

REPORT TO: POLICY & RESOURCES COMMITTEE - 27 APRIL 2009
REPORT ON: DUNDEE HOUSE - CONSTRUCTION TENDER AND TOTAL COST
REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)
REPORT NO: 244-2009

1 PURPOSE OF REPORT

The purpose of this report is to consider the tender submission from Bovis Lendlease for the construction of Dundee House and all other costs associated with this capital project. The report also sets out an appraisal of the benefits to the Council in accepting the tender submission and a broad programme for the completion of the project. The report seeks the Committee's approval to accept the tender and confirm the final cost at £34,008m.

2 RECOMMENDATIONS

The Policy & Resources Committee is asked to agree that:

- 2.1 the tender submission from Bovis Lendlease of £28,094,318 be approved and that the officers of the Council be instructed to conclude the contract documentation;
- 2.2 the total capital cost and all the constituent elements be fixed and approved at £34,008,347 and that the design team fees be fixed at the level set out in this report;
- 2.3 there be regular update meetings of the Dundee House Project Board during the construction phase of the Dundee House project.

3 FINANCIAL IMPLICATIONS

- 3.1 The financial implications of this report are predominantly of a capital nature. If the recommendations of the report are agreed, then the projected final capital cost of Dundee House will be £34,008,347 at outturn prices. A detailed analysis of the final capital cost is enclosed at Appendix A.
- 3.2 The Capital Plan 2009 - 2012 which was approved at the Policy & Resources Committee on 12 February 2009 included a total provision of £34m for the construction of Dundee House. Accordingly, the City Council has made provision for the acceptance of a total capital cost of £34,008,347 and has the capital funding in place to meet that cost.

4 BACKGROUND

- 4.1 The Policy & Resources Committee on 11 December 2006 considered and approved an update report on the Dundee House project.
- 4.2 The report stated that the projected capital estimate for the project was £30m at 2009/10 prices. The project programme at that time predicted the following timescale:-

OJEU Advert	November 2007
Tenders received and purified	February 2008
Construction start	March 2008
Construction complete and handover	January 2010

- 4.3 The method of procurement chosen for the construction contract was a single stage tender as this was felt to be the most appropriate method of procuring the contract.
- 4.4 The OJEU advert was placed in line with the above programme and we received a relatively poor response with none of the tenders received being deemed to be acceptable. Accordingly, the City Council reviewed the method of procurement with the Reiach & Hall Design team and it was determined that the construction industry's most favoured method of construction was the two stage tender and an OJEU advert was placed on this basis in May 2008.
- 4.5 The success of the two stage tender approach was evident with the fact that in July 2008 the Council received 16 submissions. The project team and design team then carried out an extensive review of the 8 selected submissions, including interviews. Following on from a tender exercise the conclusion was a recommendation that Bovis Lendlease be selected as the preferred contractor. In December 2008, Bovis Lendlease then commenced the second stage of the procurement process and went out to the market to identify the sub-contractors for a wide variety of works packages.
- 4.6 After extensive deliberations between the contractor and the design team, the following revised total capital cost of the project is as follows:

	<u>£,000</u>
Bovis Lendlease construction tender (including addbacks)	28,094
Client contingency	1,035
Enabling works, Fees and furniture	<u>4,879</u>
	<u>£34,008</u>

The total capital cost of the project is now in line with the City Council's approved capital budget of £34m.

- 4.7 It is important to assess the level of risk that the Council will be taking on by accepting the Bovis Lendlease tender and agreeing to proceed with the Dundee House project. The level of risk is low with only £398,300 or 1.47% of the total spend of £34.008m not being at a fixed price, and this sum will be fixed in the short term.

There is a further very limited risk of some price escalation due to design changes being proposed at a later stage of the project, however the design team have given an assurance that this will be strictly limited by them, and if it did occur would still have to be approved by the City Council before any additional expenditure was committed.

The enabling works and furniture spend is directly under the control of the City Council and therefore should be managed effectively. The design team fees will be capped and cannot be increased above the level reflected in the total cost figure of £4.879m enabling works, fees and furniture.

Finally the client contingency of £1.035m has been developed by the design team in a methodical manner and should be more than sufficient to cover any unforeseen expenditure that may arise. The Council would wish to incentivise Bovis Lendlease to make minimum use of the client contingency and will agree a sharing mechanism whereby any unutilised element is shared between the contractor and the Council in a pre-determined proportion. If effective this will mean that the Council should achieve a saving against the £1.035m client contingency.

- 4.8 If the Committee on 27th April 2009 was to accept the revised total cost of £34.008m then construction would commence on site on 15 June 2009 and be completed and handed over in February 2011.

5 FURTHER CONSIDERATIONS FOR ACCEPTING CONTRACTORS TENDER

- 5.1 There are a number of positive considerations that members should be aware of before deciding to accept the tender from Bovis Lendlease and proceeding with the Dundee House project.
- 5.2 The construction of Dundee House in North Lindsey Street will retain a workforce of 850 in the city centre and will provide an incentive for the extension of the Overgate Centre, which will further enhance Dundee's shopping reputation.
- 5.3 The contractor has estimated that there will be up to 250 workers directly employed on the Dundee House project, and approximately 60% of the contract will be delivered by local labour which will have a positive effect on the local economy. Bovis Lendlease has agreed a memorandum of understanding with the City Council whereby they will provide employment and training opportunities for local people from priority groups.
- 5.4 The early completion of Dundee House will eliminate the risk of the Tayside House not being available for occupation due to mechanical or electrical equipment malfunction, and will also permit the demolition of Tayside House and the advancement of the Central Waterfront Development.
- 5.5 The professional quantity surveyors firm within the design team have carried out a benchmarking exercise which is attached at Appendix B, and which demonstrates that cost per square metre of Dundee House at £2,337 stands good comparison with equivalent office developments, particularly the new Council offices in Aberdeen, Edinburgh and West Lothian.

6 POLICY IMPLICATIONS

- 6.1 This report has been screened for any implications in respect of sustainability, strategic environmental assessment, anti-poverty, equality impact assessment and risk management. There are no major issues.

7 CONSULTATION

- 7.1 The Chief Executive, Depute Chief Executive (Support Services), Head of Finance, Director of Economic Development, Director of Planning & Transportation and Chief Architectural Services Officer have been consulted and are in agreement with the contents of this report.

8 BACKGROUND PAPERS

None.

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17 APRIL 2009

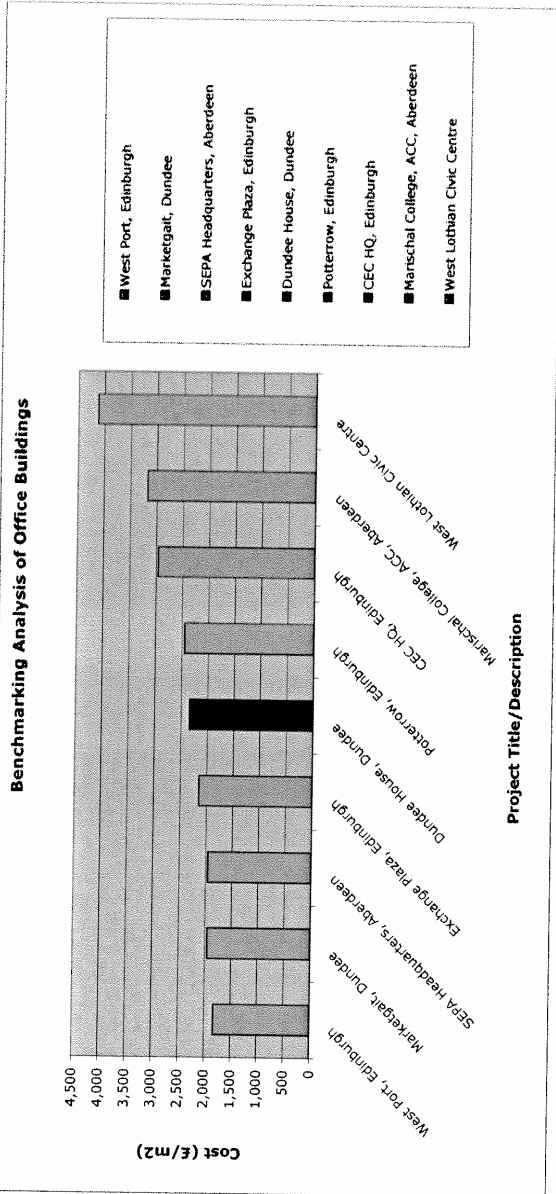
Dundee House - Project Cost Summary

Description	Summary (Including BLL submissions of 03/03/09 and 14/04/09 and Add-Backs)	Comments
	£	£
1st Stage Tender including BLL VE (adjusted for Add-Backs)	8,687,576	
2nd Stage Tender Recommendation including BLL VE (adjusted for Add-Backs)	18,456,693	
Projected Nett Construction Cost	27,144,269	
Main Contractors Uplift (3.5%)	950,049	
Projected Construction Works Total	28,094,318	
Client Project Contingency (see attached sheet)	1,034,804	
Construction Total Including Contingency £	29,129,122	
Add		
DCC Direct Costs (see attached sheet)	4,879,225	
PROJECT TOTAL £	34,008,347	



Benchmarking Analysis of Office Buildings

Project Title / Description	Cost £/m ²	Comments
West Port, Edinburgh	1,824	Cat A Fit Out only (see Note 3, below)
Marketgait, Dundee	1,956	Cat B Fit Out
SEPA Headquarters, Aberdeen	1,960	Cat B Fit Out
Exchange Plaza, Edinburgh	2,143	Cat A Fit Out only (see Note 3, below)
Dundee House, Dundee	2,337	Cat B Fit Out
Potterrow, Edinburgh	2,445	Cat B Fit Out
CEC HQ, Edinburgh	2,966	Cat B Fit Out
Marischal College, ACC, Aberdeen	3,174	Cat B Fit Out (see also Note 4, below)
West Lothian Civic Centre	4,127	Cat B Fit Out



Notes:

1. All rates for the above projects are updated to 4th Quarter 2008.
2. Dundee House based on a construction cost (including construction contingency) of £29m.
3. Upgrading from a Cat A Fit Out to Cat B could add approximately £200 to £500/m² to the costs. The extent of this addition depends on the end user's requirements for cellularisation, upgrades to finishes and services installations and the extent of fixed furniture required.
4. Comparative construction cost based on estimated 75% of total project cost of £80.4m. Project currently in tender evaluation stage.