

Procurement Process Comparison for School Projects

Report by John Blair, Director, Corporate Resources

1 Purpose of Report

This report provides the Performance Review and Scrutiny Committee with an update on the main differences between the procurement processes relating to Hub South East Scotland (HubCo), Public Private Partnership (PPP) and the Schools for the Future project used for Lasswade Centre. This report also updates on progress with the replacement/redevelopment works at Rosewell, Gorebridge and Bilston Primary Schools.

2 Background

2.1 At the Performance and Scrutiny Committee meeting on 5 June 2013 the Head of Property and Facilities Management was asked to prepare a report for the committee. The Committee requested that the report:-

- “ a) Provide an update to the performance and scrutiny committee on the main differences between the procurement processes for Hubco, PPP and the Schools for the Future project used at Lasswade.
- b) Update the Performance and Scrutiny Committee on progress with the replacement/redevelopment works at Rosewell, Gorebridge and Bilston Primary Schools.”

3 Report Implications

3.1 Schools for the Future – The Lasswade Procurement Process

Funding

Lasswade High School was capital funded with Scottish Government inputting two thirds of the capital investment and the Council the remaining third. Under the capital funded arrangement the Council pays for the design and construction work as the works progress. When the building works are completed the Council operates and manages the building in the traditional manner.

Ownership

A capital funded project will be in direct Council ownership from completion of the construction works.

Management of the Design/Procurement Process

During the capital funded project at Lasswade Centre, Midlothian Council engaged the design team to develop a design which met the available budget. This design process was managed by Midlothian Council who had direct control over both the design team and the decision making.

Construction Delivery

The project was delivered by the successful contractor after a comprehensive tender process, under the direct management of the Council and their consultants. In this model the Council is able to vary the contract as required, subject to the project budget.

Operational Phase

The Council remains in full control of all aspects of the operation of the building following completion.

3.2 Public Private Partnership (PPP)

Funding

PPP projects are revenue funded projects. Revenue funded projects are competitively tendered and following the recognised public procurement selection process, a shortlist of bidders will come forward with outline proposals.

The successful bidder sources all funding for the project and recovers the capital cost of the build from the Council through a unitary charge.

Ownership

With a PPP project the project will be held in the ownership of a purpose made company (Special Purpose Vehicle (SPV)) until the final unitary charge has been paid. After final payment the building reverts to Council ownership. The timescale is usually between 25 and 35 years.

Management of the Design/Procurement Process

With a PPP project the Council at an early stage issues an accommodation schedule and room data sheets to the bidders (Employer's Requirements). This information allows the bidders to develop both their design and cost information using the information provided by the Council, this is termed as the Contractor's Proposal. The contractors will then submit their bids which include both design and cost on a competitive basis. The Council will then assess these bids through scoring criteria and determine who the successful bidder is.

The successful tenderer (usually a SPV formed by a consortium of companies) is then appointed as preferred bidder. At this point the preferred bidder will begin to work up the detail of their bid to an agreed level ensuring the specification meets the Employer's Requirements and remains within the tendered value. The project then progresses to financial close.

Construction Delivery

The SPV delivers the construction phase of the project under their management. The SPV reports to the Council on progress and the Council undertake a monitoring role. If variations are required these are evaluated and costs returned by the SPV to the Council for approval. The additional cost of any variation will be paid for through an increase to the unitary charge.

Operational Phase

The SPV owns and operates the building with the Council acting as tenant/occupier only. The SPV are responsible for every aspect of the building as set out within Table 1 within Appendix 1. The Council monitor the SPV's performance in this regard and if the SPV default on any element then the Council have the right to recompense from the SPV in line with the contract.

3.3 HubCo

The HubCo process is similar to the PPP process however the changes are as follows:-

Funding

1. HubCo have competitively tendered for the right to deliver public sector projects in the South East Scotland region. The competitive tender submitted was based on a selection of projects of a similar type. The tender comparisons were based upon percentages submitted by HubCo for:-
 - a. Prelims for projects
 - b. Overheads and profits
 - c. Consortium (SPV) costs
2. The actual cost of the core work packages eg ground works, structural frame etc, will be competitively tendered to the sub-contract market and in turn the lowest price will be delivered. Once all of the packages have been returned the total value of all of these packages will form the prime cost.
3. The competitive percentages which HubCo submitted as part of the selection process (items listed in item 1 above) are then applied to the prime cost to determine the total value.

4. The final total value is agreed between the parties and is used as the capital value on which investment bids for funding the project are sought competitively from the open market.
5. Once competitive bids for funding have been received, the local authority will be involved with Scottish Futures Trust (SFT) and HubCo in the selection of the preferred funding partner.
6. Similar to PPP the funding of the project will require the Council to pay a unitary charge over an agreed period. This period is usually between 25 and 35 years. At the end of this period the project reverts to the ownership of the Council.
7. The Council are entitled to be involved in every key stage of the HubCo process as a 'partner' to the process.
8. Unlike PPP, local authorities can choose to invest in the project and share in the investment returns. The level of this investment is capped at 45% of the value, this is covered by European Systems of Accounts 1995 guidance.

Ownership

Under the HubCo model the SPV/Investment company will own the asset for the period up until the final unitary charge payment has been made. Once the final payment is made the building reverts to Council ownership.

Management of the Design/Procurement Process

HubCo utilise two main contractors in their supply chain. These contractors are classified as Tier 1 contractors. A mini competition is held by HubCo to determine which Tier 1 contractor will undertake the work. This is based on suitability, workload and ability to meet the requirements of funders/client.

The successful Tier 1 contractor is provided with New Project Request (NPR) form which sets the principal benchmark objectives of the project in terms of quality, cost and time.

Once in receipt of the NPR the Tier 1 contractor procures and manages the design team, reporting to HubCo and the Council.

The process is broken into two distinct stages. Stage 1 allows outline proposals to be developed and until the Council accept the Stage 1 report the cost of any work undertaken/is borne by HubCo. A typical example of activities delivered during Stage 1 would be outline planning information, building layouts, building elevation drawings, outline cost plan confirming that the design can be delivered within the budget set out within the NPR.

The Council have the right to accept or reject the Tier 1 contractor's proposals however the purpose of working together is to ensure that concerns are picked up and addressed early to prevent any abortive work.

Following sign off of the Stage 1 report Council becomes liable for all costs associated with Stage 1. During Stage 2, information such as building warrant, detailed design information and market testing of sub-contractor packages will take place. At the end of Stage 2 a further detailed report is submitted to the Council by HubCo. This report summarises the parameters of the project and provided these remain within the agreed budget and specification, the Council will be obliged to sign off the Stage 2 report. The Stage 2 report will also contain HubCo's final proposals for funding. This confirms the financial close of the project.

Construction Delivery

The HubCo process for this phase is the same as the PPP model. The Tier 1 contractor fulfils the role of contractor and HubCo take on the role previously undertaken by the SPV. The Council's role remains the same as it was under PPP.

Operational Phase

The operational phase is where the HubCo process offers greater control to the Council than the PPP process. Under PPP control of the building is handed over to the SPV. Under the HubCo process the building will be operated by the Council with a greater number of operational services being delivered by the Council. This provides greater control and flexibility of use to the public sector and should help to reduce the cost of the unitary charge. An example of the difference is shown in Table 2 of Appendix 1.

3.4 Update on Replacement/Redevelopment Works

3.4.1 *Roswell Primary School*

- a) The works at Rosewell Primary School started on 1 July 2013 as programmed. Due to ongoing commercial negotiations between the Council and HubCo the conclusion of the contract was delayed as a result of a last minute request by HubCo to increase the contract sum. This was despite both HubCo and their Tier 1 contractor being involved with the project for almost two years.
- b) The delay meant that the Tier 1 contractor was on site for two weeks prior to a contract being in place. During this period the Tier 1 contractor was not able to place any sub-contract orders, therefore progress with the works was limited to their own in-house staff.

- c) The main element of the contract, for the Nursery, completed on time for the return of the children on 21 August 2013. The completion of these works, however, was less than satisfactory due to the following:-
- a. As a result of the late start and need to accelerate the programme, the quality of workmanship was poor, leaving a substantial list of snagging remaining that will require to be addressed during the school term.
 - b. The Tier 1 contractor had been unable to procure the loose furniture which required Property Maintenance Services to provide temporary furniture from the former Hopefield Primary School to allow the school to operate until such time as the new loose furniture is delivered.
 - c. The new entrance canopy is incomplete as the contractor has not yet procured either the steel or glass. Alternative arrangements have been put in place for the entrance to the school until the works have been fully completed.
 - d. Tier 1 Contractors Electrical and Mechanical Works

HubCo's Tier 1 contractor (Graham Construction) have indicated that the initial delay has prevented them for procuring the timber kit element of the extension as programmed. The extension is 2 weeks behind programme. Grahams Construction acknowledge that under the contract the responsibility for meeting the dates for completion of the extension rests with them. They are currently undertaking an exercise to review the programme and return with a recovery programme outlining how they intend to complete the project on the contracted Practical Completion date of 15 November 2013.

- e. Throughout the procurement phase HubCo attempted to increase the capped capital costs. This resulted in additional resources managing the project unnecessarily and required a greater degree of financial scrutiny than was envisaged.
- f. The key programme dates are outlined below:-

Contract award	3 June 2013
Start on Site	1 July 2013
Completion of Refurbishment element	16 August 2013
Completion of New Build Element	15 November 2013

3.4.2 Gorebridge and Bilston

- a) At present HubCo have provided outline sketch proposals supported by budget costs for both Gorebridge and Bilston.
- b) Gorebridge is a challenging and complex site due to the site topography. The increased complexity brings with it additional risk which it is believed that the Council would be best placed to manage directly with a team of Council engaged consultants.

- c) Due to the issues experienced at Rosewell the Head of Property and Facilities Management is currently considering whether the Gorebridge and Bilston projects progress under the HubCo procurement route. At present based upon the experience at Rosewell this may not be the preferred procurement route to deliver best value to Midlothian Council.

3.5 Newbattle

- 3.5.1** Progress with the Newbattle project continues with protracted commercial negotiations with HubCo over the New Project Request form. These negotiations came to a conclusion on 16 August 2013 allowing the project to proceed. Key future dates for Newbattle are as follows:-

Stage 1 report Submission	6 November 2013
Stage 2 report Submission	2 May 2014
Financial Close	1 July 2013
Start on Site	1 April 2014
Completion of New Build	29 February 2016
Date of Service Commencement	29 February 2016

4 Resource

- 4.1** Project Management resource has been allocated against Newbattle, Rosewell, Gorebridge and Bilston.
- 4.2** Should Council decide not to put Gorebridge and Bilston through the HubCo process a reassessment of internal resource through the procurement process will be required.

4.3 Estimated Budget

- 4.3.1** Rosewell Primary remains after renegotiation within the project budget of £1,135,000.
- 4.3.2** Newbattle High School remains within the budget of £31,110,000.

5.0 Risk

- There is a risk that HubCo's management of Rosewell Primary could lead to further delays.
- There is a risk that HubCo's management of Newbattle could lead to further delays and potentially additional costs.
- There is a risk that procuring both Gorebridge and Bilston through HubCo could potentially lead to additional cost.

Ensuring Equalities

There are no equalities issues arising from this report, equalities impact assessment is not required.

Supporting Sustainable Development

There are no sustainability issues arising as a consequence of this report.

IT Issues

There are no IT issues arising as part of this report.

6.0 Recommendations

The Performance and Scrutiny Committee is recommended to:-

- a) Note the progress with the Roswell Primary School Project.
- b) Note the concerns regarding the procurement of the new Gorebridge and Bilston Primary Schools through HubCo.
- c) Note the concerns regarding the procurement of Newbattle High School.

29 August 2013

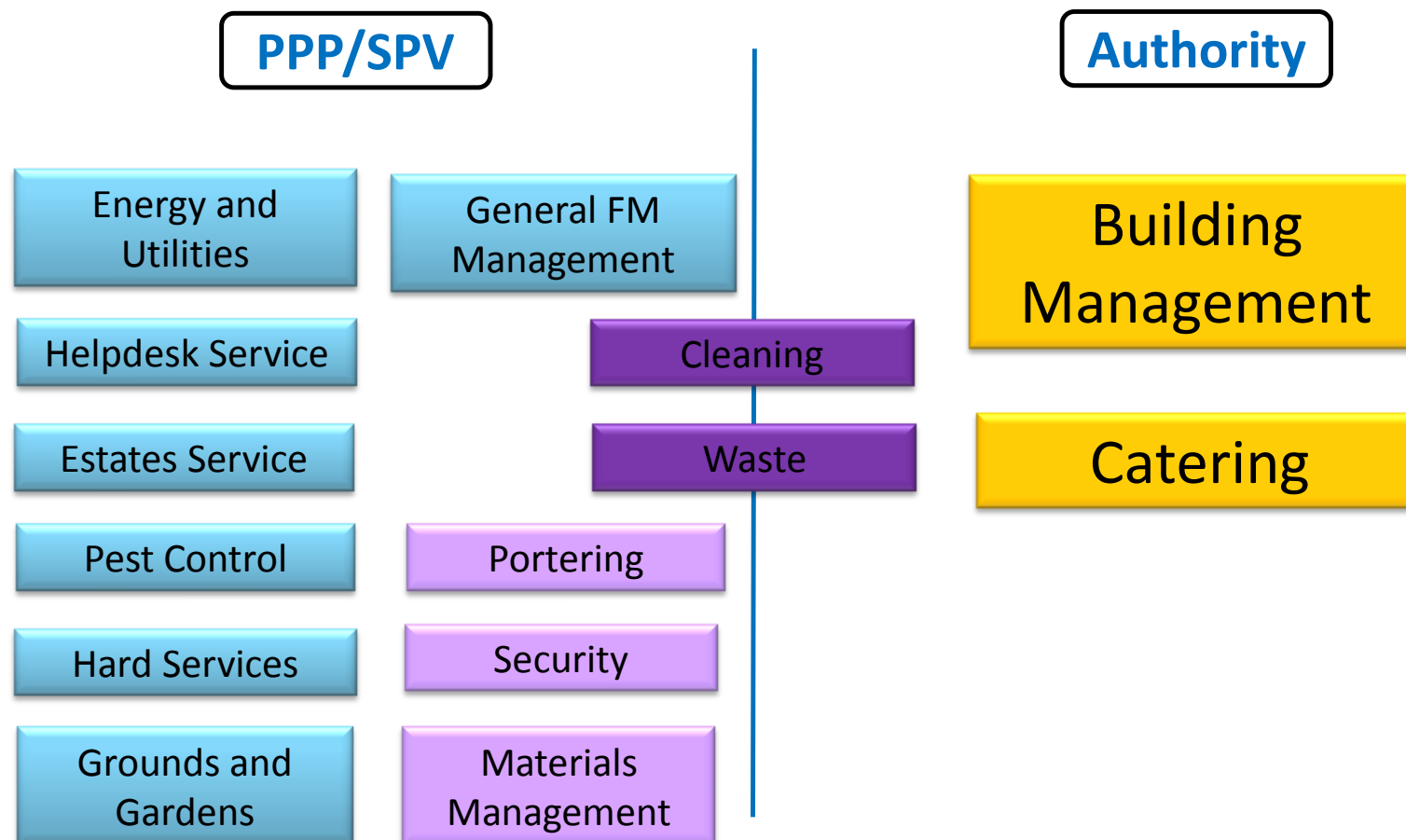
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Background Papers:

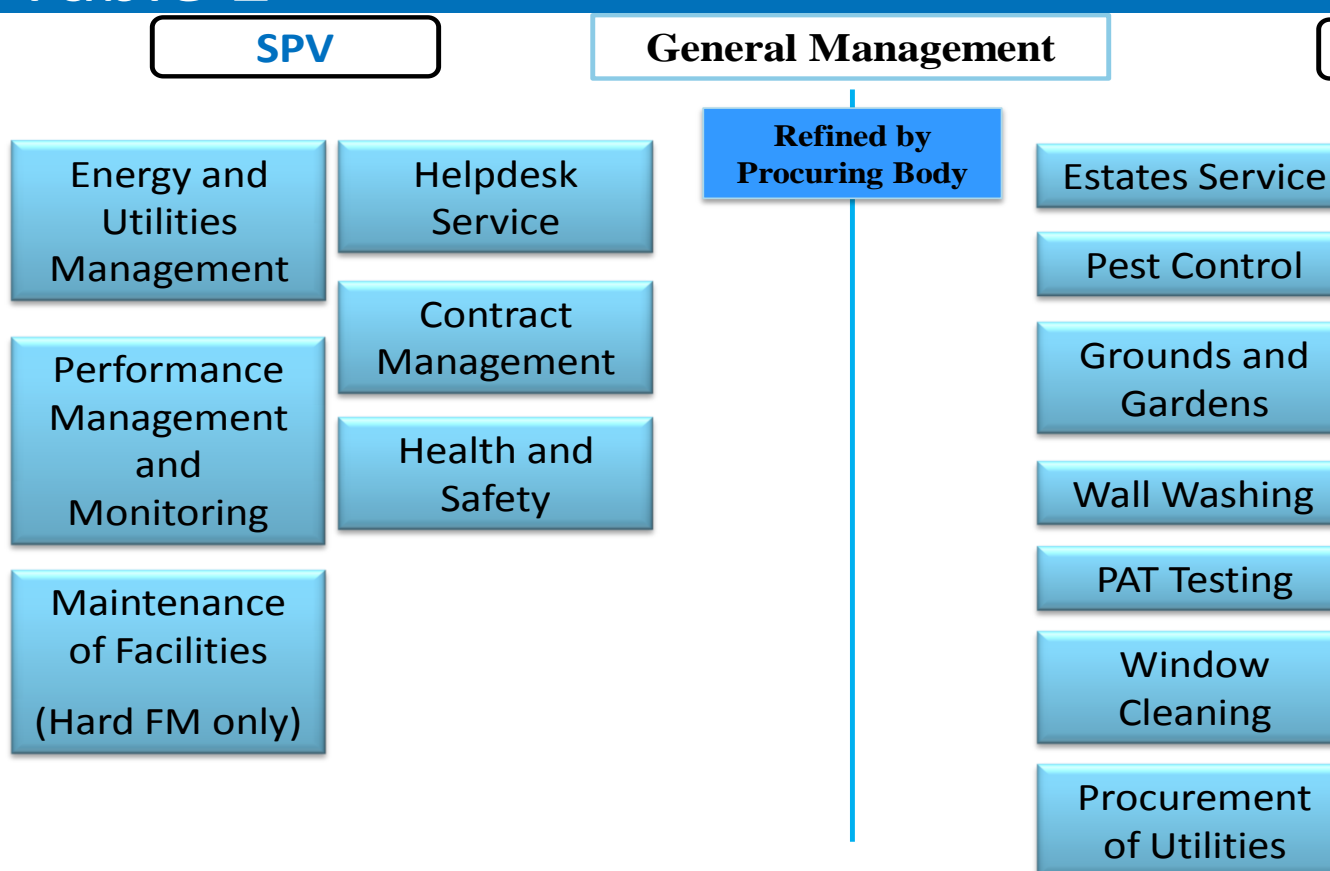
Previous Standard Form PPP Table 1

SCOTTISH
FUTURES
TRUST



NPD/hub Standard Approach

Table 2



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