

EAST RENFREWSHIRE COUNCIL

CABINET

26 March 2015

Report by Director of Environment

10 KERR STREET, BARRHEAD

PURPOSE OF REPORT

1. The purpose of this report is to advise the Cabinet of a variation to a contract in accordance with the Council's Financial Regulations paragraph 8.3.

RECOMMENDATIONS

2. It is recommended that the Cabinet note the variation to the contract with JCG Group of Glasgow of £100,000 from the approved contract sum.

BACKGROUND AND REPORT

3. East Renfrewshire Council ("the Council") entered into a contract with Hitec Construction Limited ("Hitec") for works to be carried out on flats at 10-12 Kerr Street, Barrhead ("the Property"). Hitec took possession of the Property on or about 27 September 2010. The works to be undertaken included underpinning works necessary due to subsidence.

4. Some weeks later HITEC went into administration as a result of becoming insolvent. For a period of time the Council were unable to access the properties due to legal restrictions related to the contract with the now insolvent contractor. During this period substantial flooding of the properties occurred as a result of a leak from a burst pipe. The damage inflicted upon the properties was extensive. The flats were unsafe, a number of walls had been stripped back, all sanitary ware had been removed or de-commissioned and all electrical and gas services had been disconnected

5. Attempts to recover damages from HITEC were not possible due to the insolvency situation. The Council's insurers rejected an insurance claim. The rejected claim was subsequently subjected to specialist legal opinion by the council in order to ensure that all opportunities for recovery were explored. This review of the insurance claim continued for a substantial period due to the need to seek expert legal opinion. Unfortunately the eventual outcome was not successful.

6. As a consequence it was necessary for Housing Services to finance this work in order that the necessary renovations can be undertaken.

7. Demolition was not considered to be a viable option as this block is adjoining two other properties. If the block were to be demolished, substantial costs would be incurred for both the demolition and the construction of new gable walls. Furthermore the property comprises one bedroom properties, a property size which is in high demand within East Renfrewshire Council. For this reason it was felt that renovation was the most suitable solution to the problem.

8. Following a further competitive tender process for the 10 Kerr Street refurbishment, JCJ Group of Glasgow were appointed by Housing/Property and Technical Services as the design and build contractor for a contract with a total value of £389,490. Work commenced in October 2014.

9. The block of flats is being refurbished to form seven new one bedroom flats. For the reasons described above, the block was in a state of serious disrepair at the time of tender preparation. Access at tender stage was restricted with substantial areas of flooring removed on the first and second floors and doors secured to prevent unauthorised entry. A rot survey was included as part of the "Employer's Requirements" but this again was limited to areas where access could safely be gained. The appointment of a consulting structural engineer by the contractor and the preparation of a report was part of the design and build arrangement and procurement in this manner allowed a quicker on site start to the remedial works.

10. As the work progressed, the extent of damage revealed was much greater than could reasonably have been predicted from the areas which could be accessed at the tender stage. This included:

- (i) In the common areas, where walls were cut back to treat the rot, it became apparent that the ceiling and floor structures were also rotten
- (ii) Stair landings that were thought (based on their granolithic finish) to be concrete or stone turned out to be timber construction and were also compromised
- (iii) As floors were removed it was discovered that some load-bearing partition walls were built off timber beams and were also at risk - therefore propping and building of supporting walls and foundations had to be carried out
- (iv) The drainage to the flats was investigated and found to be in poor repair
- (v) As the contractor progressed to the top floor and roof-level ceilings were stripped back to reveal the roof structure, it became apparent that there has been significant water ingress at each gable
- (vi) In other areas, incoming services costs from the service providers and asbestos removal exceeded the provisional sums

11. The cost of these unforeseen works is shown below:

Additional rot and drainage work	46,550.00
Additional roofing works	39,310.00
Incoming services – additional cost only	23,524.00
Asbestos removal and minor client variations	9,163.15
Less Project Contingency Sum	<u>-18,547.15</u>
Total	<u>100,000.00</u>

12. Due to the nature of the works being undertaken, the Director of Environment needed to approve these additional works to make the building safe (both to work in and to prevent potential damage to adjoining properties), and to minimise the risk to the public in general. The above sums are at this stage provisional and subject to final negotiation with the contractor.

13. Housing and Property and Technical Services jointly assessed the options available given the additional cost of the project. These were:-

- (i) Stop the contract and demolish the building. This option was rejected due to the investment already committed, the cost of what would be a very challenging demolition (given adjacent properties), the effect of demolition on the neighbourhood in general, the urgent need for one bedroom housing to meet housing demand, and the long term rental income to the HRA from these additional flats
- (ii) Stop the contract and await approval of Cabinet to vary the contract in accordance with Financial Regulations. This option would have resulted in a contract extension and the contractor going off site, resulting in substantial additional costs and contract penalties to the HRA
- (iii) Allow the contract to continue and retrospectively advise Cabinet of the contract variation in accordance with Financial Regulation paragraph 8.3. This was proposed by Housing staff as the most appropriate course of action and agreed with colleagues in Property and Technical Services. Accordingly, and in accordance with the Financial Regulations paragraph 8.3, approval for the variation was sought and obtained from Councillors Fletcher and Devlin.

14. Whilst the programme has suffered from a delay in the region of 12 weeks as a result of the additional works, the consensus of Housing and Property and Technical Services is that the contractor is performing well and, despite additional works, steady progress is being made.

FINANCE AND EFFICIENCY

15. The final account for the project is expected to be in the region of £490,000. The housing capital programme makes total provision for £479,000, so an additional £11,000 is needed to allow the works to be completed. This will be found through adjustments to the existing Capital Programme.

CONSULTATION

16. In view of the need to agree these works urgently as part of the ongoing works on site, approval for the contract variation was sought and received from Councillors Fletcher and Devlin.

PARTNERSHIP WORKING

17. There are no issues regarding Partnership Working.

IMPLICATIONS OF THE PROPOSALS

18. There are no implications in relation to staffing, property, legal, IT, equalities or sustainability.

CONCLUSIONS

19. The additional works instructed will allow the Kerr Street project to be completed, returning 6 flats back into use to supplement the Council's existing housing stock.

RECOMMENDATIONS

20. It is recommended that the Cabinet note the variation to the contract with JCG Group of Glasgow of £100,000 from the approved contract sum.

Director of Environment

Further information can be obtained from Phil Daws, Housing Services Manager at phil.daws@eastrenfrewshire.gov.uk or Alan Hook, Principal Officer at alan.hook@eastrenfrewshire.gov.uk

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KEY WORDS A report seeking asking Cabinet to note a contract variation in relation to the Kerr Street project. 10 Kerr Street, additional works, contract, variation