

BY SUBMITTING THIS REPORT TO THE CABINET OFFICE, I, (SARAH MCGILL) (CORPORATE DIRECTOR, PEOPLE & COMMUNITIES) AM CONFIRMING THAT THE RELEVANT CABINET MEMBER(S) ARE BRIEFED ON THIS REPORT

**CARDIFF COUNCIL
CYNGOR CAERDYDD**

CABINET MEETING: 23rd September 2021

OVER-CLADDING OF COUNCIL HIGH RISE BLOCKS

**HOUSING AND COMMUNITIES (Councillor Lynda Thorne)
AGENDA ITEM: 9**

Appendices 1 & 2 to this report is exempt from publication on the basis that it contains information of the description set out in paragraphs 14 and 21 of Part 4 of schedule 12 A of the Local Government Act 1972 and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Appendix 3 to this report is exempt from publication on the basis that it contains information of the description set out in paragraph 16 of part 4 of schedule 12A of the local government act 1972.

Reason for this Report

1. To update Cabinet on the progress in replacing the cladding of the Council's high-rise blocks.
2. To request in principle approval to continue with the arrangements to deliver re-cladding works to 3 blocks of high-rise flats.

Background

3. Following the Grenfell Tower tragedy, checks were carried out on six of the Council's high-rise blocks of flats. Testing showed that whilst the cladding was not the highly flammable ACM type that was used on Grenfell Towers, it did not meet current fire safety standards. Following discussion with the Fire Service the external cladding was removed from five of the blocks. The cladding has remained in place in Loudoun House. This block has 2 stairwells and is considered a lower risk than the other high-rise blocks, however a fire watch has remained in place to ensure the safety of the residents.

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4. In April 2020 a report was presented to Cabinet recommending the reasons for replacement of the cladding of 5 of the Council's high-rise blocks following safety issues resulting from the Grenfell tragedy. Cabinet agreed this and delegated responsibility to the Director for People and Communities, in consultation with the cabinet member for Housing and Communities the section 151 Officer and County Solicitor, to deal with all aspects of the procurement relating to re-cladding of all 5 high-rise flats, including setting the contract evaluation criteria and the award of contracts.
5. The report proposed that the work to re-clad the blocks would be carried out in two phases. In the first phase the 3 blocks at Lydstep Flats would be re-clad and the second phase would see the replacement of cladding at Nelson House and finally the removal and replacement of the cladding at Loudoun House. Channel View would not have replacement cladding as it is due to demolition as part of the regeneration of the area.
6. Early indicative budget values of the works at Lydstep flats were £8.9m, Loudoun House, £5.7m and Nelson House, £2.4m.
7. To take forward these works it was proposed to appoint a contractor using Lot 8 of the South East & Mid Wales Collaborative Construction Framework (SEWSCAP3). Following a competition between the approved contractors on the Framework the construction company I.S.G. were appointed to a two stage procurement process.
 - Stage 1 – outline scope/design
 - Stage 2 – construction works

This two stage process would allow the Council to gain a full understanding of the works that are required and the potential costs of completing the project, with an option not to proceed to stage two should that be considered appropriate. Stage 1 has now been completed for Lydstep Flats. The projects at Loudoun and Nelson House have not yet progressed.

Issues

8. Since the Grenfell fire and the subsequent enquiry, there has been uncertainty about the safety of different cladding types. Atkins, building engineering consultants, were therefore appointed by the Council to carry out an options appraisal and to determine the best type of cladding to use in terms of safety, thermal efficiency and cost effectiveness. Following a review of the options a ceramic brick-based cladding was recommended as the most appropriate option. This is the safest option available on the market being non-combustible. The ceramic brick cladding will be part of an overall system, that will incorporate appropriate insulation, to maximise energy efficiency and thermal comfort for residents. The insulation is also the safest option available.

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9. Whilst the above cladding design was considered the most appropriate, in that each individual element of the cladding solution is non-combustible, further restraints were placed within the building regulation process in December 2020 that required the whole cladding system to be fire tested as a complete unit prior to erection onto the blocks.
10. Further to the above, arrangements were made for the testing of the cladding system. Fire testing facilities are in great demand at present and the earliest testing slot that could be achieved was 13th August 2021, significantly delaying the project.
11. While the full report on the fire test may not be available for 6 months, confirmation has now been received from Building Control that the works can go ahead, following new guidance and due to the very high standard of the material being used and its non-combustibility.
12. Nevertheless the above legislative requirement has had a significant impact on scheme delivery and completion at Lydstep flats is now likely to be early 2023.
13. The early indicative budgets costs have also been reviewed and updated with actual market tested independently verified figures.
14. The original indicative cost plan was £7,408,289 for the 3 blocks at Lydstep flats. However following the stage 1 scoping and review stage, and now that the full requirements of the works are known the updated cost plan is £15,109,023. This equates to a cost movement increase of £7,700,734 or 103%.
15. Further analysis and explanations regarding the cost movement are shown in appendices 1 and 2. The greatest part of the increase in cost is due to the very significant inflationary pressures that have been experienced over the course of the project. These pressures are a result of a number of factors including Brexit. It is reported that material costs have been increasing at a rate of 5% to 10% a month for some products and a 20% increase in labour costs has also been experienced.
16. The purpose of the two stage approach is to ensure that all the details of the design and project requirements are understood and to price accordingly. During stage 1 of this process it has been necessary to change some elements of the works for example to include the upgrade of kitchen windows to improve fire rating from 30 to 60 minutes and changes to the final cladding and balcony design once all the details of the building were understood. This increased understanding of the works required also resulted in an extension of the project time from 52 weeks to 75 weeks.
17. There is currently a considerable amount of risk built into the project due to the nature of the work, how this risk is managed is still under discussion.

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18. Mott Macdonald have been employed to assist the Council with this project and their cost management team have undertaken a thorough review of the proposed costs. Market validation has been provided by the contractors and 96% of costs are supported by 3 or more market quotes. Mott Macdonald have concluded that the 2nd Stage tender offer is a true reflection of the current market cost of the approved design and the re-procuring of the contract would not be likely to offer a different result. Work is continuing to further refine costs where possible. Further information on the increase in costs is included at appendix 1.
19. Although Cabinet had agreed the delegation authority to the Corporate Director People and Communities to take this project forward, given the significant change to the overall costs it was deemed appropriate to submit the project for further consideration by Cabinet, and seek agreement to proceed with the Lydstep Flats project at the new level of cost. Proposals for the high rise blocks at Loudoun and Nelson House will be considered separately at a future date.
20. Given the significant increase in costs, other options have been considered:
 - Do nothing – since the removal of the cladding, the flats have very low level of thermal efficiency, they are significantly colder and some tenants have experienced issues with increased condensation and mould growth. Doing nothing is not an option.
 - Demolish and rebuild, this option would also be very costly (estimated at circa £29m) and would require the temporary relocation of all the tenants in the 3 blocks resulting in considerable additional pressures on housing supply at what is already an exceptionally challenging time.
 - Delay the scheme until current inflationary pressures are reduced. There is no clarity of when or if the current cost pressures would reduce. Given the extensive delays that have already taken place in replacing the cladding and the amount of time the tenants have been living in flats with insufficient insulation, an open ended delay is not considered appropriate. There would also be additional costs associated with delaying the project with no guarantee that prices would improve.

Overall it was concluded that the best option was to continue with the current proposal to re-clad the high rise blocks.

21. A budget virement will be required to allow for the increased cost of the project and any further over cladding for the remaining high rise blocks will require a separate report and a further capital allocation.
22. It should be noted that the delivery route for taking forward the Lydstep Flats project is still under discussion and will be captured in the officer decision report referred to in recommendation 4.

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Local Member consultation

23. Regular communication has taken place with residents and local Members, including meetings and letters, throughout the process so far. Consultation will continue to take place as the scheme develops and dedicated resident liaison officers will be present throughout the construction stage.

Reason for Recommendations

24. To agree the way forward for the cladding of the Council's high rise blocks at Lydstep Flats.

Financial Implications

25. The report and appendices highlights the various reasons for a circa £7.7 million increase in cost of over-cladding of the Council's Lydstep flats high rise blocks. Costs are still being refined and are subject to final contract award and risks inherent in the delivery of works on site unless to be mitigated as part of the terms and conditions of the contract. The recommendations to re clad the blocks follows a review of the options as part of an option appraisal exercise. The approach to the contract needs to clearly set out implications of any future liabilities arising post completion of the contract, with suitable skills and resource allocated to support the delivery of any project including monitoring and reporting of any variations.
26. It is proposed that the additional costs be met from a virement from other projects within the approved HRA Capital Programme which includes an overall budget assumed of £18.5m for all high rise cladding schemes, to allow the Lydstep flats project to proceed. The likelihood is that the other high rise projects may result in similar increases in costs compared to initial assumptions. These projects will need to be the subject of future reports as required and prioritisation as part of the development of the iteration of the affordability of the HRA capital Programme and business plan in March 2022. This will need to consider cost increases across the range of projects including new build currently being identified and experienced across HRA schemes.
27. The report highlights that a full report on the whole cladding system is required. If works proceed in advance of that, the risks of doing so and recognition that there may be cost implications need to be understood as part of the risk assessment of the project and as part of any Officer Decision Report in respect to timing of entering into a contract.

Legal Implications

28. With regards to the procurement options, as set out in the report, this is subject to further discussion and will be set out in the officer decision report. Further legal implications will be set out in that report.
29. Please also see Appendix 2 for exempt legal implications.

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Equality Duty.

30. In considering this matter, the Council must have regard to its public sector equality duties under the Equality Act 2010 (including specific Welsh public sector duties). This means the Council must give due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

Well Being of Future Generations (Wales) Act 2015 - Standard legal imps

31. The Well-Being of Future Generations (Wales) Act 2015 ('the Act') places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales - a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.
32. In discharging its duties under the Act, the Council has set and published well being objectives designed to maximise its contribution to achieving the national well being goals. The well being objectives are set out in Cardiff's Corporate Plan 2021-24. When exercising its functions, the Council is required to take all reasonable steps to meet its well being objectives. This means that the decision makers should consider how the proposed decision will contribute towards meeting the well being objectives and must be satisfied that all reasonable steps have been taken to meet those objectives.
33. The well being duty also requires the Council to act in accordance with a 'sustainable development principle'. This principle requires the Council to act in a way which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:
- Look to the long term
 - Focus on prevention by understanding the root causes of problems
 - Deliver an integrated approach to achieving the 7 national well-being goals
 - Work in collaboration with others to find shared sustainable solutions
 - Involve people from all sections of the community in the decisions which affect them
34. The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below:

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<http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en>

General

35. The decision maker should be satisfied that the decision is in accordance within the financial and budgetary policy and represents value for money for the council.
36. The decision maker should also have regard to, when making its decision, to the Council's wider obligations under the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards.

HR Implications

37. There are no HR implications arising from this report

Property Implications

38. Strategic Estates are aware of the significant cost pressures within the construction and supply chain industries. These have been particularly acute during 2021 and, therefore, when combined with the additional demands created by the specific requirements relating to cladding rectification post-Grenfell, it is understandable that a significant increase on early estimates has been seen. These factors are set out in detail within the report.
39. Where there are any valuations or land transactions required to deliver the proposed works, they should be done so in accordance with the Council's Asset Management process and in consultation with Strategic Estates and relevant service areas

RECOMMENDATIONS

Cabinet is recommended to

1. Note the increase in estimated costs for the over cladding of the council high rise blocks at Lydstep flats and potential increases for the future projects at Nelson House and Loudoun House.
2. Agree that the proposed works for the 3 blocks at Lydstep flats with new estimated costs at circa £15,100,000 be carried out
3. Agree that a virement is approved from existing budgets to meet the cost of the Lydstep Flats project and note that Over-cladding work at the other high rise blocks will be subject to a further report which will address affordability and funding.
4. Delegate authority to the Corporate Director, People and Communities, in consultation with the Cabinet member for Housing and Communities, the section 151 Officer and Director of Governance and Legal Services ,

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to deal with all aspects of the procurement relating to re-cladding of the 3 high rise blocks at Lydstep Flats, (including finalising the procurement route, setting the contract evaluation criteria and award of contracts.)

SENIOR RESPONSIBLE OFFICER	Sarah McGill Corporate Director
	8 September 2021

The following appendices are attached

CONFIDENTIAL - Appendix 1 Lydstep Flats Cladding Project – Summary of Cost Movement

CONFIDENTIAL -Appendix 2 Cost Movement Explanations

CONFIDENTIAL – Appendix 3 Exempt Legal Implications – Overcladding of Council Highrise Blocks

The following background papers have been taken into account

Original Cabinet report dated April 2020

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