

Suttons Wharf Health Centre

Exception Record – Change Control

Record of Client Instruction

Suttons Wharf Health Centre

Project Title:	Suttons Wharf
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Project Manager:	Michael Coleman
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Description of Exception / Change - Effect on Quality, Cost and Programme

Exception/Change

Approval is sought for an additional £398,088 (excl. VAT), £477,705.60 (incl. VAT) s106/CIL funding for the project. This request represents a 12.7% uplift to the original 2017 grant determination.

Detail	Cost (excl. VAT)
Changes associated to Building Regulation Part B – incl. fees, DPCs & Flexible Cavity Trays	£162,217
Inflation to current construction programme – 1.85% of original grant.	£57,700
Total for post-tender changes incorporating adjustments to construction packages, incl. associated professional fees associated with Covid-19 and European withdrawal	£138,171
Variation for specified FFE Group 2 & 3 items – original products were specified & priced in 2017 with ranges & pricing now update to reflect the 2020 marketplace	£20,000
Pro rata uplift in contingency @ 5% (to cover any additional Covid-19 related cost impacts through to project close)	£20,000
TOTAL (excl. VAT)	£398,088

This project is being delivered by NHS Property Services, instructed by CCG colleagues, but funded by the Council. The request for additional funding has, therefore, been subject to appropriate scrutiny to confirm the value of and reason for this request. This scrutiny has involved seeking further information on how each funding increase in the table above was calculated and, crucially, how the Quantity Surveyors attached to the scheme justify their judgements with regard to the impact of both Covid-19 and Brexit disruption on the cost plan. The explanations provided were not taken on face value, with supplementary questions put to the project team on the provenance of the assumptions used, and the extent to which these could be supported by emerging empirical evidence. While it is difficult to pinpoint the exact fiscal impact of either Covid-19 or Brexit on overall scheme costs, it is evident that in combination they have affected supply chain dynamics, and in the case of the former have interrupted the delivery of this scheme directly. The additional costs have, therefore, been accepted as justifiable on the basis of evidence provided, and an analysis of their likely ongoing effects. The specific financial impact of changes to the original design following the Grenfell tragedy has also been discussed, but the necessity of following legislative changes and latest guidance in that context is beyond question.

Officers scrutinising this request on behalf of the Council are, therefore, satisfied that the project has experienced significant cost pressures as a result of delays on the original programme. As already referred to, the immediate challenges were caused by the need to review and replace the original cladding solution as a direct result of changes to construction requirements post-Grenfell, the impact of European withdrawal on construction supply chains, and changes to the availability and cost of materials due to Covid-19. The combined inflationary impact has led to the request for an additional £398,088 (excl. VAT), which equates to £477,705.60 including VAT.

Cost & Programme

The original approval of £3.1million funding was given in October 2017, with the initial programme due to complete in early 2019. The application for s106/CIL was submitted early in project design and pre-tender of the main works package.

Since the initial s106/CIL approval the programme has changed significantly, impacted by a number of internal factors, notably project-controlled changes, and delays to the agreement of property leases. In addition, legislative changes following the Grenfell tragedy required a review of the cladding solution, and Covid-19 related delays, were both unaccounted for within the initial s106/CIL envelope. The impact of an unanticipated level of inflation upon this elongated programme has further increased the overall cost of the original scheme.

Context – the project:

The Sutton's Wharf project will deliver a new health centre for the Globe Town Practice, with enhanced facilities and

capacity to meet the needs of both existing and additional patients. The project involves NHS Property Services (NHSPS) purchasing a lease of 993m2 shell and core space on the ground floor of a largely residential new build development, and then the Globe Town Practice agreeing an under lease for the premises. The purchase of the 999-year lease is at cost to NHSPS, at £2m.

The £3,119,378 s106/CIL grant from LBTH is being used to design and carry out fit out works to the premises, and to provide it with fittings, furniture, equipment and IT.

As head leaseholder, NHSPS is instructed by the CCG to act as lead consultant on the construction delivery, i.e. NHSPS instructs the design team, tenders the scheme and awards the works contract.

Cause

Inflation

The capital envelope was originally calculated in 2017 and did not capture inflation to 2021 completion dates within the original cost plan and capital request. The total Inflation due to the deferment of the original construction commencement date is £57,700 (excl. VAT), 1.85% of the original grant.

Supply chain risk arising from Brexit & Covid-19 impact on the programme

Covid-19 has also altered the construction programme, with works commencing, then halting – leading to an increase in preliminary charges from the contractor. There has been a related impact on global supply chains, and in particular demand for and production of certain build materials, such that construction materials are being substituted for what is available, not originally specified (but continuing to comply with due legislation and quality requirements), with a consequent increase in cost where shortages are affecting overall availability.

Formal withdrawal from the European Union in January 2020, and the cost uncertainty further introduced by the impact of the transition period to January 2021, were not originally factored into the capital request as the original programme aimed for completion in early 2019.

The project's Quantity Surveyors have advised that when contractors are placing orders, there is a risk value being added onto orders when they are being placed through sub-contractors. For example, an order being placed now for delivery in February 2021 is being 'risk priced' by the construction contractor as its pricing may increase over an uncertain winter period, affected both by Covid-19 and the end of the Brexit transition period (under new trading law) in January 2021. The risk to the prime contractor is, the technical consultant team concludes, genuine given the unprecedented commercial uncertainties faced at present, but difficult to quantify accurately.

The total value of post-tender changes incorporating adjustments to packages, including the associated professional fees, as a result of the issues set out above is calculated to be £138,171 (excl. VAT).

Cladding

Following the Grenfell fire tragedy, a cladding review was undertaken. The mixed-use development above the new health centre originally had an ACM cladding system of a similar type to that installed on the Grenfell tower. The health centre unit had completed, but the unit's external cladding was part of the main construction package. A pause and review were undertaken, resulting in a redesign of the exterior walls and cladding to a traditional masonry finish. The health centre is on the ground floor of the building, and legally is separate to the mixed-use development above.

Changes **associated** to Building Regulation Part B – incl. fees, DPCs & Flexible Cavity Trays - £162,217 (excl. VAT)

Consequences of taking no action:

The most serious consequence of taking no action would be to fail to complete the works to the health centre. This would involve the project team reviewing what areas of the fit-out could be paused and kept as an unfinished product. Doing so would fail to deliver the aims of the original investment, namely to provide a new health centre capable of meeting the needs of existing residents and the increasing population with the area.

Options for mitigation

The project team has commenced value engineering, with a schedule of suggested changes and/or omissions under review and instruction on immediate items. This exception report takes into account value engineering already instructed; an

example of the value engineering instructed can be illustrated as a change in specification to hand dryers. The previously specified units have been changed to an alternative specification unit, this has been put forward and signed off – this has created a £5,850.21 cost saving. Any further value engineering will be considered.

Recommended actions:

Approval is sought for an additional £398,088 (excl. VAT), £477,705.60 (incl. VAT) s106/CIL funding for the project.

Assumptions /constraints on which action is based:

Covid-19 has already impacted the project by delaying mobilisation and the early construction phase, which has resulted in a loss and expense claim from the main works contractor, Storm Building Ltd. There is a risk, as we move into the next 6-month autumn/winter period of increased delays. Any national legislative changes resulting from Covid19 that may impact the project are particularly difficult to forecast and capture. The request for additional funding takes into account the project team’s current forecast of the potential impact of Covid19 and the UK’s withdrawal from the European Union to project close, and should, therefore enable the project to be completed successfully.

Financial Information (as applicable)

	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	Total £m
Estimated total capital cost / saving of the change	0	0	250000	148000	0	
Ongoing revenue implications (if applicable)	0	0	0	0	0	
General Fund income generation (if applicable)	0	0	0	0	0	

Signed / Project Manager	Print Name: MICHAEL COLEMAN Signed: MICHAEL COLEMAN	Date	09/11/2020
Signed / Project sponsor/ Director	Print Name: Signed:	Date	