


PROCUREMENT COMMITTEE		On 28 th July 2009
Report Title.		
Building Schools for the Future: BSF Project Management Provider		
Report authorised by : Director of the Children & Young People's Service		
Signature : 		
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Wards(s) affected: Various	Report for: Key Decision	
<p>1. Purpose of the report</p> <p>1.1 To update members on the (1) additional work involved in re-tendering Heartlands High School, and (2) seek approval for the additional resources required to manage the remaining future work of the BSF project.</p>		
<p>2. Introduction by Cabinet Member</p> <p>2.1 The new Heartlands school is a flagship project of importance both to ensuring sufficient secondary school places for an increasing child population and to the regeneration of the Wood Green Heartlands area. The building of a new school is costly and it was therefore very important that we achieved best value for money when appointing construction partners. To achieve this meant re-tendering the work and there are costs involved which are the subject of this report. Overall the re-tendering saved a considerable amount of money.</p> <p>2.2 In relation to the other schools in the BSF programme it is clear that the work involved has been more than originally anticipated. Although this report does not propose to change the rates being paid it does recognise the greater amount of work necessary to properly resource the programme. This does represent an increase in spend but the BSF Board has considered this in some detail and supports the recommendations.</p>		

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1 Council Priorities

3.1.1 Making Haringey one of London's Greenest Boroughs

3.1.1.1. The Council's Project Management provider will support the Building Schools for the future programme in exhibiting a number of sustainability features. The Project Managers play a key role in ensuring that the appointed Construction Partners are working in accordance with the Council's policies and the Council's Requirements for each individual project, and that the projects achieve their BREEAM and renewables targets.

3.1.2 Creating a Better Haringey: Cleaner, Greener and Safer

3.1.2.1. The Project Managers are closely involved in ensuring the Construction partners conform to sustainable greener methods of working.

3.1.3 Encouraging Lifetime Well Being, at Home, Work, Play and Learning

3.1.3.1. The Project Managers work closely with the BSF Transformation stream in contributing towards providing schemes which will transform outcomes for young people in Haringey by improving the learning environment, providing anywhere/anytime access to ICT, increasing inclusion and providing a wider range of pathways of study.

3.1.3.2. The BSF programme will improve access to extended services in and around schools and contribute to improving community cohesion. Examples include access to out of hours study support for children and families, sports and the arts. This project is proposing a new hall which could potentially be used for community use out of hours:

3.1.4 Promoting independent living while supporting adults and children when needed

3.1.4.1. The Project Managers ensure the Construction Partners implement, wherever possible, the Council's policies on local labour employment, and creating apprenticeships for local people.

3.1.5 Delivering Excellent, Customer Focussed, Cost Effective Services

3.1.5.1. Key to the success of the BSF programme is high quality finished school spaces to improve standards within schools. The Project Managers role will ensure that work carried out by the Construction Partners is consistent with the standards expected by the Council.

3.2 Council Strategies

3.2.1 Safer for All

3.2.1.1. In all our work we will pay particular attention to:

- Young people and crime
- Mental health issues

- Support for victims and witnesses of crime
- Working with and through communities (Community Engagement) Resources

3.2.2 Value for Money

3.2.2.1. Discussions have been carried out within the terms and cost rates of the original framework contract. This has been overseen by the Council's Central Procurement group and achieved very significant reductions from the proposals made by the supplier.

3.2.3 Engagement of the Community

3.2.3.1. The designs of the projects have been made available prior to the construction stage. These initiatives will continue through the construction period.

3.2.4 Risk Management

3.2.4.1. Risks are managed within the governance of the BSF programme. This includes Stream Lead meetings and reporting to the Programme Board. The projects are managed within Prince 2 methodology and Managing Successful Programmes. Procurements are managed to European Legislation and advice is taken from legal advisers to ensure compliance. A BSF Project Management Assurance Audit (undertaken by Deloitte & Touche Public Sector Internal Audit Limited) was completed in January 2009 and gave an overall programme rating of 'Substantial Assurance'.

4. Recommendations

4.1 It is recommended that the Procurement Committee:

- Note the additional cost incurred in re-tendering Heartlands
- Approve the scope and terms of the BSF Project Management services for the remaining phase of the BSF programme under the terms of CSO 13.02.

5. Reason for recommendation(s)

5.1 The BSF Programme has commenced work on site at ten of the twelve schemes, with the one (Heartlands) about to start and the other (Fortismere) due to start in the autumn term

5.2 The focus is moving from planning and procurement to scheme management, closure and handover, including ensuring underlying benefits are realised.

5.3 Recent months have been used to review the work undertaken by main suppliers to the BSF programme under earlier procurements, assess the risks for the coming phases and to seek to secure resources, within those procurements, to mitigate those risks. In particular, there have been negotiations with the BSF Project Managers on project management and construction lead services, and the BSF Quantity Surveyors on quantity surveying and cost consultancy. Both negotiations have been carried out in close consultation with the Corporate Procurement Unit and within the fee rates, terms

and conditions of the framework procurements completed at the outset of the BSF programme. This report does not propose changes to those rates and discounts.

5.4 This report deals with the BSF Project Management contract. The two main topics were the additional work involved in the re-tendering Heartlands High School and ensuring the scope of service between periods for future needs.

5.5 The contracts originally entered into were secured through a framework exercise. The contract was not for a fixed rate, as the programme was at an early stage and there was no template for how such a programme would develop in Haringey's circumstances. In the event there has been a great deal more work entailed than could have been forecast, especially in the approval and procurement processes. Project managers have been central to addressing and overcoming these challenges.

5.6 Heartlands

5.6.1 The additional work involved in re-tendering Heartlands has yielded the following benefits. Both the BSF Project Managers and Quantity Surveyors have been integral to these gains and have undertaken a great deal of additional work:

- Greater assurance of delivery on time for school opening in September 2010
- A net reduction of up to £7m compared to the original tender
- A reduction of construction cost budget of £2m

5.7 Future Risks

5.7.1 The process with the BSF Project Managers has focused on minimising risks to the Council and to the BSF Programme's success by adjusting the Project Management service delivery model to a full project management service (including contract administration, backed by agreed resourcing levels over time until the BSF projects are completed. Securing this support is essential to reducing the level of delivery risk associated with BSF projects, as failure to deliver the project management function may lead to an increase in costs as the key interface is lost. The Council has set the clear objective for the BSF Programme to be delivered on budget – failure to secure effective and full project management services runs counter to this objective:

5.7.2 A full Contract Administration service to manage the key interface between the contractor and a variety of stakeholders involved in the programme. There was some dispute in the interpretation of service specification wording between Central Procurement and the providers that meant that the Project Management Provider had planned for a reducing staffing level during key project phases. This agreement secures the necessary level of staff resource until the end of each project, which in turn ensures that the contract administration role will be delivered in full. Failure to do so would place the Council at considerable risk.

5.7.3 Continuity of service of a supplier with full knowledge of the BSF programme is essential to ensuring translation of design and development issues into the construction phase. The existing Project Management provider has delivered the BSF project management function since early in 2007, and transfer to another provider is judged to be highly detrimental to the effective delivery of the construction

phase, because the key interface relationship between key stakeholders and the construction partner would be lost. The programme team considered whether an alternative provider could overcome these difficulties at significantly less cost and concluded that it was highly unlikely. For this reason, the BSF Programme did not consider pursue alternative options for securing these services,

5.7.4 Full post-contract service and final account preparation over the twelve month defect period after practical completion. Maintaining the engagement of the Project Manager provider during the final account preparation and defect management phase is judged to reduce the level and likelihood of contractor claims, although they can never be ruled out entirely.

5.7.5 Removal of potential conflict of interest by bringing the Construction Work Stream Lead in-house. The Project Management provider provided the key Work Stream lead role and the Project Managers, possibly in certain circumstances creating a conflict of interest in managing conflictual situations. Bringing the Construction Work Stream lead in house removes the conflict of interest and strengthens the Council's client view in delivering the BSF Programme and delivers financial benefit.

5.7.6 Capping of open-ended services and associated costs (Portfolio Project Manager). The original agreement with the Project Management provider delivered the Portfolio Project Manager role (responsible for managing and resolving cross project issues) on an hourly basis. Review of the costs arising from this arrangement showed that capping the charge on a resource basis managed the Council's cost exposure and guaranteed the level of resource over time.

5.8 The Outcome

5.8.1 This proposal delivers solutions which meet the agreed objectives, representing a net 12.1% increase on the currently budgeted cost.

5.8.2 The additional costs (see Appendix 1) are partly due to the re-tendering work for Heartlands High School and partly to securing the future service scope and risk management.

5.8.3 Portfolio Project Manager costs have been converted from an hourly rate to a fixed fee, potentially avoiding a further £50k budget drift by the end of the programme.

5.8.4 Financial provision for the negotiation was made in the financial planning for BSF and in the decision to re-tender Heartlands High School. The BSF Board has endorsed the outcome of the negotiations.

6. Other options considered

6.1 Not Applicable

7. Summary

7.1 The BSF programme will benefit from the negotiations by:

- Ensuring sufficient resources are available to manage the risks which emerge
- Capping the Council's exposure to fees
- Bringing in-house the client-side function of the construction lead
- Resolving areas of dispute or potential dispute

8. Chief Financial Officer Comments

8.1 The proposals in this report represents a solution to a combination of issues that have arisen subsequent to the original Project Management contract being let; the net effect of which is to increase the contract price by around 12%.

8.2 Clearly in the case of the additional work consequent on the Heartlands High School re-tendering this could not have been foreseen at the time that the contract was let, although this would appear not to be the case in respect of the extension to include the full 'contract administration process'.

8.3 The original procurement process was undertaken on the basis of a framework agreement and the subsequent negotiations have used those framework rates as a starting point for the revised costs. It is in this way that the Council has sought to demonstrate value for money, since a competitive process would not, at this stage, be a practicable alternative. If members approve the recommendations, therefore, this must be in the knowledge that achievement of value for money has not been evidenced through a recent competitive process.

9. Head of Legal Services Comments

9.1 This report is requesting that the Procurement Committee note (a) the additional costs incurred on the BSF re-tendering of the Heartlands Project and (b) approve the scope and terms for the BSF Project Management services for the remaining phase of the BSF programme.

9.2 The BSF Project Managers were commissioned under the Provision of Construction Related Consultancy Services framework agreement. This framework agreement was tendered in the EU and selection of the Framework contractors was undertaken in compliance with the Public Services Contracts Regulations 1993. Securing this support for the remaining phase of the BSF programme is vital to reducing the level of delivery risk associated with BSF projects.

9.3 The Procurement Committee has power under CSO 13.02 to approve the recommendation, provided that to do so is consistent with the provisions of the Council's Financial Regulations.

9.4 Paragraphs 9.4 to 9.8 onwards are contained in the exempt information.

9.9 Subject to the comments contained in the exempt information, the Head of Legal Services confirms that there are no legal reasons preventing Members from accepting the recommendations contained in Paragraph 4 of this report.

10. Head of Procurement Comments

10.1 The additional fees as noted in Appendix 1 are for services in regards to retendering the Heartlands project and for planned future work..

10.2 The re-tender of Heartlands High school which was awarded in June has resulted in significant savings over the original tendered price.

10.3 The Project Manager role is now capped and will help financial control of the programme.

10.4 The Head of Procurement therefore acknowledges the need for additional fees as recommended by the Client on this project.

11. Equalities and Community Cohesion Comments

11.1 Detailed Equalities Impact Assessments (EIAs) have been carried out for each of the BSF projects. Each has been approved by the Director of CYPS prior to Procurement Committee approval of contracts.

15. Consultation

15.1 Internal consultations have been undertaken to ensure that the necessary steps to procure the BSF Project Management services have been followed.

13. Service Financial Comments

13.1 Appendix 1 presents the costs of extending the BSF Project Management contract to support additional work already undertaken and required to balance the delivery risks associated with completing the BSF programme. This table confirms the additional costs and savings associated with the proposals

13.2 Section 16.1.1 confirms that the budget provision available for this cost item is equal to the projected costs, so it is confirmed that budget provision exists for the extension of the BSF Project Managers contracts detailed in this report and set out in section 16.1.

13.3 DCSF issued a revised promissory letter on Monday 24th November 2008 confirming the BSF programme Final Business Case had successfully been signed off, and the total grant funding payable to the council. As defined in the DCSF Funding Protocol, the date of this promissory letter defines the moment of financial close for funding purposes. This was confirmed by the discussion and minute of the 21st October BSF Programme Board.

14. Use of appendices /Tables and photographs

14.1 Budget Profile (16.1)

14.2 Summary of Additional Costs (16.2)

15. Local Government (Access to Information) Act 1985

15.1 The following documents were used in the compilation of this report:

- The Council's Standing Orders
- Appendix 1 of this report contains exempt information and is **not for publication**. The exempt information is under the following category (identified in the amended Schedule 12A of the Local Government Act 1972):

Information relating to the financial or business affairs of any particular person (including the authority holding that information) (Ground 3).