

PT4 - Committee Procurement Report

This document is to be used to identify the Procurement Strategy and Purchasing Routes associated with a project and only considers the option recommended on the associated Gateway report.



Introduction

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| City Procurement Project Reference: | 20/180PS | | |
| Project / Contract Title: | York Way redevelopment - Works | | |
| Project Lead & Contract Manager: | James Illsley | Lead Department: | DCCS – Housing |
| Category Manager: | Michael Harrington | Other Contact: | Michael Gwyther Jones |
| Total Contract Value (excluding VAT and inc. extension options): | £40,000,000 | Contract Duration (inc. extension options): | To be confirmed based on the programmes returned at tender stage. |
| Budget approved Capital/Revenue: | No Capital/Revenue - Both | Capital Project reference (if applicable): | |
| Gateway Approval Process | | | |
| <ul style="list-style-type: none"> - Is this project subject to the Gateway process? Yes - If so, what was the last Gateway report, and date of approval, and what is the next Gateway report and scheduled date for recommendation for approval? TBC | | | |
| Opportunity for Inter-City Collaboration (is there another site/department that could benefit from this project)? | | | |
| N/A | | | |

Procurement Strategy Recommendation

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| City Procurement team recommended option |
| A single stage route is therefore the preferred form of procurement whereby a lump sum, single stage price is offered in competition and the contractor takes the risk of delivering the scheme within that price. It is anticipated that tender will be at RIBA Stage 3+, following the submittal of the planning application. |

Route to Market Recommendation

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| City Procurement team recommended option |
| Option 3 – External Framework. With Modern Methods of Construction being a new approach for the City, it is our understanding that the requirements for a competent contractor with Prior Knowledge of this Area is required. We have decided to utilise the services of the LCP framework. The Suppliers located on which have the capability to deliver large scale projects, are known to the City and have the relevant experience of offsite to help guide the project team and help out where possible. |

Specification and Evaluation Overview

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| Summary of the main requirements: | |
| As part of the Infill Report produced by BNP to highlight possible development sites from RIBA Stage 2 onwards. York Way has been identified as a possible redevelopment opportunity, with the construction of 4 blocks currently, one utilising MMC. | |
| Technical and Pricing evaluation ratio | |
| 60% (Technical) / 40% (Price) | |
| Overview of the key Evaluation areas (if known at this stage): | |
| Whilst cost is a major consideration, the increase in the number of affordable housing units is the most important objective, in order to reduce the current housing waitlist for the both the City of London (CoL) and the London Borough of Islington. | |
| Does contract delivery involve a higher than usual level of Health & Safety, Insurance, or Business risk to be allowed in the procurement strategy? | |
| Are there any accompanying documents with this report? e.g. PTO/outlined project plan identifying roles and responsibilities as appropriate | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| If yes, please include information in the appendices section below. | |
| Will this project require the winning supplier(s) to process personal data on our behalf? | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| If yes, please make sure you've defined roles and responsibilities within your project specification. For more information visit Designing Specifications under GDPR. You may include your Privacy Impact Assessment or other relevant report as an appendix to this PT form when submitting to category board (for information). | |
| Evaluation Panel – Please enter Names and Departments below (if known) | |

Procurement Strategy Options This could include inter-departmental usage, external collaborative opportunities, existing contracts integrated once expired or adding it to an existing contract. Options for Make (In-house delivery) versus Buy (Outsource) decision to be considered; also indicate any discarded or radical options.

Option 1: Design & Build (Single Stage)

Advantages to this Option:

- Well-documented, fixed-price contract.
- Greater cost certainty during design and construction
- Benefit from the discipline of completing the design before a contractor appointment takes place
- To use commercial pressure to secure cost reductions for projects that might otherwise be unviable
- Provides the client with an early contractual commitment on price
- Prevent the project team from proceeding to construction without a complete design
- Clients and funders value the agreed contract sum as it gives greater security to an application for loans or grants.
- The client and contractor have a clear statement of risk allocation in the contract.
- Avoidance of cost escalation during second-stage tendering
- The contractor is not given an opportunity to revisit the pricing
- The full scope of work is priced in competition with other bidders
- A complete, well-documented design provides a clear demarcation of design and construction responsibilities
- Timescales are known and there should be less opportunity for extended negotiation during the tender period than with a two-stage approach.

Disadvantages to this Option:

- It separates design and construction and, when tendered on incomplete information, provides an illusory promise of competitive pricing and cost certainty.
- The firm price is only as good as the design information on which it is based.
- Changes introduced by the client or design team will undermine the certainty achieved with a lump-sum tender.
- The contractor's offer of risk transfer may have little value if its assessment of costs, programme or working method is incorrect.
- Competitive pressure may encourage tenderers to take risks in their pricing. The tenderer's bids are based on logistics options prescribed in the tender documentation and may not represent the best value solution.
- Single-stage bids are more resource-intensive and, relative to the spend, tenderers have a lower chance of winning a job Single-stage traditional procurement offers limited scope for a team to develop a shared objective or for a contractor to contribute to design development.
- Competitive tendering and lump-sum contracts can lead to adversarial behaviour related to the effects of changes to the agreed scope of work.
- The client has a limited opportunity to influence the selection of specialist contractors.
- Sequential design and construction remove opportunities for acceleration of the overall programme.
- Clarification of contractor's proposals related to contractor-designed work may take an extended period of time.
- Receipt of tenders above budget could delay the project as redesign and repricing must be completed before the contract sum is agreed. No work can commence before the contract sum is agreed.

Option 2: Design & Build (Two Stage)

Advantages to this Option:

- Speed of programme, inevitably comes at the price of some degree of cost premium
- Achieving early appointment of the main contractor ahead of the completion of design, and potentially a quicker start on site
- Securing the involvement of a contractor for pre-contract services on a competitive basis, to obtain input on buildability, sequencing and subcontractor selection
- Retaining greater client involvement in the pre-selection and appointment of subcontractors.
- Motivating the design and construction team to drive out cost and to drive in value.
- Transferring a greater degree of design and other construction risk to the contractor.

Disadvantages to this Option:

- Two-stage tendering is characterised by the adoption of a tough negotiating stance in the later stage of the agreement of the contract sum.
- Extended procurement lead-time due to two stage submission process.
- Second stage negotiations with the highest ranked bidder could prove difficult and protracted.
- There is risk of price escalation, and negotiations becoming adversarial in the second stage.
- Once a firm is selected for negotiations, competition is lost, and this may impact price.

Route to Market Options: Route to market is the way in which the City will invite suppliers to bid for the procurement.

Option 1: Restricted OJEU

Advantages to this Option:

- Selection Questionnaire allows the Client to pre-qualify the suppliers and identify organisations most suited to deliver the project based on their experience.
- Competition is enhanced by including suppliers suited to the specific scope by demonstrating their experience and most suited to deliver the project.
- This route promotes an agenda for quality
- Increased likelihood of procuring the most appropriate contractor
- Suppliers are identified that are most suited to the sector in which the Works are centred around

Disadvantages to this Option:

- Competition is limited to only firms shortlisted or invited by the procuring entity.
- Longer procurement programme to accommodate the SQ process

Option 2: Open OJEU

Advantages to this Option:

- This procedure is compliant and shorter but can attract an unwieldy number of potential bidders.
- It allows the City to reduce programme whilst still opening the opportunity to Europe.
- No favouritism (everyone can apply for the tender)
- High competition in pricing (client will take good prize)
- New firms can enter into the market
- Increased employment opportunities (new firms come)
- New experience (new technology)
- Helps contractors to grow
- Contractors get new client encourages effective competition to obtain goods with an emphasis on the value for money

Disadvantages to this Option:

- Not usually recommended for construction projects due to the high number of tenders that could be expected
- Normally a proposed route to market for specialist/niche good, works or services.
- Selected contractor might not suit the project, without a selection process.
- A high amount of resources are required to make full multiple tenders and address cost evaluation.
- High aggregate cost for tender
- Unrealistic competition
- Complex requirements are typically not suited for this method

Option 3: External Framework

Advantages to this Option:

- The time and cost compared to running a full procurement procedure each time.
- The requirement has been advertised and capable suppliers have been identified through competitive procurement,
- Fewer tenders to evaluate for each requirement – due to a pre-qualified list of contractors (Mini-Competition).
- Flexibility: use of framework agreements is not mandated, and authorities are free to use framework agreements where they provide value for money or to go elsewhere if they choose.
- Security of supply - if one supplier on a framework runs into difficulty there would still be other suppliers who can deliver the requirement.

Disadvantages to this Option:

- No new suppliers can be admitted and can present barriers to new market entrants for the life of the agreement.
- Re-opening competition can be considered onerous if the framework agreement has been poorly structured
- As a customer of a framework agreement we are reliant upon how the Contracting Authority has established and manages the framework agreement.
- Where anticipated volume levels are uncertain this may lead to suppliers building in a risk premium for this uncertainty thus potentially reducing vfm. This risk can be mitigated by coordinating procurement spend.
- A framework can be oversubscribed and lead to lack of interest in the project published.

Price Mechanism

Option 1: Lump sum fixed price

Advantages to this Option:

- A single 'lump sum' price for all the works is agreed before the works begin.
- This is generally appropriate where the project is well defined, when tenders are sought, and significant changes to requirements are unlikely.
- The better defined the works are when the contract is agreed, the less likely it is that the contract sum will change.
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Disadvantages to this Option:

- Lump sum contracts might be less appropriate where speed is important, or where the nature of the works is not well defined.

- Lump sum contracts might be less appropriate where speed is important, or where the nature of the works is not well defined.
- However, a lump sum contract does not give all the project risk to the contractor, and it is not a fixed price, or even a guaranteed maximum price. The price of a lump sum contract can change.

Option 2: Fixed price - schedule of rates/bill of quantities

Advantages to this Option:

- Certainty of Costs - A fixed-price contract gives both the buyer and seller a predictable scenario, offering stability for both during the length of the contract.
- Budgeting and Ability to Pay - Even though a fixed-price contract may cost a buyer more money up front, the buyer can budget for the costs of the contract and ensure that it has enough funds to fulfil its end of the agreement.

Disadvantages to this Option:

- Certainty Comes at a Higher Cost - While a fixed-price contract gives a buyer more predictability about the future costs of the good or service negotiated in the contract, this predictability may come with a price.
- Market Changes - When market forces change the value of a good or service, including any materials or supplies necessary in the production of the good or service, the fixed-price contract can be a benefit or a detriment.

Option 3: Target cost

Advantages to this Option:

- It introduces a mechanism enabling the contractor, and sometimes the consultant team, to share in the benefits of cost savings, but also to bear some of the client's cost when there are cost overruns.
- Contracting the contractor and the consultant team on a target cost basis can be an effective way of ensuring good collaboration.
- The target cost is set early in the project, and then cost savings or overruns are shared based on an agreed formula.

Disadvantages to this Option:

- Agreeing the target cost requires that the client has sufficient knowledge and experience to be able to accurately estimate
- The likely cost of the works and to negotiate effectively with the contractor and sometimes the consultant team.

Form of Contract

Option 1: Col Standard amendments to JCT

Advantages to this Option:

- A familiar, tried and tested contract well known in the industry
- Time –there is an overlap of design and construction
- Cost – lump sum / Guaranteed maximum price
- Single point of responsibility – the Contractor has responsibility of both the design and build
- There is price certainty
- It is easy to implement changes within the design
- Novation – which is a quality benefit
- Low risk for the client as the Contractor is liable for the technical design and must ensure that it is in line with the Employer's Requirements.
- Variations can be accurately valued
- The Contractor carries risk for construction
- Contains provisional sums cost scrutiny via the contract sum analysis and tender
- Cost scrutiny via the contract sum analysis and tender negotiations
- Ground risk is with the contractor
- The JCT contract contains comprehensive detail in relation to insurances
- There is clear interaction between the Employer's Requirements and Contractor's Proposals and there is extensive drafting.

Disadvantages to this Option:

- Quality – The cheapest route to meet contract specification can lead to low quality products/ build quality
- Design flexibility – the request for changes will have cost and time implications
- Client exposed to claims for buildability
- Design could affect the buildability of the project
- The JCT contract does not have a programme as a contractual document

Option 2: Col Standard amendments to NEC3

Advantages to this Option:

- The programme is at the heart of the NEC ethos. It is a contractual document to be regularly updated. The NEC contract also has key concepts such as float, completion float and time risk allowances
- They stimulate good management of the relationship between the two parties to the contract and, hence, of the work involved in the contract
- They can be used in a wide variety of commercial situations

- They are clear, simple with roles and responsibilities clearly defined sharing of risk and reward

Disadvantages to this Option:

- NEC contract has an open book procedure with the key concepts of defined cost and disallowed cost.
- Contract does not contain provisional sums, therefore resulting in compensation events.
- NEC contract uses the ICE foreseeability test in relation to ground conditions.
- The insurance detail is very brief
- It states a contractor is to design the parts of the works which the Works Information states he is to design.

Please highlight benefits and possible risks associated with this option relative to the specifics of the project: In the current market contractors have a preference for a two-stage approach. The use of a JCT form of contract, which is less onerous and more familiar to the market, may improve the level of response under a single stage approach.

Outline of appendices

Not applicable

Report Sign-offs

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| Senior Category Manager Chamberlain's Department | Michael Harrington | Date | 21/04/2021 |
| Departmental Stakeholder Department | | Date | Click here to enter a date. |