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# HUB PROGRAMME DELIVERY OFFICE

## GUIDANCE NOTE 02/13

### Achieving Stage 2 Submissions which Robustly Demonstrate a Value for Money Prime Cost Price

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#### CONTENTS

1. Introduction .....	2
2. Demonstrating a Value for Money Price.....	2
3. Benchmark Projects and Elemental Comparator Pricing Data .....	3
4. Stage 2 Design and Open Book Tendering.....	4
5. A Transparent approach to Risk Management .....	5
6. Recommendations .....	5

## 1. Introduction

The key concept underpinning procurement of projects through the hub initiative is the demonstration of value for money (VfM). This is achieved and measured in a number of ways including community benefits, speed of procurement, collaboration, continuous improvement, as well as price. Without a robust demonstration of VfM, the hub initiative is open to strong challenge as a legitimate long term method of public sector construction procurement. This note is intended to highlight the key processes in the Territory Partnering Agreement (TPA) for demonstrating a VfM price for the prime cost element and offer suggestions for how they might be applied.

Each hubco has comprehensive method statements reflecting the requirements of the TPA, and this note is intended to complement those.

## 2. Demonstrating a Value for Money Prime Cost Price

It is important to recognise the difference between a price which is below the Affordability Cap, demonstrating it is simply within an overall budget envelope, and a price which represents Value For Money.

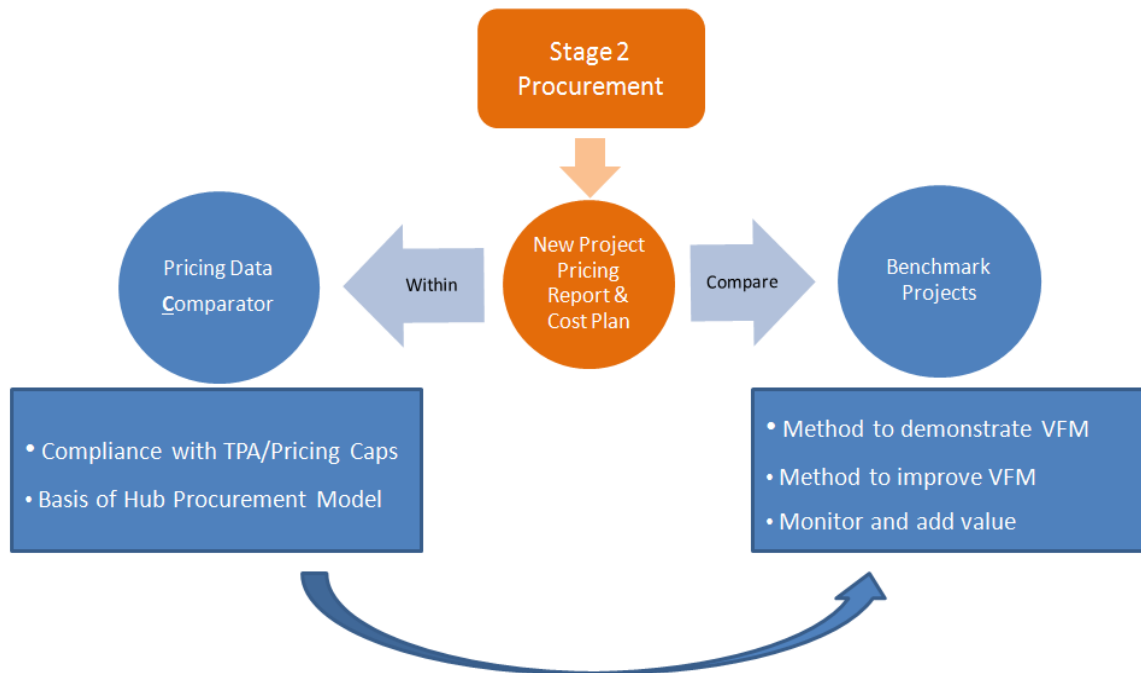
A Value For Money Prime Cost Price in a Stage 2 Submission is required to be demonstrated in four main ways:

1. By an analysis against suitable benchmark projects;
2. By an analysis against comparator prices on an elemental basis – e.g. frame, electrical, floor finishes, cladding etc.;
3. By a transparent approach to Risk Management; and
4. By securing at least 3 competitive tenders for a minimum of 80% **by value** of the prime cost. This is perhaps the most important.

Importantly, a Stage 2 Pricing Report must be based on a design completed to the equivalent of RIBA Stage E, summarily defined as the preparation of technical designs and specifications and information for statutory standards (e.g. building warrant application). This is much more detailed than the schematic drawings and performance specifications produced for RIBA Stages C and D

A New Project Request may also require other value for money criteria to be demonstrated, for example: compliance with Scotland's Schools for the Future Programme space and cost metrics. For a revenue funded project, Value for Money must also be demonstrated for other cost elements such as Facilities Management, Life Cycle Costs, SPV operational costs, and Financial Close costs.

### 3. Benchmark Projects and Elemental Comparator Pricing Data



The TPA requires that hubco and the participant (perhaps represented by its technical adviser) meet, **no later than 4 weeks** from commencement of each of Stage 1 and Stage 2, to agree which benchmarks and elemental comparators are to be used and to agree on a programme for the issue of draft Pricing Reports. It may be appropriate for different comparators to be chosen for Stage 2 in the knowledge of a particular chosen concept during Stage 1.

The TPA Schedule Part 6 (New Project Pricing Report) defines a wide variety of sources for suitable benchmark projects and elemental comparators. It is not restricted to the Pricing Data contained in the TPA Pricing Proformae. These sources include the actual costs and prices of Approved Projects within the relevant hub territory and the general market level of pricing, charges, costs and fees for all elements and components of similar projects across all of the other hub territories - and also nationally in the Community Services Sector outside of the hub initiative. SFT maintain an increasingly comprehensive database compiled from all hub territory projects. Participants and Technical Advisers are encouraged to contact the hub Programme Delivery Office for support in this regard.

#### 4. Stage 2 Design and Open Book Tendering

Robust and competitive pricing of tenders can only be achieved if the scope and requirements of the work involved is adequately defined by:

- design;
- specification;
- construction programme; and
- a logistics strategy.

**The TPA requirement is for a RIBA Stage E level of detail to be used.** This requires, amongst other criteria: spatial design coordination between structure, services and cladding; detailed room data sheets; and a detailed specification of materials and workmanship. It requires more than schematic drawings. The Building Warrant application is also required.

A careful reconciliation of the scope of preliminary items is also to be carried out to ensure there is an efficient and economical apportionment between Tier 1 Contractors and their supply chain.

Where specialist contractor design of packages is proposed, it is important that a procurement strategy is developed which still allows robust pricing at Stage 2 to be achieved. For instance a high value, contractor designed, building services package will require considerably longer to price than a fully specified and designed finishes package with a bill of quantities. It will also be necessary to secure assurances from the supply chain of their willingness to price such a tender in order to gain comfort that 3 prices will be obtained. One solution is the adoption of a 2 stage tendering approach for these packages. Based on the scope, specification, programme and the cost plan contained in the Stage 1 submission, competitive prices can be obtained for the specialist contractor preliminaries, overhead and profit together with a commitment to the construction programme and to the elemental cost plan – perhaps, if appropriate, as a guaranteed maximum price. A preferred specialist contractor can then be selected and be available to work in collaboration with the design team from the beginning of RIBA Stage E design. This will provide time to both properly coordinate an economical design and also for the specialist contractor to secure competitive tenders from material manufacturers, installation companies and equipment suppliers.

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## 5. A Transparent approach to Risk Management

**The TPA requires a transparent approach to the pricing of risk.** Most territories have maximum percentage caps for the inclusion of risk at each of Stage 1 and Stage 2. A risk is any element that cannot be fully priced. Inflation at Stage 1 falls into this category.

A fully costed risk register (not a simple add-on percentage) is required as part of the Stage 1 submission. In order to meet the percentage risk cap it will normally be essential for an intrusive ground investigation survey to have been undertaken during Stage 1.

The Stage 2 submission must then show how the risks identified at Stage 1 have been resolved within the Stage 2 Pricing Report. Again, hub territories have a maximum percentage risk that can be taken into the construction stage, to be owned and managed by the Tier 1 Contractor.

Participants and their advisers should be aware of additional risk allowances which may be sitting in package tenders or in any part of the prime cost not competitively tendered. These risks, perhaps described as provisional sums or expressed as assumptions, should be challenged if they are caused by lack of detail in the design or scope of the package. There should always be transparency in any such allowances. Whilst only 80% by value may have been tendered, it is expected 100% will have been designed by the end of Stage 2.

## 6. Recommendations

1. All parties should be familiar with the requirements of TPA Schedule Part 6 – New Project Pricing Report, and the corresponding hubco method statements for demonstrating a Value for Money price.
2. Participants and their Technical Advisers should engage meaningfully on the agreement with hubco of appropriate benchmarks and elemental comparators at the commencement of both Stage 1 and Stage 2. Support is available from SFT.
3. Participants should require hubco and their Tier 1 contractors to agree a suitable work package procurement strategy as part of their Stage 1 deliverables. This must demonstrate how Stage 2 competitive tenders will be secured based on scope, specification and design developed to a minimum RIBA Stage E level of detail.
4. Where it is proposed that a significant element of work is specialist contractor designed, consideration should be given to procuring that package on a 2-stage basis at the commencement of Stage 2. The first stage tender should ideally provide certainty on preliminaries, overheads and profit together with a commitment to programme and the Stage 1 cost plan. The second stage should be open book and transparent.
5. Hubcos and Technical Advisers should consider mechanisms for sharing data on the prime cost prices and elemental specifications of projects within the Territory.