not required.

#### 5 POLICY IMPLICATIONS

- 5.1 The construction of these houses will assist in delivering one of the Council's core priorities "Provision of Affordable Housing".

#### 6 RESOURCE IMPLICATIONS

- 6.1 Financial – Together with the professional costs and expenses, land costs and Section 75 payments, the total project expenditure for the development of the 12Nr new housing units will not exceed **£2,451,236.68 (itemised below)** which amounts to £204,270 per unit.

Category	Estimated cost
Land	£0.00
Section 75 costs	£142,770.00
Internal ELC fees & expenses (Legal, Procurement, Employer's Agent, Clerk of Works etc)	£40,194.63
External consultants (Principal Designer/CDM Advisor)	£2,900.00
Groundworks	£80,041.00
Fees – design, planning, building standards, Scottish Water and services connections	£69,824.00

Construction and design (contract costs)	£2,115,507.05
<b>TOTAL</b>	<b>£2,451,236.68</b>

6.2 The estimated remaining expenditure of £2.159m will be contained within the budget for the New Affordable Housing in the Council's Capital Investment Plans for 2022/23 and 2023/24. The estimated completion date is summer 2023.

6.3 Personnel – None.

6.4 Other – None.

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Wendy McGuire
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