Haltwhistle Primary School

Procurement Report

WISE Academies

08 July 2019

Notice

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This document has 15 pages including the cover.

Document history

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Client signoff

Client	WISE Academies
Project	Haltwhistle Primary School
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Contents

1. Introduction

1.1. This report has been prepared to enable WISE Academies to make an informed review of the procurement options available for the development of new Primary School facilities at Haltwhistle in Northumberland.

1.2. The report has been developed based upon Faithful+Gould's ("F+G") understanding of WISE Academies' objectives for the development, the current construction market and the Public Contracts Regulations 2015.

1.3. It should be noted that there is not always one best procurement strategy for a defined project and that more than one should be given consideration, based upon the information available as the project continues to develop.

2. Background to Procurement Options

2.1. The procurement strategy chosen for a project must satisfy several criteria and represent a balanced view of some potentially conflicting interests. It is not the case that one procurement solution is necessarily 'better' than another; rather that each has a role to play in certain circumstances based on the information available.

2.2. The procurement strategy selected may have a significant impact on the overall timescale and cost of a project, and to make any recommendation, we must have clear direction on what is important to WISE Academies and understand their attitude to the following key aspects;

- Risk;
- Time;
- Cost; and
- Quality.

Risk

2.3. Construction projects by their very nature carry risk. Cost and Programme cannot be predicted with absolute certainty with various inputs throughout the project's lifecycle contributing to its overall output. It is therefore important to understand a client's appetite for risk in relation to its project, which influence these outputs in moving their project forward.

2.4. The management of risk and its consequences cannot be forecast with certainty; however, considering the management of risk is fundamental to delivering success when defining the procurement strategy.

2.5. Risk in construction, whether it is time, cost or quality, is most sensibly allocated to the party best able to manage, control or insure that risk. The management of risk can be dealt with in the following ways:

- Risk transfer: achieved by the choice of contract and the specific wording of contract clauses;
- Risk acceptance: if none of the contributors to a project can control the risk, or it would be disproportionately costly to do so, the risk remains with the employer; and
- Risk avoidance of risk: define the risk beforehand and take measures to eliminate, mitigate or insure against it.

2.6. How the risk is apportioned will affect the procurement strategy as well as the form of contract. It will also affect the tender price and programme. As a rule of thumb, the more that 'risk' is transferred to a contractor, the greater the time and cost they will require to complete the job.

Time

2.7. The time available to procure, design and construct a project is determined by the available information, the date at which the finished development is required, constraints imposed by funding or procurement and the overall budget.

2.8. Some procurement strategies inherently take longer than others and the influences outlined will contribute to the procurement strategy selected.

Cost

2.9. The client's budget for project delivery has a bearing on the procurement strategy as does its ability to call on further contingency if required. Similarly, funding can introduce spending constraints that must be given consideration.

2.10. Some procurement routes allow for a higher, but more certain cost earlier. Others appear to provide for a lower cost initially, but are generally less certain; therefore, may cost more in the long run.

Quality

2.11. It takes time and significant resource to develop the design of a project for construction. There are several stages for considering the completion of the design (RIBA stages). As the design develops the degree of certainty about the project increases in terms of the time to construct it and the cost for doing so.

2.12. The extent to which the design has been developed before the construction work begins should be considered in advance and set out in the procurement strategy. The general rule is that the more design work carried out before the project is tendered, the greater the degree of certainty of the tender price and programme.

2.13. Who does the design and who is responsible for it must be given consideration when selecting the procurement strategy as this has an impact on the ownership of risk.

2.14. The design may require input from specialists at an early stage. Specialists may include project planners, façade engineers, piling contractors and geotechnical specialists. Advice from the contractor on 'buildability' may be required or enabling works may be needed. Each of these will affect the choice of procurement.

Change Management

2.15. The client may need to change the scope of work, due to a change in market conditions or business requirements. External factors such as site conditions may also necessitate a design change. If such changes are likely, the correct structure needs to be in place to allow this to happen.

3. Procurement Options

3.1. The recognised options for the procurement of construction projects in the UK are as follows;

- Traditional Procurement;
- Management Contracting;
- Construction Management; and
- Design and Build.

3.2. It should be noted that within each option, there are variations and modifications that can be introduced and implemented that should also be considered that provide a more specific strategy:

- risk allocation;
- the stage at which design certainty is assured;
- the stage at which cost certainty is achieved;
- the point of financial commitment by the client;
- the point at which the project is tendered;
- the experience of and required by the client;
- the input required by the client; and
- the overlapping of the stages, e.g. design and construction.

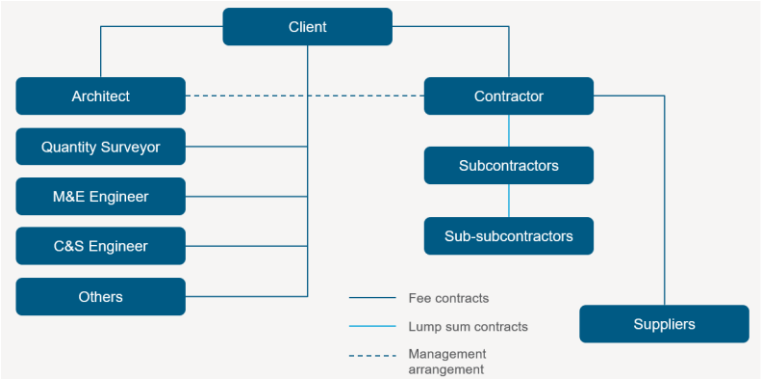
3.3. It is the balance between these aspects that will determine the most appropriate method of procurement.

3.4. The following schedules define the relative advantages, disadvantages and considerations that should be given to each option.

Traditional Procurement

3.5. Within this procurement route WISE Academies would appoint a professional team including design team to design the school buildings and would separately appoint a contractor to build the school.

3.6. The diagram below indicates this arrangement:



Traditional Procurement	Advantages	*Notes for consideration*
Under traditional procurement strategy the works are fully designed before tenders are invited. The quality and quantity of the work required is specified in the tender documents, both by drawings and bills of quantities, specification and/or schedules of work. The project is usually tendered in competition with the expectation of accepting the tender which offers best value. The successful contractor enters into a contract with the Client, in which the time and price for completion of the works are fixed at the outset. Any further design which may be found necessary is usually provided by the Client's designers.	The Client has a definitive price for the project before commencement on site, and therefore little financial uncertainty An effective method of obtaining the most competitive tender price Design-led which facilitates a high level of quality in design, albeit short on 'buildability' input The contractor has full responsibility for his sub-contractors. Changes are easy to arrange and value. A commonly used form of procurement with which all parties will be familiar	Client retains most of the design and cost risk as this is not passed onto the contractor. If unforeseen events occur, or if design information is issued late, then costly claims may arise. Extended programme due to sequential nature and lack of design and construction overlap A full design prior to tender is rarely achieved. Full design may not be achievable, and this can lead to some contractor design portion supplements (CDPS) or provisional sums: all of which compromise the certainty of output. Client and user decisions should be made prior to the award of any contract, although provisional sums can be used where the design is incomplete. Limited contractor input on 'buildability' in design stages. Little pre-planning or pre-ordering opportunity as the contractor is usually appointed only a short time before commencement on site. Often results in adversarial relationships developing.

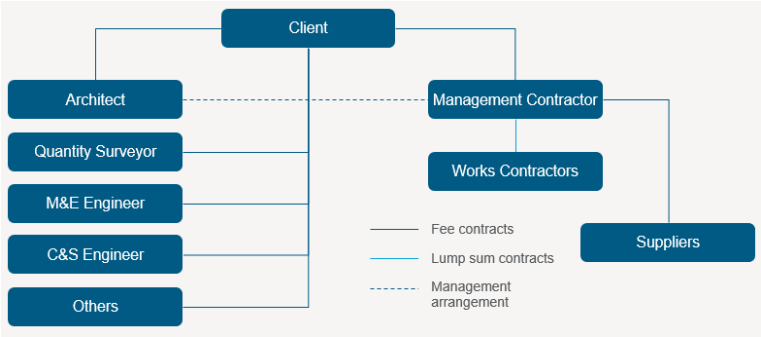
3.7. The traditional procurement route can be implemented more quickly if it is implemented as a re-measure contract.

3.8. This modification to the strategy enables the work to be tendered with approximate quantities and rates that are then re-measured to reflect the actual work carried out. This route omits measurement ahead of the works and therefore leads to a shorter programme, but it means there is no cost certainty throughout the project. In addition, it can lead to an adversarial relationship developing between the employer and the contractor.

Management Contracting

3.9. A Management Contractor is appointed based on a fixed management fee (usually a percentage based on an estimated cost of the project) and rates for staff costs and common user facilities (which can be on a prime cost basis or fixed).

3.10. The diagram below indicates this arrangement:

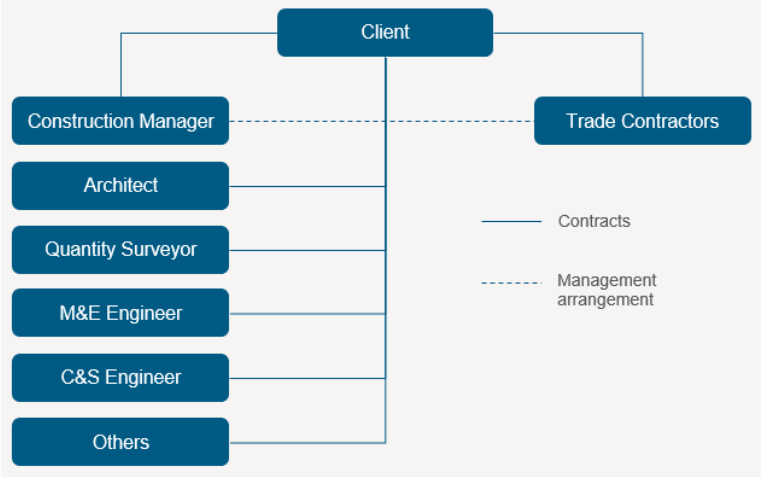


Management Contracting	Advantages	*Notes for consideration*
The Management Contractor is appointed early in the process, to advise on the design programming and provide buildability advice at an early stage to the design team. The client retains ownership of design. The Management Contractor programmes, packages and obtains tenders for the works, which are each let on a competitive basis on lump-sum, firm-price contracts with the Management Contractor. The selected Management Contractor's costs are underwritten until the final approval is given and the estimated prime cost is agreed between the contractor and the client. The prime cost of all the trade contractors is monitored against the estimated prime cost, and the client therefore retains the cost risk on the project, unless there is a default by the Management Contractor	Contractor can be appointed very early and work on site may be commenced before the design is completed Pre-planning and pre-ordering carried out in parallel with design development leading to a shorter overall programme. Programme flexibility to suit Client's changes in requirements Sub-contract packages can be let competitively Breaks down traditional adversarial barriers. Enables a more flexible approach to design and the selection of construction methods and scope of works	The risk of the cost and the programme predominantly lies with the employer. The risk of additional cost resulting from default by a works contractor can also lie with the employer. No certainty as to final price until the end of the project. The Management Contractor is effectively absolved of real responsibility for the execution of the works within time and budget. Very close cost control is required, with detailed reporting. More reliance is placed on the contractor. The package content needs to be precisely detailed by the contractor to minimise works that fall between packages. Performance requirements often mean that Management Contractors only wish to use the larger and most financially stable specialists for works packages which may result in higher prices. Work on site can be started before all design is completed, but at the Client's risk. Client ultimately at financial risk for sub-contractors claims. Little incentive on the Management Contractor to minimise costs, resist sub-contractors claims or maximise efficiency

Construction Management

3.11. The processes for Construction Management are largely like those for Management Contracting, with the exception that in the former the project is split into packages and the client enters into separate contracts with each works contractor. They appoint a management team and a Construction Manager on a fee basis, which can be obtained in competition.

3.12. The diagram below shows the contractual links under a Construction Management arrangement.



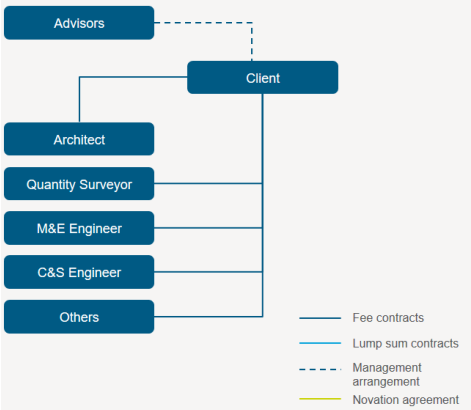
Construction Management	Advantages	*Notes for consideration*
Processes for Construction Management are largely like those for Management Contracting, with the exception that in the former the project is split into packages and the client enters into separate contracts with each works contractor. They appoint a management team and a Construction Manager on a fee basis, which can be obtained in competition. The Construction Manager would be expected to co-ordinate the design and construction programmes and ensure that the interfaces between trade packages were properly considered.	This method can allow for a quick start on site It offers flexibility as design activity can extend into the construction period. Further flexibility in that the later procurement of finishes to suit the tenant is possible. Easier incorporation of occupier's fit-out into contract, if required. Early Construction Manager input on programme, buildability and the content of works contract packages. The programme and cost plan are agreed with the design team, including information release dates before the work starts. The employer can stop the work before proceeding to construction, for a set fee to the Construction Manager. There is a direct client relationship with the works contractors. This is attractive to works contractors and can lead to improved performance.	The final cost is not known until the contract is complete. There is a limited amount of cost fixed at the time the employer enters into the contract. Very close cost control is required, with detailed reporting. Very close control of the procurement and construction programmes is needed by the client and Construction Manager to ensure that the programme is achieved without the need for accelerated working or extended working hours, which would add to the prime cost. The method requires a higher level of client involvement in rolling decision-making throughout the construction period. The method does not lend itself to conversion to a Guaranteed Maximum Price. The Client is in direct contract with many trade contractors and this can involve additional administration. The Construction Manager has no contractual responsibility for the execution of the works The Construction Manager must achieve effective co-ordination and integration of the trade contract works in order for this approach to succeed.

Design and Build

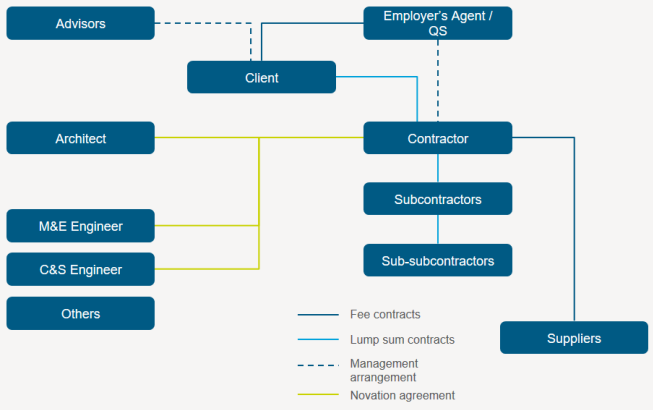
3.13. In a Design and Build arrangement, the tender documents outlining the Employer's Requirements are prepared by consultants employed by the client. These are usually in the form of a brief, which is developed into an outline scheme design or even the scheme design stage, and which could include building function, the area required, services performance criteria and basic finishes information. A single contractor is then appointed, who will deliver to the requirements as outlined, employing a design team in the process.

3.14. The contractor is responsible to deliver to time, cost and stated quality, but little flexibility for making changes, which can be both costly and have programme implications. Once the parameters are set, there is little opportunity to make material changes. The arrangement therefore requires discipline and an understanding of expectations.

Pre Novation



Post Novation



Design and Build	Advantages	*Notes for consideration*
The Design Team with the employer develop an Employer's Requirements document detailing what it requires designing and constructing making use of; - Performance criteria - Performance specification - Specific objectives and criteria - Drawings - Images - Spatial requirements - FF&E content Controls can be implemented through approval processes.	The Client has a definitive price for the project before commencement on site. Pre-planning and pre-ordering are carried out in parallel with design development leading to a shorter overall programme. Design has contractor's 'buildability' input. Sub-contracts are let by competitive tender. The contractor has full responsibility for his sub-contractors. Changes are easier to arrange and value. The form of procurement is well known.	The Employer's Requirements need to be clearly defined at the outset. Any important requirements of the design must be clearly specified. Longer tender period. A longer tender evaluation period is required, to ensure that the Contractor's Proposals meet the Employer's Requirements. There are higher tendering costs for contractors. There is an opportunity to pay contractors a fixed sum for tendering, to ensure the project receives priority treatment. Quality needs to be carefully defined and supervised. Post-contract changes may not achieve a competitive price. Can lack flexibility in terms of incorporating client changes. Ownership of planning consent needs to be determined through tender.

3.15. The Design and Build procurement route can be delivered via a single stage or two-stage tender process. The two-stage route enables the employer to take advantage of working with a preferred contractor to develop design before a contract is entered into and ahead of a contract being agreed which enables the employer to take advantage of a contractor's expertise.

3.16. The two-stage tender process can be achieved through a competitive dialogue procurement in which potential contractors are shortlisted through a first stage tender process and then develop their proposals through a competitive dialogue phase. This enables a design competition to be realised through the procurement exercise.

3.17. It should be noted, however, that to facilitate this form of contract a minimum of three contractors need to be consulted through a competitive dialogue procurement route. As the competitive dialogue route can be costly to the market, it would be prudent to consider methods for an interim review to reduce the overall cost of tendering and to increase appetite within the market.

4. Factors influencing preferred Procurement route

4.1. When considering the procurement strategy adopted on the development of the project, a number of criteria must be considered, which include, but are not limited to the following;

Route to market

4.2. The programme is challenging, but achievable, on this project. As a result, WISE Academies and their design team will need to appoint a contractor without going through a pre-qualification process. In order to ensure a suitable contractor is appointed with the appropriate background and experience, an OJEU compliant Framework would be the most appropriate method to use. For contractors to be successfully appointed onto Frameworks, they are required to go through a pre-qualification process to demonstrate their capabilities.

Programme

4.3. It is our understanding that WISE Academies aspire for the completed development to open in November 2020.

Budget

4.4. It is our understanding that the budget for project delivery will be established through the business case, culminating in a lump sum being established.

Stakeholders

4.5. Consideration has been given to those stakeholders whose input will inform the brief for the school from an operational view point and informs the scope of the current design solution and budget.

Risk

4.6. Several meetings have been held that have helped inform WISE Academies attitude to risk. Our recommendation will be made based on an organisation that is risk averse and seeks to secure a budget and operate within its limits. Additionally, we understand that WISE Academies are seeking improved certainty that its programme for opening can be achieved.

Quality

4.7. The quality of the development is important to WISE Academies and it is seeking to establish the correct balance between cost and value.

Project Development

4.8. Norr Architects have prepared initial sketch options at the time of writing, following meetings with the School and WISE Academies.

5. Recommendation

5.1. There is rarely a procurement route that will satisfy all the Client's selection criteria. The most appropriate route can however be determined from an assessment of the potential benefits and risks associated with each option against these criteria.

5.2. It is important to ensure that the selected route is clearly understood by all parties and is not innovative to the point of introducing unnecessary or unquantifiable risk.

5.3. In our opinion it is essential that a sensible balance is achieved between cost security for WA and reasonable risk being priced by the Contractor. The selected firm must demonstrate its capability of delivering a project of this size. It is important to avoid entering into a contract with a Contractor that makes a poor financial decision, which ultimately could lead to a failure in terms of quality and programme.

5.4. A balance must be maintained between the following key criteria: -

- Quality of development;
- Cost certainty;
- Programme;
- Delivery within the budget;
- Value for money;
- Balanced risk between Client and Contractor; and
- Opportunity to introduce Client changes with thought given to the future flexibility of teaching space.

5.5. In making a final recommendation we can discount constraints on stakeholder involvement at this stage; each procurement route can provide an appropriate method for engagement although how this is done would differ with each model.

5.6. Regarding programme, it is our understanding that Norr Architects have been appointed to prepare the Outline Business Case only at this stage however WISE Academies did request fees for undertaking the full project delivery during the initial competitive tendering process. Design development therefore can be taken forward directly by WISE Academies with the incumbent team or an additional competitive tendering exercise can be undertaken.

Traditional procurement

5.7. Satisfies what WISE Academies would like to achieve regarding the quality of the development and engagement with stakeholders. In addition, it provides relative certainty upon budget and increased likelihood of receiving offers from the market place.

5.8. The traditional route also keeps design responsibility with WISE Academies and will enable a detailed design to be prepared to satisfy both WISE Academies and the end users requirements. Due to uncertainties associated with refurbishment projects, design control will allow the Client to make informed decisions about how best tackle any unknown scenarios through advice and assistance from their professional team appointed to deliver and meet their objectives and goals.

5.9. Although design responsibility is passed to the Client under this scenario, it does reduce the risk of receiving unaffordable tender returns as a result of the Contractor pricing for unknown risks which is what they would do under a Design and Build scenario. Therefore, this route would greater cost certainty from the outset and enable the WISE Academies to control and influence the designs process at each stage.

Construction Management and Management Contracting

5.10. Both are susceptible to the same issues that have been identified through traditional procurement regarding the appointment of a design team and subsequent contractor. Although they allow for a relatively quick start on site (after the design work has been sufficiently developed), they introduce significant budget risks to WISE Academies as a result.

5.11. In addition, these procurement routes increase the likelihood of extending the programme due to the amount of procurement subsequently required by WISE Academies or the Management Contractor, which may impact on the target date of September 2020.

5.12. Both models prevent the council achieving cost certainty until the project nears or achieves practical completion and exposes WISE Academies to increased risk of inflation.

5.13. Both Construction Management and Management Contracting place design responsibility with WISE Academies for the duration of the project, which is at odds with the authority's position upon risk.

Design and Build

5.14. We have identified two options that could be considered, single stage and two stage tenders.

5.15. A single stage tender process would enable WISE Academies to achieve the benefits of design and build procurement and enable them to undertake a design competition to ensure that it gets a solution that meets the brief. However, the design responsibility will ultimately sit with the contractor and this may introduce some quality issues during the post contract phase. It does also however require the contractors to incorporate significant risk within their proposal and does not readily enable WISE Academies to achieve best value as the design solution is refined.

5.16. A two stage tender would enable an earlier start on site and a robust negotiated contract sum which may reduce conflict in the post contract phase however it could result in a higher price for the works due to the negotiated nature of the second stage.

5.17. Proceeding down this route would enable early engagement with the contractor which can assist with the “buildability” aspect of a project by utilising their experience of working on other projects of similar nature. However, if the design team are not retained client side then the brief may escalate or key areas of the scope may be missed.

5.18. Furthermore, the tenderers may take different views on quantifying risks and it may be difficult to assess tender returns to ensure you are comparing like for like. As a result, we do not think this method of procurement would be appropriate to meet WISE Academies objectives and the risky nature of pricing risk on refurbishment projects.

Recommendation

5.19. It is our view based on the available information that a traditional procurement route utilising a single stage tendering process offers the best opportunity for WISE Academies to achieve its objectives. This route enables WISE Academies to refine its requirements during the RIBA stages developing an overall scheme that can offer better value when considered in conjunction with contractor led design efficiencies.

5.20. It is assumed that the tender process supporting this procurement strategy would be to receive tenders at RIBA Stage 4 subject to marking against defined cost and quality criteria within the tender documents.

5.21. A programme indicating how the project could be delivered through a traditional procurement process is appended to this report. This route to market enables WISE Academies to retain the design team and control the risk as well as obtaining a competitive price from the market.

5.22. Although design risk will sit with the Client under this procurement route, close monitoring of the design development throughout the RIBA Stages coupled with site investigations/surveys should reduce the number of unknowns and therefore the risk.

Appendices

Appendix A. Programme for Project Delivery

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