

# North Tyneside Council

## Report to Cabinet

Date: 9 October 2017

**ITEM 6(h)**  
Title: Swans CFI Phase 2,  
demolitions and quay  
infrastructure - grant  
submissions and  
procurement

Portfolio(s): Regeneration

Cabinet Member(s): The Elected Mayor

Report from Service Area: Business and Economic Development

Responsible Officer: Paul Buie, Head of Business and Economic Development Tel: (0191) 643 6091

Wards affected: Wallsend

### PART 1

#### 1.1 Purpose:

The purpose of this report is to seek approval to submit three Business Cases for Local Growth Fund (LGF) grant. In addition approval is also sought to utilise the North Eastern Purchasing Organisation (NEPO) multiple contractor and Scape single contractor Framework Contracts to identify contractors to undertake office refurbishment (Swans Centre for Innovation (CFI) (Phase 2), demolitions and quay infrastructure works at the Swans Offshore Energy Park. The demolitions relate to the Plot 6 Basement (for which LGF grant has already been secured) and also for the Swans South office block and adjacent buildings.

#### 1.2 Recommendation(s):

It is recommended that Cabinet:

1. authorise the Head of Business and Economic Development in consultation with the Head of Finance and Head of Law and Governance to:
  - a. submit the Swans Quay Infrastructure Works Business Case for LGF grant to the North East Local Enterprise Partnership (NELEP); and
  - b. use appropriate existing procurement frameworks to identify a contractor to complete the works on the Swans Quay Infrastructure Works project;
2. authorise the Head of Business and Economic Development in consultation with the Head of Finance and Head of Law and Governance to:
  - a. submit the Swans CFI Phase 2 Business Case for LGF grant to the North East Local Enterprise Partnership (NELEP); and
  - b. use appropriate existing procurement frameworks to identify a contractor to complete the works on the Swans CFI Phase 2 project;

3. authorise the Head of Business and Economic Development in consultation with the Head of Finance and Head of Law and Governance to:
  - a. submit the Swans South Block Demolition (CFI Phase 3) Business Case for LGF grant to the North East Local Enterprise Partnership (NELEP); and
  - b. use appropriate existing procurement frameworks to identify a contractor to complete the works on the Swans South Block Demolition (CFI Phase 3) project;
4. authorise the Head of Business and Economic Development in consultation with the Head of Finance and the Head of Law and Governance to use appropriate existing frameworks to procure and appoint a main contractor to undertake the works at Swans Plot 6 Basement Demolition as detailed in the funding application.
5. agree to accept a further report in relation to recommendations 1-3, which will outline the results of the procurement processes and funding bids and which will seek approval to accept offers of funding and appoint contractors as appropriate.

### **1.3 Forward plan:**

The report is identified in the Forward Plan published on 4th September 2017.

### **1.4 Authority plan and policy framework:**

The redevelopment of the Swans site is a key regeneration and economic development priority for North Tyneside Council in the “Our North Tyneside” Plan 2016-19.

The Swans development contributes to the People, Places and Economy strands of Our North Tyneside Plan.

People - employment opportunities at Swans link to the objective for Our People to be “... ready for work and life – with the skills and abilities to achieve their full potential, economic independence and meet the needs of local businesses”.

Places - employment and business development opportunities at Swans link to the objective for Our Places to be “... great places to live, and attract others to visit or work here” and we know when we will have been successful when “Businesses want to be based in North Tyneside; they choose to stay here and more businesses are attracted to invest and/or base themselves here”

Economy - employment opportunities at Swans link to the objective for Our Economy to “...Grow by building on our strengths, including our existing world-class companies, and small and growing businesses” and to “Have the right skills and conditions to support investment, and create and sustain new, good-quality jobs and apprenticeships for working-age people”

### **1.5 Information:**

#### LGF Funding

The Authority secured funding of £8m Local Growth Fund (LGF) grant from NELEP in 2015 to infill the wet berth to provide additional development land.

In 2016 a wet berth infill feasibility study and cost plan was completed. The cost plan identified that a budget of at least £11m would be required to infill the wet berth. Given

that offshore energy and subsea businesses were advising of a need for improved quay facilities such as strengthening of quay decks, provision of laydown areas and completion of demolition at the site discussions began with NELEP about deferring infilling of the wet berth and redirecting the LGF funds towards improved quay infrastructure and enabling works.

NELEP invited the Authority to submit an Expression of Interest (EoI) to invest the remaining LGF allocation of £7.843 million in quay infrastructure and demolitions.

An EoI was submitted and discussed at three NELEP Technical Steering Group (TSG) meetings when it was suggested that the Authority may also wish to apply for funding to refurbish the upper floors of the Swans Centre for Innovation (CFI). The EoI was accepted by NELEP’s TSG on 24 November 2016 and a full Business Case requested to invest the remaining LGF allocation in the Swans site to cover four projects:

- Plot 6 Basement demolition
- Swans CFI Phase 2 (upper floors refurbishment)
- Swans CFI Phase 3 enabling (South Block demolition – to create vacant space for future development of office space)
- Quay infrastructure and laydown area works

The Business Case was submitted in January 2017 and discussions then proceeded with NELEP about securing funding in two stages with Stage 1 largely being feasibility and Stage 2 being physical works.

The Business Case was considered by the North East Combined Authority’s (NECA) North East Leadership Board on 21 March 2017 and then by NELEP Board on 23 March 2017 who conditionally approved LGF funding of £1.260m split across the following projects:

**Table 1**

<b>LGF Grant approvals by NECA Leadership Board (21-3-17) and NELEP Board (23-3-17)</b>	<b>LGF</b>	<b>NTC match</b>
Plot 6 basement demolition	500,000	0
Swans Centre for Innovation (CFI) Phase 2 Stage 1 Feasibility and Surveys	80,000	0
CFI Phase 3 Enabling, Stage 1 South Block Demolition Feasibility and Surveys	80,000	0
Quay infrastructure works Stage 1 surveys and feasibility	600,000	140,000
<b>TOTAL</b>	<b>£1,260,000</b>	<b>£140,000</b>

The NELEP Board also resolved “That a final business case be submitted for Stage 2 funding when robust cost plans are available and Council matched budgets are approved” and also that a site investment plan is provided showing how “...all essential infrastructure requirements over the next 3-4 years are to be delivered and funded, including any indicative future EZ Business Rate Growth Investment funding requests.”

After the NELEP and NECA Board meetings in March 2017, NELEP requested an updated Business Case with new State Aid advice. The State Aid advice from Counsel was that four individual Business Cases (rather than one Business Case) should be developed as they were distinct investments in State Aid terms. This advice was accepted and four Business Cases were submitted and four Grant Funding Agreements were concluded as set out in Table 1.

## Procurement

The procurement of the projects subject to this report need to comply with the Authority's own contractual standing orders, contracts, procurement law, and the requirements of the funder. It is also critical that the work is commissioned and delivered quickly, given the deadlines associated with the Enterprise Zone status and the commercial needs for the site.

A full review of the delivery options has been undertaken including the Kier North Tyneside Joint Venture, existing public sector frameworks to which the Authority has access, and the option to go to the market. The funder has made it clear, via the LGF Grant Agreements, that the current Joint Venture does not meet the criteria as they require some form of recent competitively tendered evidence to ensure value for money.

However, the funder is supportive of the use of existing SCAPE and NEPO frameworks . Kier Group have access to both Scape, through the Minor Works Framework ( construction projects upto a value of £4m) , and they are also on the NEPO Construction Framework .

The use of recently procured Frameworks would allow a faster route to market and to development on site. There are four areas of work within the overall programme and it is proposed these are handled as follows:

### Quay Infrastructure Work - Scape framework

The Scape Civil Engineering & Infrastructure Framework can be used for a wide range of civil engineering and infrastructure work including industrial, commercial, ports and harbours, marine, flood defence and coastal engineering with a value of £1 million to £40 million. This framework has a single contractor, Balfour Beatty. Informal discussions have been held with Scape and Balfour Beatty about potential use of the framework to design and construct the civil and structural engineering and quay infrastructure works at the quay. This work would include upgrading and overslabbing of the quays and adjacent laydown areas and provision of necessary infrastructure such as lighting, potable water and power supply. These discussions have identified that Balfour Beatty has the necessary expertise and experience to design and build major civil engineering projects as envisaged at Swans.

The framework was competitively tendered for the appointment of a single supplier to fix the people costs and the overheads and profits elements of every project, which typically account for 10 to 15% of the project costs.

The remaining 85 – 90% of project costs are sub-contracted work packages that are competitively tendered on an open book basis to ensure effective price benchmarking and cost targeting to achieve value for money. The supply chain includes a high proportion of local companies. A minimum three designers or sub-contractors are required to tender for each package. The Authority agrees which contractors should be invited to tender and is able to add names to the tender list if required

As such, 100% of cost on any project is market tested to achieve value for money.

Having considered how each of the procurement options would meet the requirements of NECA it has been concluded that using the Scape framework to appoint a contractor for the Quay Works design and build would be the most beneficial to the Authority.

It is therefore proposed to undertake a procurement exercise to provide cost certainty for the LGF application. The outcome of this process will be detailed in a further report to Cabinet.

Plot 6 Basement Demolition & South (CFI Phase 3) & North Block (CFI Phase 2) soft strip and asbestos removal – NEPO Civil Engineering & Infrastructure Framework below £1m:

The NEPO Civil Engineering & Infrastructure Framework below £1m can be used for a range of civil engineering and infrastructure works including demolition and asbestos removal up to a value of £1m. There are eight contractors on the framework.

While it is not envisaged that the Plot 6 asbestos removal and basement demolition works would exceed £500,000, it is proposed to include the soft strip and asbestos removal works from the north block, south block and associated buildings within the tender. This will enable mobilisation and set up savings to be generated and to help “de-risk” the south block and associated buildings’ demolition when it is tendered. As the outcome of the funding bids for the CFI Phase 2 and CFI Phase 3 works are unknown at this point, the procurement of the basement demolition works will therefore be held until such times as that process has completed and been considered by Cabinet.

In terms of value for money a mini competition would be used to select the contractor.

Swans CFI Phase 2 and Swans CFI Phase 3 Enabling (South Block Demolition) - NEPO Building Construction Framework for works under £4m.

The NEPO Building Construction Framework below £4m can be used for a range of construction and design works up to a value of £4m. There are six contractors based locally on the framework.

In terms of value for money a mini competition would be used to select the contractor. It is proposed that a design and build route is used on this occasion to ensure there is early contractor involvement in the design of the CFI Phase 2 (north block) refurbishment.

There is an appropriate mix of contractors on the framework and it is therefore recommended that the NEPO Civil Engineering & Infrastructure Framework below £4m is used to select a contractor for the refurbishment of the north office block (CFI Phase 2) and the demolition of the south block and associated buildings.

It is proposed to undertake a procurement exercise along these lines to provide cost certainty for the LGF application. The outcome of this will be detailed in a further report to Cabinet.

## **1.6 Decision options:**

The following decision options are available to Cabinet:

Option 1

Cabinet approve all of the recommendations contained within this report to:

- submit three separate full Business Cases for LGF grant and to commence a procurement exercise in relation to each successful funding application; and
- in relation to the Plot 6 demolition, to procure and approve the appointment of a contractor following the procurement process.

#### Option 2

Cabinet approve some the recommendations contained within this report to:

- submit three separate full Business Cases for LGF grant and to commence a procurement exercise in relation to each successful funding application; and
- in relation to the Plot 6 demolition, to procure and approve the appointment of a contractor following the procurement process.

#### Option 3

Cabinet may decide not to approve any of the recommendations and request officers to consider other options.

Option 1 is the recommended option.

### **1.7 Reasons for recommended option:**

Option 1 is the recommended option as:

CFI Phase 2 refurbishment will enable the Authority to build on the success of CFI Phase 1, which is now over 90% let (with only one small office available), and meet the demand from businesses with growth ambitions for larger floorplates.

The CFI Phase 3 demolition work will create sites for development and the quay strengthening and infrastructure will assist businesses currently using the quay to compete for more work and enable new businesses to be attracted to the Swans site. It allows discussions to progress on the detailed design of the Quay Works with early contractor involvement to identify value for money savings and ensures that, once the LGF Business Cases have been determined by NELEP, design and construction work can proceed in accordance with NELEP's timetable.

If Cabinet does not approve the submission of any of the Business cases there is a risk that the LGF Grant will not be secured and the necessary extension to the CFI, demolitions and quay strengthening and infrastructure work is delayed while alternative funding sources are investigated. This would result in loss of income from quay load outs and laydown, an inability to respond positively to inward investment and expansion enquiries from local, national and international businesses and negative reputational impact for the Authority. If the procurement of the works for Plot 6 Basement Demolition is not approved then it is likely that the LGF funding allocation will be clawed back.

### **1.8 Appendices:**

None.

### **1.9 Contact officers:**

Graham Sword, Senior Manager - Regeneration, tel. (0191) 643 6421

Paul Graves, Regeneration Project Manager, tel. (0191) 643 6013  
Sarah Heslop, Manager - Commercial Team, Law and Governance, tel. (0191) 643 5456  
David Anderson, Principal Accountant (Advisory), Commercial Finance tel. (0191) 643 5722

## 1.10 Background information:

The following background papers/information have been used in the compilation of this report:

- (1) Grant Funding Agreement relating to Swans Wet Berth Infilling dated 15 March 2016 (E)
- (2) Grant Funding Agreement relating to Demolition Works and Asbestos Removal project at Swans Enterprise Zone (Plot 6) 2 August 2017 (E)
- (3) Grant Funding Agreement relating to Swans Business Centre (CFI) Phase 2 (Stage 1 Feasibility Study) dated 2 August 2017 (E)
- (4) Grant Funding Agreement relating to Swans Business Centre (CFI) Phase 3, (Stage 1 – Enabling Works) dated 2 August 2017 - i.e. South Block Demolition Feasibility and Surveys (E)
- (5) Grant Funding Agreement relating to Swans Quay infrastructure works Stage 1 surveys and feasibility dated 31 March 2017 (E)
- (6) NECA North East Leadership Board minutes 21 March 2017  
[https://www.northeastca.gov.uk/sites/default/files/minutes\\_document/Leadership%20Board%2021%20March%202017%2C%20Draft%20Minutes.pdf](https://www.northeastca.gov.uk/sites/default/files/minutes_document/Leadership%20Board%2021%20March%202017%2C%20Draft%20Minutes.pdf)
- (7) NELEP Board minutes 23 March 2017 – not published in NELEP Board minutes on website as the report was strictly confidential as it contained commercial information relating to the financial or business affairs of a particular person or organisation and was not for wider circulation (E)
- (8) Scape Civil Engineering & Infrastructure Framework: On The Spot Verification Visit Procurement Check Record (Above and below OJEU) DCLG ESIF-Form-4-014 dated 28-7-16

## PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

### 2.1 Finance and other resources

There are no immediate financial implications from submitting the bids for LGF funding or from procuring prices for the works from the SCAPE and NEPO frameworks as outlined above.

If the bids are successful, then there is a requirement for match funding of £4.489m required from the Authority. Of this, £2.632m is included in the 2017-20 Investment Plan, split £1.269 in 2017/18 and £1.363m in 2018/19. There remains a further £1.857m match funding to be identified, and it is anticipated that this will be considered as part of the 2018-20 Financial Planning and Budget Setting process. The £1.857m unconfirmed

match funding relates to the Quay works identified above, and it is possible that the LGF funding will not be awarded until such times as it can be confirmed.

The split of LGF awarded to date, new funding to be applied for and match funding allocated and to be identified is as follows:

**Table 2**

<b>Funding:</b>	<b>Quay and laydown area</b>	<b>CFI Phase II</b>	<b>CFI Phase III</b>	<b>Plot 6 Basement Demolition</b>	<b>TOTAL</b>
LGF awarded to date, £m	0.600	0.080	0.080	0.500	1.260
LGF being applied for, £m	3.993	1.920	0.670	-	6.583
NTC budget relating to current approvals, £m	0.140	-	-	0.100	0.240
NTC funds in Investment Plan for new business cases 2017/18, £m	1.269	-	-	-	1.269
NTC funds in Investment Plan for new business cases 2018/19, £m	1.363	-	-	-	1.363
NTC funds to be considered in 2018-20 financial planning and budget setting process, £m	1.857	-	-	-	1.857
<b>Sub-total LGF, £m</b>	<b>4.593</b>	<b>2.000</b>	<b>0.750</b>	<b>0.500</b>	<b>7.843</b>
<b>Sub-total NTC, £m</b>	<b>4.629</b>	<b>-</b>	<b>-</b>	<b>0.100</b>	<b>4.729</b>
<b>TOTAL, £m</b>	<b>9.222</b>	<b>2.000</b>	<b>0.750</b>	<b>0.600</b>	<b>12.572</b>



The split of bid requirements and procurement paths for the different packages of works across the site is as below:

**Table 3**

<b>SWANS LGF</b>	<b>Quay and laydown area</b>	<b>CFI Phase II</b>	<b>CFI Phase III</b>	<b>Plot 6 Basement Demolition</b>	<b>Notes</b>
Bid required for LGF	YES	YES	YES	NO – awarded £0.500m previously	Bids in Nov 2017
SCAPE procurement (single entity, but works sub-contracted via competitive tender )	YES	-	-	-	Requires additional £1.857m match
NEPO Engineering & Infrastructure (multiple entity, VFM via mini-competition)	-	Asbestos removal and soft strip – all three in one package	Asbestos removal and soft strip – all three in one package	Demolition – all three in one package	Separated in invoices for State Aid transparency
NEPO Construction Works (multiple entity, VFM via mini-competition)	-	CFI Phase II Works	Demolition of South Block to leave clear site for future CFI III	-	Match included within 2017/18 Investment Plan

The Scape and NEPO Frameworks are likely to offer value for money benefits compared to a undertaking a new procurement process due to early contractor involvement in the scheme design and the use of the framework reducing the time and costs of the process.

The Scape frameworks are based on the principle that all construction costs are divided into sub-contract packages that are then competitively tendered. By following this process, the tendered costs are then verified by an independent assessor in order to demonstrate the achievement of value for money.

A further report will be brought to Cabinet, which will outline the results of the procurement processes and funding bids and which will provide further detail on the financial implications.

## **2.2 Legal**

### Procurement

Any future procurement will comply with Contract Standing Orders and the Public Contracts Regulations 2015.

### State Aid

The development of the CFI has a commercial purpose and all past and proposed public grant funding received in relation to this project is sitting appropriately within an

exemption under Article 56 of the European Union's General Block Exemption Regulations (GBER) as agreed with and set out in funding agreements with the DCLG.

Having taken Counsel's advice the Authority is now seeking an agreed amendment to the State Aid solution from DCLG in relation to the works carried out to date to both the quay edge and the development plateau on the basis that they fall within the "German Land Development Scheme" (GLDS) and therefore are not aid and do not fall within the Article 56 exemption.

This work has included dredging works in the river berth next to the quay, improvement to the quay walls, some highway infrastructure and some utility provision and it was envisaged that ultimately that the quay would be commercially operated by an organisation selected by tender.

The work undertaken to date has been limited to readying the land for development and as such falls within GLDS.

The further additional works proposed to be part funded by LGF Grant and on the quay edge and the development plateau involve development for a commercial aim and the Authority has, following Counsel's advice, proposed to DCLG that any funding received in relation to this commercially directed development would fall under an appropriate General Block Exemption Regulations Article 56 exemption.

The Authority has confirmed to DCLG that the Authority tendered the quay operations opportunity but did not receive any bids. The Authority has not decided whether to carry out a further procurement exercise at this stage and this will depend on the future occupiers of the site and the additional works to be carried out, should any future funding application be successful.

The Authority is seeking reliance upon GLDS in relation to works to date are limited to readying the land for development, with a view to reliance upon Article 56 GBER (or other appropriate State aid solution) in relation to the further LGF Grant being sought to develop the area (for strengthening of the laydown to enable commercial exploitation by the Authority or a procured third party etc).

It is anticipated that a response from DCLG will be secured in the near future.

## **2.3 Consultation/community engagement**

### **2.3.1 Internal Consultation**

The Elected Mayor, Deputy Mayor and Cabinet Member for Finance and Resources have been briefed and finance, legal and procurement have provided advice on this project and the background to this report.

### **2.3.2 External Consultation/Engagement**

The appointment of contractors using the Scape Civil Engineering & Infrastructure Framework and the NEPO Framework are not matters for external consultation.

Extensive engagement has taken place and continues with businesses, partners and the community regarding the future development of the Swans site. This includes engagement with residents at the Wallsend consultation event in February 2015, the

Wallsend Community Conversation in March 2015 and the Mayor's Listening Event in November 2015 as well as continuing engagement with businesses based at Swans.

## **2.4 Human rights**

There are no Human Rights issues arising from this report.

## **2.5 Equalities and diversity**

Equality and diversity issues were fully addressed in the procurement of the Scape Civil Engineering & Infrastructure Framework which included a scored equality and diversity question at the PQQ stage. Currently, Scape uses an adopted PAS91 document (the current PAS is out of date and is being amended). Questions relate to the confirmation that as an Employer, do they meet the general statutory obligations of the Equality Act 2010, and also whether they have been found guilty of unlawful discrimination or subject to compliance action.

Procurement of the contractors on the NEPO Framework included a question about targeting opportunities and recruitment at those in typically disadvantaged employment categories, e.g. the long-term unemployed, ex-offenders and people with disabilities.

## **2.6 Risk management**

A risk register is maintained by the Strategic Risk team and is reviewed at every Swans Project Board. A design and construction phase risk register will be compiled with the appointed contractor.

Should Cabinet not approve the recommendations as set out in paragraph 1.2, there is a high risk that the Authority will be unable to complete the proposed works as the LGF funding will be at risk. Delays will also mean that existing business occupier interest in respect of office space in the Swans CFI Phase 2 and the main site can not be maintained and the businesses decide to invest elsewhere or not invest at all.

## **2.7 Crime and disorder**

The Swans site is vulnerable to trespass both by children and young people as part of their natural curiosity but also by anyone wishing to see what opportunities for theft and burglary there are and, as a Port Facility, by those with terrorism related motives.

The site and the CFI is protected by CCTV, by security fencing (upgraded earlier this year) and by a permanent security guard presence brought in when vessels are at the quay edge. The site is secured in line with a Port Facility Security Plan agreed and monitored by the Department for Transport's Maritime Security team. The Swans Estate Manager has also developed good relationships with the local Police Area Command, the Marine Police, the Port of Tyne and security guards and Port Facility Security Officers on adjoining sites.

Any contractors appointed will be briefed about crime and security issues at the site before being issued with Permits to Work and passes to work on the site.

The need to address crime and the fear of crime will be addressed in briefs for the proposed works in particular the Quay Infrastructure and CFI Phase 2 where additional lighting will help to illuminate any dark areas and enhance CCTV night time coverage.

## 2.8 Environment and sustainability

The Swans site is a brownfield site that will be brought back in to use as result of the proposed investment.

There are significant amounts of Asbestos Containing Materials (ACMs) within the Plot 6 Basement, South Block buildings and CFI North Block and these will be removed under these proposals.

The potential to improve the energy performance of the CFI will be addressed. The CFI currently has an Energy Performance Certificate (EPC) Rating of C and the potential for improvements to the building's fabric and heating systems to improve this will be considered.

The Scape Framework includes a Key Performance Indicator (KPI) in relation to waste diverted from landfill that requires 95% of non-hazardous waste produced during the construction process to be diverted from landfill (excluding inert materials for beneficial reuse). Across the Framework Balfour Beatty is currently exceeding this target and achieving an average of 97%.

The scoring criteria at procurement stage on the NEPO Frameworks included a question requiring the contractors to explain how they would:

- Monitor and reduce CO<sub>2</sub> emissions
- Tackle waste through recycling, re-use, and the reduction of waste to landfill.
- Increase the use of sustainable / renewable materials.

### PART 3 - SIGN OFF

- Deputy Chief Executive
- Head(s) of Service
- Mayor/Cabinet Member(s)
- Chief Finance Officer
- Monitoring Officer
- Head of Corporate Strategy