Brighton and Sussex University Hospitals NHS Trust

Main Scheme

Procurement Report
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1 Executive Summary

Brighton and Sussex University Hospitals NHS Trust has undertaken a procurement review for the delivery of its Teaching, Trauma and Tertiary Care (3Ts) project at the Royal County Sussex Hospital site in Brighton.

The proposed 3Ts project delivers the works in 3 main project phases along with the decant element of the works. Indicative costs for each of the phases of works are as follows:

- **Decant**: £30.0m (7% of the overall project value). The decant phase provides mobilisation and facilitation of the main 3Ts build.
- **Phase 1 New Build**: £278.8m (66.5% of the overall project value). This is the most significant phase of the build programme providing essential clinical accommodation.
- **Phase 2 New Build**: £107.1m (25.5% of the overall project value). The second main phase of the new build provides a substantial element of the overall clinical strategy.
- **Phase 3 New Build**: £4.2m (1% of the overall project value). These works include delivery of the loading bay and associated external works to provide the final element of the 3Ts development.

The initial review of the procurement options available to the Trust for a publicly procured project can be summarised as follows:

- **Traditional**
- **Design and Build**
- **Construction Management**
- **Management Contracting**
- **ProCure21/ProCure21+ (partnering)**

Consideration of public procurement routes only is undertaken within this paper; the possibility of utilising a PFI procurement route is discounted elsewhere in the OBC. The analysis of the key criteria aligned to the Trust’s objectives in conjunction with public procurement guidance identified that the most appropriate method of procurement for the delivery of 3Ts would be either ProCure21, ProCure21+ or a two stage design and build route.

The added value of ProCure21 has been taken into consideration and identifies the benefit of procuring via a nationally agreed framework. Due consideration was then taken of the ProCure21 and ProCure21+ frameworks and the issues surrounding the selection of each of
these frameworks as the most suitable route for the Trust. Many factors influence this decision making process and need to be revisited at the culmination of Stage 3 and prior to engaging in Stage 4. In addition to this the Trust need to maintain an open mind with regard to procurement of future phases of work under Stage 4 and consider not only the possibility of P21+ but also the potential of a two-stage design and build option.

The salient considerations throughout this report are to ensure a best value solution for the Trust to ensure time, cost, quality and risk are duly balanced to meet the Trust’s brief requirements and project outcomes. Time consideration currently promotes the existing P21 framework as providing the fastest route to market with an OJEU approach being the least effective. The commercial considerations are multi facetted but also hold P21 as the preferred option, closely followed by P21+ and OJEU. Quality considerations are broadly similar for the primary procurement routes with a single stage D&B being discounted due to lack of effective Trust and stakeholder engagement thus not providing the requisite quality assurance in relation to the design solution. Construction Management and Management Contracting do not provide the level of commercial assurance required by the Trust. The final key component is the allocation of risk; this is very effectively identified, apportioned and mitigated under the P21 and P21+ frameworks but would require some careful consideration via an OJEU approach. Frameworks are vindicated by government procurement guidance and the latest Government Construction Strategy (May 2011) highlights the need for an integrated approach, engaging supply chains and incentivisation. As such we conclude that P21, was the correct procurement option for the undertaking of the Stage 2 and Stage 3 works. Moving forwards, we also believe this provides the best value solution for the Trust in delivery of Stage 4 construction works.

2 Introduction

Turner & Townsend, in collaboration with Brighton and Sussex University Hospitals NHS Trust (BSUH), have undertaken a procurement review of the procurement of the 3Ts project at the Royal Sussex County Hospital in Brighton. The following document sets out the key evidence to support the decision making process undertaken by BSUH in reviewing the original procurement strategy for the 3Ts development dated July 2009 submitted to the Department of Health as part of the Outline business Case (OBC) for this project.

The aim of the redevelopment is to create a regional centre for Teaching, Trauma and Tertiary Care (3Ts). The 3Ts programme plans to provide a modern, fit for purpose environment for patients from Brighton & Hove and across Sussex and the South East. It will mean many patients, who currently have to travel to other centres outside the region can be treated closer
to where they live thus providing reduction in travel times and distances for them and their relatives and carers.

Consideration within this document takes cognisance of the publicly funded procurement routes; the Outline Business Case provides substantiation demonstrating the suitability of a public funding for the delivery of 3Ts in lieu of privately funded options. The key criteria in analysing the suitability of the options embrace time, cost, quality, risk, contractual relationships and partnering in order to provide the most suitable value for money solution for BSUH. Whilst this paper is written on the premise that all works are procured via the same route, within section 10, alternative approaches for the latter phases of the project are considered and a commentary provided on re-engagement with the market between the phases in order to fully demonstrate value for money across all phases of the 3Ts project.

The Trust decided upon a ProCure21 procurement route at the onset of the 3Ts project, and Stage 2 (to OBC) and Stage 3 (to FBC) works have been procured via the ProCure21 national health framework. This has, to date, provided a successful delivery of the OBC in July 2009, and refreshed versions in 2010 and 2011, with the ongoing process due to culminate in the delivery of the GMP in late 2012.

In addition to due consideration of the available publicly funded procurement routes, a full overview of the proposed market testing processes is also provided demonstrating the thoroughness and openness of the process in order to align with the Department of Health regulations.

The purpose of this report is to review the procurement options available to the Trust and provide an objective overview of the most appropriate route taking into consideration all facets of time, cost, quality, contractual relationships, risk management, capability, partnering and market testing in order to provide the best value for money solution.

3 Procurement Options

3.1 Overview

Within this section, due consideration is taken for the primary public procurement options available to the Trust. Further consideration of the procurement options across the different phases of work are taken into consideration within section 10 of this report.
As a basis for procurement within the public sector it is important to note the mandatory requirements outlined within the OGC "Common Minimum Standards for the procurement of built environments in the public sector", dated October 2005. In keeping with these requirements it is worth highlighting the Achieving Excellence in Construction Procurement Guide Number 6 – Procurement and contract strategies dated 2007, which states:

"The new Achieving Excellence targets, agreed by Ministers in December 2002, require projects to demonstrate a significant improvement in performance against quality, cost and time targets. In order to achieve these, it is essential that all procuring bodies move towards proper integration of the design, construction and operation functions. This will require a move to fully integrated teams, early supply team involvement, incentivised payment mechanisms, continuous improvement processes and joint commitment to achieving best whole-life value. These requirements are applicable whichever of the three preferred procurement routes is selected. Framework agreements may also add value.

Traditional contract strategies, where the design and construction are provided separately, should only be used where it can be clearly demonstrated that this approach will provide better value for money than the preferred integrated procurement routes highlighted above."

The Government Construction Strategy issued in May 2011 further iterates the need for ‘designers and constructors to work together to develop an integrated solution that best meets the required outcome’ and for ‘contractors to engage key members of their supply chain in the design process where their contribution creates value’. The paper also further validates the approach for frameworks whilst assessing the effectiveness of exiting arrangements. Other key elements of the strategy outline the need for incentivising cost and programme efficiency via pain and gain share, encouraging off site fabrication and genuine integration of tier 1 supply chain partners. These are most effectively delivered via a well structured framework environment and this needs to be borne in mind when evaluating the procurement routes available.

In considering the most appropriate procurement route, the following guidance needs to be borne in mind:

• Design and Build and ProCure21 procurement routes are both in keeping with the mandatory requirements of the Common Minimum Standards section 2.1, "to appoint an integrated supply team".
• The public sector should consider existing frameworks agreements as part of the development of their procurement strategy, Achieving Excellence in Construction Procurement Guide Number 6, Page 13.
• The Achieving Excellence Guide and Common Minimum Standards documents do not recommend a traditional procurement route as the preferred option.

Within the publicly procured project arena there are 5 generic procurement options, these are classified as:

• Traditional
• Design and Build
• Construction Management
• Management Contracting
• Partnering, ProCure21 - within the health sector there is a national framework via which the Trust have the option to procure works, this framework was referred to as ProCure21 until 12 September 2010; on 13 October 2011, the new ProCure21+ framework came into operation following on from the successful natural completion of the ProCure21 framework.

3.2 Traditional

Key Features:
• Contractor builds to a defined scope
• Contractor works to a fixed price lump sum (regardless of cost)
• Trust remains responsible for the design
• Trust appoints a design team (including cost advice) for financial and contractual advice
• A building contractor is appointed – usually after a tender process and usually using a standard form
• Can be single stage (complete design) or two stage (partial design)

Cost Certainty

Lump sum contracting provides a high degree of cost certainty providing that full design is achieved prior to tendering. Without the latter the Trust is exposed to potential claims.
Quality

Because design is retained by the Trust’s appointed designers quality is virtually guaranteed. Notwithstanding this the route does limit the opportunity for designers to communicate directly with specialist suppliers and to effectively involve them at an early point in the project design process.

Programme

In order to obtain full design prior to tendering, lump sum contracting requires a significant lead in as no overlap occurs between design and construction.

Flexibility

Whilst change can be incorporated under this route the tendency is for contractors to attempt to maximise rather than mitigate its effect. The main contractor’s ability to do this is heightened by the fact that the Trust and his advisors have no direct access to his subcontractors. Hence, flexibility is only gained at a cost for time or budget.

3.3 Design and build

Key Features:

- Trust appoints a building contractor (usually on a standard form)
- Building contractor provides a completed building to agreed cost and programme
- Building contractor is responsible for design and construction (as defined in the ‘Client’s Requirements’ CRs)
- Appointment of building contractor may be made after a tendering process (incorporating variations on the methodology) or through negotiation
- The Trust may appoint a consultant to oversee project on their behalf
- Transfer of maximum risk to the contractor
- Highly commercial response from the contractor
- Can be single stage (based on outline design and CRs), two stage (on partial design), two stage with guaranteed maximum price (GMP)
- Design and Build can also be a procurement feature at the heart of Prime Contracting, PPP/PFI and framework agreements. PPP/PFI has not been considered within this paper as the comparison between PFI and public funding is covered elsewhere within the OBC.
Cost Certainty

As with lump sum contracting Design and Build provides single point responsibility and a high degree of cost certainty providing the Employers Requirements are fully defined. Undefined Employers requirements will open the risk of subsequent claims. Moreover, if through a Design and Build route large elements of risk are transferred uncompetitive tenderers can be gained.

Quality

Because the design responsibility is transferred to the Contractor’s team the Trust loses direct control and hence quality can be compromised. Whilst effective documentation mitigates this the contractor's onus will be on the commercial issues rather than the design quality.

Programme

Whilst the Design and Build contractor can overlap his design and construction, thus reducing delivery time, the programme must reflect sufficient time for defining the Employer’s Requirements.

Flexibility

A design and build procurement route is extremely inflexible in terms of change. The Contractor, through his control of both design and subcontractors has a strong negotiating position and will look to maximise this effect and his financial gain.

3.4 Construction Management

Key features:

• Specialist works contractors are contracted directly to the Trust

• Construction Manager forms part of the project team, acting as an agent rather than a principal

• Construction Manager concentrates on the organisation and management of the construction operations

• Project team (including Construction Manager) is responsible for all financial administration associated with the works

• The Construction Manager is paid a fee to cover costs of its staff and overheads (effectively a management fee)
Cost Certainty

A construction management contract overlaps design and construction with the work being packaged and tenders achieved progressively as packages are completed. As such, the Trust does not have the benefit of a lump sum price prior to commitment. The risks associated with this can be mitigated through good cost management and pre market testing. Moreover, a significant proportion of the overall value of the works can be tendered prior to the first real financial commitment being given.

The fact that the Trust is in contract with each individual trade contractor exposes him to greater contractual risk and indeed a greater administrative burden. However, it also enables him and his advisors to take corrective action and be more proactive in avoiding problems in the first instance.

Quality

As with the lump sum and Management Contracting route quality is maintained as the Trust retains control of the design team, in addition the Trust has the added advantage of a professional construction manager who is independent by virtue of having no financial interest beyond his management role. The Trust’s advisors and designers have direct access to trade contractors.

Programme

The construction management route provides major advantages in terms of programme as design and construction are overlapped. Through the ability to re-plan and to incentivise trade contractor’s performance completion date certainty is enhanced.

Flexibility

Construction Management by its nature provides inherent flexibility in terms of managing and incorporating change. Because of the independence of the Construction Manager the true consequences of change can be ascertained and the re-planning of the works can more readily take place. Direct access to trade contractors facilitates this process.

3.5 Management Contracting

Key features:

• Trust appoints design team with responsibilities as per traditional route
• This route is augmented by a Management Contractor
• Management Contractor’s advice is available throughout design development and procurement
• Specialist works sub-contractors are contracted to the Management Contractor on terms approved by the contract administrator

• Appointment of Management Contractor and work sub-contractors are usually on standard forms

• Management Contractor is reimbursed all their costs plus a percentage on project costs by way of guarantee profit or fee (often referred to as a management fee)

Cost Certainty

Management Contracting involves the appointment of a management contractor to manage the construction of the project rather than build it. The contractor is appointed early in the programme, in competition, usually on the basis of their fee, pre-construction services, construction services, GMP for site services and staff and qualitative criteria on ability and performance. No contract sum for delivery of the project is agreed and as such the Trust will rely upon the Cost Advisors budget estimate for the works, which will be endorsed by the Management Contractor. As firm costs are established and agreed through the works, costs will be progressively updated. This does, however, lead to a possible duplication of resources between the trade contractors and Management Contractor and as such higher tender returns may be evident. Additionally, the Trust will accept a higher degree of risk because they take financial responsibility for the default of subcontractors.

Quality

As with the lump sum and Construction Management route quality is maintained as the Trust retains control of the design team, in addition the Trust has the added advantage of a professional Management Contractor who can advise on buildability issues and control the package procurement process.

Programme

The construction management route provides major advantages in terms of programme as design, tendering and construction are overlapped. Through the ability to re-plan and to incentivise trade contractor’s performance completion date certainty is enhanced.

Flexibility

Management Contracting, as with Construction Management by its nature provides inherent flexibility in terms of managing and incorporating change. Due to the progressive tendering process and the sequencing of design and construction the true consequences of change can be ascertained and incorporated into the works with the likelihood of claims being reduced. Generally leads to a less adversarial relationship between Managing Contractor and the Trust.
3.6 ProCure21

Detailed consideration of ProCure21 is included within section 4 of this report, the salient comparative points are outlined below.

Cost Certainty

Under the ProCure21 selection process PSCP’s (Principal Supply Chain Partners) were required to provide responses to economic and quality selection criteria. The PSCP’s are engaged by NHS Trusts to provide cost certainty as early as possible, very akin to the two stage procurement process.

The Trust and the selected PSCP will agree an early Target Cost. Once the design has been developed this will then be converted into a GMP, where the Trust will know exactly the capital cost associated with the project, subject to Trust changes.

ProCure21 adopts a completely open book method of monitoring and auditing the project costs, from appointment of the PSCP through to project completion and defects period. The contract also operates a pain/gain share mechanism both as an incentive to performance and to protect the Trust’s financial position. The current approach for gain share is to share 50/50 all cost differentials between actual demonstrated costs and the target cost up to a limit of the 95% threshold. As such any further differential below the 95% actual cost level are provided in full to the Trust.

Quality

A number of initiatives have been introduced recently by NHS Estates, including "Achieving Excellence in Design", "Better Health Building" and the establishment of the Centre for Healthcare Architecture and Design. All of these initiatives form a fundamental building block of what Procure 21 is about. Through the application of these initiatives, together with Key Performance Indicator’s (KPI’s) against which all PSCP’s must achieve during the currency of the Framework, quality standards will be raised and maintained to the benefit of the NHS, it’s staff, patients and visitors.

Programme

As with the two stage and construction management forms of procurement, Procure 21 facilitates the overlapping of the design and construction phases. That the preferred PSCP is appointed as early as possible, means that the development of the overall project programme is carried out jointly between the Trust, the PSCP and the supply chain, thereby creating a shared understanding and buy-in from all principal partners to the project.

Flexibility

Procure 21 is inherently flexible due to it’s partnering ethos, shared goals and objectives and open book approach to the commercial management of the project. The form of contract
adopted by Procure 21 (the ECC Form) provides the flexibility for change but within a controlled reporting process, which adopts an “early warning” approach to potential risks and problems, where the whole project team work together to instigate or minimise the impact of potential change.

3.7 Selection of Most Appropriate Route

In analysing the suitability of the procurement routes available the Trust have considered a number of additional overarching and Trust based criteria in order to provide the best value procurement solution. These are:

- Project objectives.
- Early engagement of the market place.
- Contractor ability.
- Constraints such as funding and timeframe for delivery.
- Risk Management.
- Trust capability of delivering a project of this type.
- Resources and expertise required by the Trust.
- What level of influence does the Trust require over the design?
- Who is best able to carry out the design?
- What influence does the Trust wish to have over planning, risk, design, construction and project interfaces?
- What framework agreements are already in place?

The Trust, naturally, wish to maintain influence on the design process as the project progresses and have an integrated approach to stakeholder and end user engagement to provide a facility which meets it clinical requirements. A project of this size, nature and complexity also requires a delivery vehicle of high ability and experience of working on major projects in the health sector with an understanding of how Trusts operate internally. Whilst the Trust have expertise in the delivery of large health projects, they do not have the critical mass and systems to facilitate a transition through the various stages and gateways of the project. As such they require and open and collaborative partner to assist in the management and organisation of the project from its inception through its entire lifecycle to completion.

The quality agenda is essential in health sector buildings to meet HTMs HBNs and provide a high quality clinical environment aligned to the needs of the Trust and all its stakeholders. In tandem with this, they also need to work on a flexible approach to design as needs and requirements of the stakeholders are weaved into the final design solution. As such the Trust needed to have a close involvement with the design in order that the needs of planning, clinicians, end-users and all other stakeholders are taken on board. Other important considerations in design input are sustainability input and innovative solutions.
Effective Risk Management is a key success factor in the delivery of this project. Risk needs to be identified, appropriately allocated to those most suitable to take the risk, mitigated and quantified. This contributes to the risk exposure undertaken by the Trust and also, if managed correctly enhances cost certainty.

Control of the cost position on a large multi-phased project provides a key challenge for the Trust. Once the contract has been let and the construction works are underway, the Trust need to have assurance of their exposure to cost risk so the procurement route needs to provide a pre-contract process, which enables all parties to explicitly state and agree a basis for the price of the works detailing derogations, exclusions and assumptions clearly alongside the base design information. Control of costs during delivery can then be proactively managed to protect the Trust’s position. Incentivisation should also be integrated into the process to enhance the value for money position.

The most effective programme solution needs to be found in relation to and agreed design solution integrating the Trust and other stakeholders requirements, whilst obtaining a cost and risk position suitable to provide a reduced commercial exposure to the Trust. The Trust also wanted to bring in expertise and buildability guidance and as such achieved this through early engagement with the market.

When taking on board the benefits of the various procurement options in tandem with the Trust capabilities and project requirements the findings it can been seen, the most appropriate routes provide a focus on either 2 stage design and build or ProCure21. Further consideration is now taken on the added value of ProCure21.

### 3.8 Selection of most appropriate contract

Given the preferred procurement route to be a two stage design and build approach, the most appropriate forms of contract for consideration are NEC and JCT. Evaluating the forms of contract is an important consideration for the Trust in providing a successful project outcome. Highlighted below are the key pros and cons of choosing an NEC or JCT form of contract.

The New Engineering Contract (NEC) was a revolutionary contract in the early 1990s, but has matured into being the contract of choice for many organisations worldwide. NEC3 is the third-generation launch of an integrated set of contracts, guidance notes and flow charts and comes with a unique endorsement from the UK Office of Government Commerce for use throughout the UK’s public sector construction market.

**Characteristics:**
The characteristics of NEC are:

- Stimulus to good management. Its use stimulates good management of the relationship between the two parties to the contract and, hence, of the work included in the contract.

- It is underpinned by the tenet of the ‘spirit of mutual trust and cooperation’.
Pros:

- The industry is now very familiar with the NEC contract and it is the preferred choice for public projects and frameworks.
- Due to its clarity, simplicity and good management practices there are fewer disputes where NEC is used.
- Early identification of risks with continual monitoring throughout the contract.
- Contractual requirement to update and report on programme as a minimum monthly and update associated Activity Schedule to reflect cash flow commitment.
- Due to post contract controls it reduces cost risk exposure to the Trust.
- NEC engenders accuracy of reporting thus allowing the Trust to make informed decisions.
- Incentivisation is embedded within the NEC Option C contract.

Cons:

- There needs to be a recognition of the heavy administrative burden (and associated costs) that will result during the execution of a contract; this is, however outweighed by the good management practices and associated time and cost savings this can generate.
- It is not always clear whether it is intended to impose an obligation upon the Contractor or Project Manager.

The Joint Contracts Tribunal was established in 1931 and has for 81 years produced standard forms of contracts, guidance notes and other standard documentation for use in the construction industry. In 1998 The Joint Contracts Tribunal became incorporated as a company limited by guarantee. The company is responsible for producing suites of contract documents and in operating the JCT Council.

The JCT 2011 suite consists of contract families made up of main contracts and sub-contracts, together with other documents that can be used across certain contract families. The suite of JCT forms was updated in 2011 and includes an appointment contract for the Construction Manager and Trade Contracts.

Characteristics:

- Does not provide a collaborative approach to construction delivery.
- Flexibility. It can be used in a wide variety of commercial situations, for a wide variety of types of work and in any location.
- It uses complex legal language and as such can be complicated to administer and understand.
• Does not impart good management practice.

**Pros:**

• The industry is highly familiar and used to working with this contracting method.

• Produced by a tribunal on which there is representation of the professions, the industry and client bodies – as a result, the documents tend to be fair and balanced and in the interests of the parties.

**Cons:**

• Complexity of the contract will put significant administration demands on the Trust and the Project Manager.

• Puts the Trust at risk due to the lack of clarity in post contract controls.

• Does not provide an accuracy of reporting.

• Does not engender collaboration at the heart of the contract.

The project team, on balance, concluded, by consensus, that:

• **JCT** – has been discounted as it would not allow the correct environment of partnering to allow all team members to work most efficiently or effectively.

• **NEC** – provides the Trust with the requisite assurance in relation to cost control, programme controls, risk identification, familiarity, good practice, collaboration and incentivisation.

The overarching criterion for selection of the most suitable payment method as identified by team consensus and in the spirit of collaboration is: "an equitable risk accounting approach for all". The speed at which the project will need to be delivered and the level of information that will be available will also have a bearing.

Under the NEC contracting method, there are three payment options:

• **Target Cost**: The supplier is paid actual costs plus a margin to cover overhead and profit up to the pre agreed Target Cost. Actual cost is recorded on an open book basis. If the actual cost is below the target cost, the saving will be shared in the proportions specified in the contract. If the target cost is exceeded, the cost overrun can be shared or borne entirely by the contractor whereby they are liable for all costs above the guaranteed maximum. This method allows for cost certainty to be achieved and helps safeguard Value for Money objectives.

• **Fixed Price**: This will be payable against a payment schedule (with or without milestones). If the fixed price is chosen, all sums included in the contract price allocated to particular risks will be payable to the contractor even if the risks do not arise. With target cost, by contrast, if the risk does not arise, the money will not be spent and there may be a saving on the overall target cost. The Fixed Price method relies on all the design information being available to enable fixing of price.

• **Cost reimbursable**: The supplier is paid actual costs plus a margin to cover overhead and profit. This option does not have target cost scenario so the contractor will make ‘best endeavours’ to deliver value but there is no incentive to do so and no penalty incurred by the contractor for not adhering to cost. The risk exposure to the Trust in this scenario is significant and does not provide a suitable solution for this project.
The preference of the Trust under these payment methods is for a target cost as it provides not only an accurate forecast of costs but also embeds incentivisation within the contract and as such maximises the commercial benefits of supply chain management by the main contractor.

3.8 Time impact for alternative procurement routes

In consideration of the above procurement routes, we also need to keep in mind the status of the current design and knowledge within the delivery team. The time impact of changing to an alternative procurement route provides many challenges dependent upon the procurement route selected. Below, there is a diagrammatical representation of the three key alternatives to the existing ProCure21 arrangement. These are (a) changing to ProCure21+ whilst novating the existing design team; (b) changing to ProCure21+ and engaging a new design team, and (c) a traditional OJEU process. It must be noted, of the PSCP providers on the P21+ framework, only one of these are of a suitable size and experience in order to deliver a project of this size, nature and complexity. As such, the Trust would be restricted and may find that the commercial benefit of market competition would not be fully realised. Engaging via the OJEU route would open up opportunities to a wider contractor audience and as such would provide a competitive environment.

The existing position identified below reflects the period anticipated for completion of design subsequent to OBC approval along with a period for market testing, GMP agreement and mobilisation. In order to compare on a like-for-like basis these time periods have been kept consistent. The period of time for engagement via P21+ assumes a fast track six week engagement process followed by a design validation process. The design validation period provided is 16 weeks for a novated design team and 24 weeks for a new design team; this also allows the new PSCP time to provide commercial ‘buy in’ to the proposed design as it currently stands. The OJEU process follows the statutory compliance periods in conjunction with tender compilation, tender list approval and tender analysis periods for the Trust.

![Figure 3.1 Time impact of alternative procurement routes](image)
As noted in section 5, the inflationary impact of a delay, along with the additional engagement costs with the market of 6 months would incur an additional cost of £5.2m. When compared with the potential benefit of 2% commercial terms (£4.68m) this is more than negated by a 6 month delay. As can be seen from the diagram above, the alternatives provide the probable delays as follows: P21+ with novation, 5 months; P21+ with new design team, 7 months; and OJEU, 11 months.

Time delays and the commercial position need to be considered in conjunction with the suitability, knowledge, delivery confidence, BIM and integrated supply chain issues highlighted in section 5.

4 Added Value of ProCure21

4.1 Overview

ProCure21 is a framework provided by the Department of Health for the procurement, development and refurbishment of NHS facilities. Based upon the principles set out by NHS Estates with regards to the overriding objectives of ProCure21, coupled with experience gained through the Pilot Schemes and the recent roll out throughout England, it can be argued that ProCure21 delivers the advantages of a Two Stage procurement approach, identified in Section 6 below. When the initial ProCure21 framework was let the objectives set and approach of the framework set the following additional advantages, the disadvantages highlighted here are largely overcome now, due to the longevity of the framework and understanding and knowledge within both the health sector and private sector organisations.

4.2 Advantages

1. Based upon the targets set by NHS Estates in collaboration with Sir John Egan the following key benefits have been demonstrated via the use of P21:

   - Prior to P21 Only 26% of schemes were on budget or better; throughout the 6 year P21 framework over 93% of schemes were delivered on budget.

   - Time predictability is improved under P21/P21+. Non P21 schemes are 72% on time with an overall average of 8% overruns on programme; P21 provided 96% of projects on time in 2010.

   - It is a Partnering contract - there have been no litigation claims for P21 or P21+ over the past 7 years in comparison to the health industry average of 3% of the capital programme. A traditional contract could attract a contractor with an adversarial claim conscious approach. Due to there being no litigation the saving was an estimated £60m in legal fees (increasing year on year as schemes complete (based on £2bn completed at October 2010).

2. ProCure21 can be used as a fast track procurement solution to achieve savings and re-configuration proposed in the ‘Liberating the NHS’ document published in 2010 and also supports investment aspects of the Quality, Innovation, Performance and Productivity
programme. As there is no OJEU process required, savings on time during the selection process and reduced procurement costs are achieved.

3. It is consistent with Government Policy, the Public Contracts Regulations 2006 and 2009, the National Audit Office guidance on use of centralised frameworks and the OGC Common Minimum Standards. Whilst there are 6 Principal Supply Chain Partners appointed to the framework, they bring with them over 200 Primary Supply Chain Members (designers, constructors, etc.) and over 1000 Supply chain members (Small and Medium sized enterprises) the vast majority of whom are regionally located.

4. Fast start to design, with Trust and supply chain working together, due to pre agreed OJEU framework and Bid Return Document (BRD) commercial terms agreed.

5. Better design decisions due to integrated approach, collaborative working and experience and expertise of PSCPs.

6. Improved buildability and innovation.

7. Improved user satisfaction demonstrated by client feedback.

8. Better value for money to achieving continuous improvements.

9. Open book accounting with clear demonstration of actual costs and full access to accounting systems and payroll as required.

10. Auditability.

11. A free VAT recovery service which saved the NHS £7m in consultancy fees alone including added benefits on the VAT recovery regimes with VAT recovery on PSCP management costs achieved, PSCP gain share (recoverable) and speedy notification (at commencement of stage 4) enabling contribution to current scheme if required

12. Greater cost certainty, transparency and partnering ethos.

13. Less adversarial than traditional forms of procurement.

14. Over 1000 NHS professionals have been trained in ProCure21 free of charge.

15. Mandatory DH supported selection process for appointment of PSCP

16. Mandatory use of P21 risk management tool

17. Gateway authorisation at each stage controlling exposure, without termination penalty SOC – FBC.

18. Structured approach to cost management

   a. Validation of budget within 4 weeks of appointment

   b. Monthly updates on forecast out-turn throughout

   c. Target cost for each stage (stages 1–3 pre-construction and stage 4 construction)

   d. Restrictions to the schedule of cost components

   e. Well drafted contract enabling clear approach to disallowable cost

   f. Robust management of risk (process from outset)

   g. Procurement strategy agreed with NHS PM

   h. PM and CA involved to the extent they require

   i. Open Book process
j. Audit and Governance

19. Ongoing training to the NHS and stakeholders covering
   a. P21+ Introduction
   b. Managing Pre-construction Stages
   c. Commercial Management
   d. Small Works
   e. NEC3 Contract

20. All supported by DH and provided free of charge.


22. Defect free delivery (contract change enabling defect free delivery)

23. PSCP post GMP re-tendering without change in specification, 100% benefit to the employer (reduces GMP)

24. PSCP gain share remains at 50% but on a reduced range 95% - 100% of GMP (effectively caps at 2.5%)

25. Client satisfaction was consistently rated around 80%, with increasing expectations

26. DH support to project conclusion
### Figure 4.1 ProCure21 Key Performance Indicators – year on year performance

<table>
<thead>
<tr>
<th>KPI</th>
<th>Scheme Measure</th>
<th>Year on Year Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2004</td>
</tr>
<tr>
<td>Client Satisfaction - Product</td>
<td>Average % out of 100</td>
<td>86%</td>
</tr>
<tr>
<td>Client Satisfaction - Service</td>
<td>Average % out of 100</td>
<td>80%</td>
</tr>
<tr>
<td>Defects</td>
<td>Average % out of 100</td>
<td>84%</td>
</tr>
<tr>
<td>Safety</td>
<td>% achieving zero accident incident rate</td>
<td>86%</td>
</tr>
<tr>
<td>Predictability Cost (GMP)</td>
<td>% to budget or below</td>
<td>100%</td>
</tr>
<tr>
<td>Predictability Time</td>
<td>% on time or early</td>
<td>88%</td>
</tr>
</tbody>
</table>

### Figure 4.2 ProCure21 Key Performance Indicators – summary year on year performance
As our health minister comments:

_ProCure21+ will cut the bureaucratic waste... hospital refurbishments will be quicker and more cost effective._

Simon Burns, Minister for Health.

### 4.3 Perceived Disadvantages

The disadvantages outlined below were, in the early days of NEC, considered disadvantages but due to the successful completion of the ProCure21 framework and transition into the ProCure21+ framework, these are no longer considered to be of any great concern. BSUH and its advisors particularly, have extensive experience of both ProCure21 and ProCure21+ and as such these are not seen as barriers to success.

1. New method of procurement to Trust and private sector organisations; there is extensive learning from which to benefit, a strong training ethos from the Department of Health and many Trusts and private organisations now have a good working knowledge of the framework.

2. ECC Form of contract new to Trusts and private sector organisations, although is becoming more popular and Trust’s and advisors have a good working knowledge of this contract.

3. Knowledge of target price contracts new to Trusts:

Normally this would require investment in cost management systems, new skills and a change in attitude/culture; however, there is a plethora of free training offered via the Department of Health and more Trusts are becoming very familiar with the procedures and processes.

4. Existing Trust advisors may not be in PSCP supply chain, although this can easily be resolved.

### 4.4 Partnering

The P21 and design and build procurement routes both utilise an integrated supply team approach for the delivery of a project. In the recent article, "Is Partnering Dead?" Denise Chevin, Building Magazine 26th June 2009, questions were raised on the benefits of partnering and the use of traditional procurement routes providing better value for money. BAA did consider moving away from frameworks, but have consciously continued to use them for delivery of major projects nationally. The key consideration here is that the commercial impact of the recession has brought into question the cost savings, which can be generated through adoption of a traditional procurement route. As we know, value for money does, however, encapsulate time, risk, expertise and quality issues; these need to be borne in mind in the delivery of a larger more complex build programme within the confines of an existing site and bringing other facets of value for money into consideration need to be factored into the decision making process. The commercial benefits driven through the downturn in the market are addressed once frameworks are renewed as indeed P21 has been with the introduction of P21+. 
The RICS produced a study in 2007 recording that partnering accounted for 15.6% of the value of contracts compared to less than 10% in 2004. Empirical evidence has shown within the health sector that frameworks continue to be utilised with the recent letting of the Kings Health Partners Framework, St. Georges, Royal Marsden, Imperial, North Essex and the high usage of P21+ over the past 12 months with 68 live projects registered. Public sector clients have continued to be committed to the use of frameworks and large scale frameworks, such as IESE, have continue to be popular and deliver benefits.

The Key Performance Indicators and continuous improvement model, as included above suggest a high level of satisfaction with partnering and performance under P21 has out performed the national average across all KPI criteria.

5 ProCure21 v ProCure21+

The ProCure21+ framework came into force on 13th September 2010. The changing market conditions through the latter stages of the ProCure21 framework brought into question the commercial value for money provided for projects delivered via the framework. It is worth providing an overview of the benefits adopted by the P21+ framework and then considering the overall impact on project delivery across the two framework options of P21 and P21+.

Firstly we need to provide an overview of the procurement milestones in tandem with the 3T’s project programme deadlines in order to validate the decisions taken to date.

A Principal Supply Chain Partner (PSCP) can be appointed at any stage of the project and there is no guarantee that the PSCP will be engaged to undertake subsequent stages. There is a natural break between each stage that allows the Trust to review and take a conscious decision as to whether to progress to the next stage or choose not to if the it is not supported centrally. The Stages under ProCure21 and ProCure21+ are as follows:

- Stage 1 (Strategic Outline Case - SOC)
- Stage 2 (Outline Business Case - OBC)
- Stage 3 (Full Business Case - FBC)
- Stage 4 (Construction)

Importantly, under the framework, there are no financial penalties for a trust from the PSCP should the Trust choose not to proceed to the next stage. Separate stage agreements are entered into for each Stage of the project. This process in an integral part of the framework and, therefore, protects the Trust against a PSCP gaining a commercial leverage over the Trust once they are appointed. The Stage 4 construction works also has a phases approach and the
Trust will include an option within the contract to review the procurement route prior to the delivery of subsequent phases within Stage 4.

Laing O'Rourke were appointed by the Trust under the ProCure21 framework for the delivery of Stage 2 of the works to deliver the OBC in July 2009. A Stage 3 appointment was made in June 2010 prior to the natural expiry of the ProCure21 framework and the subsequent commencement of the ProCure21+ framework. As such the Trust were required to make a decision on their preferred procurement of the Stage 3 works in the early part of 2010 with the view of agreeing contracts and engaging in Stage 3 by June 2010. This preceded the commencement of the framework and no formally announcement on the P21+ framework was made until July 2010. The Trust decision at this stage was to continue with the P21 framework agreement with Laing O'Rourke subsequent to the successful delivery of the Stage 2 works.

The decision to proceed with P21 in the delivery of Stage 3 in lieu of P21+ cannot be called into question due to the timing of the framework renewal. We do, however need to review the commercial changes from P21 to P21+ to validate the commercial impact at Stage 4.

Key VfM benefits of the P21+ framework are:

Re-negotiated competitive rates and margins as agreed at the outset of the ProCure21+ framework typically presenting with improved rates over the previous framework, and covering:

- Profit
- Overheads
- Training and Development
- Insurance
- Launch Workshop
- Senior personnel
- Administration
- Management Supervision
- Head Office Communication

Data from the P21+ framework has not been formally issued by the Department of Health due to compliance data protection regulations so a full commercial analysis cannot be undertaken. We can provide an overview position based upon information we have on the two frameworks. The commercial terms offered via P21+ in general offer a 2% improvement on the commercial terms previously offered. On the larger category of project (£100m+), this is likely to be slightly higher and be nearer to 3%. Having said that we do not know the individual BRD rates
for all the PSCP’s and as such cannot determine if the 3% saving is applicable to the appropriately sized PSCP’s on the new P21+ framework. However, this potential saving is applicable to overall project delivery and as we are engaging only in Stage 4 the full benefit of these commercial benefits will not be realised due to the fee rate improvements and core PSCP costs having been already expended. The only PSCP on the new framework who fulfils the requirements of completing schemes of a suitable, size nature and complexity are Balfour Beatty and they were an incumbent PSCP on the original framework. As such they were in competition with Laing O’Rourke when the original appointment was made.

If we analyse the phase 4 element of costs on which the BRD rates will have an impact, if we assume a commercial benefit of 2%, this will have an impact of £4.68m. This is calculated on the construction elements only plus VAT.

Laing O’Rourke were not successfully appointed onto the new P21+ framework, consequently, the comparison between P21 and P21+ needs to encompass a broader set of factors influencing this decision, these are:

- Market testing regimes – 100% of packages will be market tested, hence, there will be no difference in the market value of these packages with each framework. As highlighted in section 9, the current regimes are thorough and the added value of the integrated supply chain Laing O’Rourke have to offer cannot be matched by most of the current P21+ PSCPs.
- PSCP suitability – the knowledge, expertise and experience in the delivery of a project of this size and nature, of the incumbent PSCP is well known and will provide significant added value in the delivery phase. Additionally, the suitability of the PSCPs under the P21+ framework for a project of this size, nature and complexity is highly restricted.
- BIM – Current use of Building Information Modelling in the delivery of 3T’s is a significant factor, which cannot be overlooked. The benefits BIM will bring to the construction works include: integrated components, reduced waste, visualisation to assist logistics, easy resolution of buildability issues, programme savings, assistance in sign-off and approval and simplification of commissioning.
- Programme – the key point of note with regard to programme is firstly the potential savings to the programme generated by the use of BIM and also the expected duration of re-engagement should the Trust wish to choose a different PSCP on the P21+ framework. We would anticipate the time period to re-engage with a new PSCP and
supply chain inclusive of the appointment process and validation of the current design would take a minimum of 6 months. The impact on costs for a six month delay would not only incur additional abortive costs for all parties to undertake the P21+ appointment process but also have an impact on the inflation calculations attributed to the construction works. Based upon current calculations this provides an inflation uplift of £1.5m. Along with the anticipated spend for a new PSCP and Trust direct staff of £3.7m; this provides an overall total for a 6 month delay of £5.2m. When considered alongside the commercial terms of £4.68m noted above we would negate this benefit through the process of re-engagement.

- Delivery confidence – this is not limited to the PSCP but also with the key designers and the availability of suitably qualified and capable designers to take over the design from the incumbent design team. Whilst there is a possibility of taking the same first tier design team on board this has not been investigated from the perspective of the current parties involves as to its viability not only from the individual consultants perspectives but the view of the PSCP.
- Design responsibility – should members of the design team change along with the PSCP, we would need to take great care on where the design responsibility resides and ensure the Trust is fully protected. These negotiations will require some legal input and may extend the programme further.

6 Single v Two Stage

This section of the report goes considers the advantages and disadvantages of a single stage tender as compared to a two stage tendering process. ProCure21 is essentially a two stage design and build process, although in addition to the advantages of a two stage process also encapsulates the added value included within section 4 of this report.
<table>
<thead>
<tr>
<th>Single Stage</th>
<th>Two Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advantages</strong></td>
<td><strong>Advantages</strong></td>
</tr>
</tbody>
</table>
| - The total contract sum is established from the outset, prior to entering into contract | - Faster  
A two stage process is normally faster on the basis it allows design and procurement to overlap. With single stage procurement, the design and construction programmes are sequential, with full design required to be complete prior to tender. |
| - Lump sum price in competition | - Greater focus on quality  
During the first stage procurement the contractor will be pricing his management time and approach only. There is therefore a greater focus on the actual quality of the team and their approach. |
| - Known construction timetable | - Access to Sub-contractors  
Through two stage procurement, the Design Team have more of an influence on the choice of sub-contractor and can more easily benefit from any value engineering proposals made, as well as review method statements and quality control. Whilst these issues remain the responsibility of the main contractor, the Design Team will have a useful interface. |
| - Clarity of documentation | - Ability to pursue prefabrication  
A two stage procurement route will allow more opportunity to explore the use of prefabrication through the introduction of a stage 1 contractor who will provide advice on buildability and carry out the second stage procurement. |
| **Disadvantages** | **Disadvantages** |
| - Focus on price rather than quality | - Greater risk in contractors price and therefore greater potential for claims  
If the contractor has miss-priced the works then he could try to recover the loss from the outset, which could result in an adversarial contract. |
| - Quality of management team and approach is difficult to draw out | - Less risk of substitution of specification  
The design team will be involved during second stage procurement and can therefore review sub-contractor tenders and will ultimately have a greater influence on selection. |
| - Inflexible | - More robust price  
The consultant team are working with the main contractor to build up the price during the second stage and therefore can have more confidence that the correct price is achieved. This will help reduce the |
| - No access to sub-contractors  
Sub contractor method statements and quality control not reviewed by design team prior to contract. There is also less potential to take full advantage of VE savings. | |
| - Greater risk in contractors price and therefore greater potential for claims  
If the contractor has miss-priced the works then he could try to recover the loss from the outset, which could result in an adversarial contract. |
| - Slower  
A single stage procurement route is typically slower than two stage, due to the more sequential design and tendering process. | - |
<table>
<thead>
<tr>
<th>Single Stage</th>
<th>Two Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>potential for future conflict and claims.</strong></td>
</tr>
<tr>
<td></td>
<td>- Less adversarial</td>
</tr>
<tr>
<td></td>
<td>- Earlier input into management of site constraints</td>
</tr>
<tr>
<td></td>
<td>- Ability to appoint quality staff</td>
</tr>
<tr>
<td>Disadvantages</td>
<td>- Actual cost of construction works not known until last works package let.</td>
</tr>
<tr>
<td></td>
<td>- Problems will arise if stage one contractor does not take a proactive management approach during pre-construction services. The choice of contractor is therefore very important and this risk can be removed by thorough pre-qualification and tendering procedures.</td>
</tr>
<tr>
<td></td>
<td>- Opportunity for contractor to re-negotiate aspects of price and programme after appointment.</td>
</tr>
</tbody>
</table>

Based on the above traditional procurement forms, a two stage tendering process would be recommended given our understanding of BSUH’s project objectives.

The two stage procurement option, based upon the Trust’s key objectives provides the best value solution as noted above. The process is outlined as follows:

**Philosophy**

Two stage tendering has been in operation for many years. Historical approaches have revolved around establishing a preliminary tender price based on draft design information and employing a process for firming up that price through, re-measurement, tendering or negotiation. This arrangement is inherently flawed in that it establishes preliminary contract documents
(drawings, specifications and pricing information) under forms of contract best suited to genuinely completed design and fixed price. (Although the standard forms allow the arrangement to be accommodated.) Clients are exposed through the reliance on designers to re-issue information at contractually determined stages, the uncertainty of the initial price and the potential for main contractors to exploit claims opportunities through a range of circumstances. This sort of arrangement is only considered suitable for projects such as civil engineering or infrastructure where full design at pre-determined stages is not possible.

The arrangement described here is designed to meet similar objectives in terms of improving programme through overlapping design and tender, but providing greater commercial certainty and security in doing so.

**Stages**

Establishing the contract is likely to be in 2 stages. At stage 1 (typically RIBA Stage D) design information will be detailed but not at production information level. However it will provide sufficient information in terms of the construction sequence and method, scope of works, level of specification, and specialist installations. Notably, P21 offers a solution via an integrated supply chain solution from inception to completion.

The design team should also at this stage be able to determine all significant site, client and existing occupier restraints. These components will allow the main contractors to provide detailed firm prices for all general preliminary items, along with fixed percentage rates for overheads, profit, day-works and specific risk items as required.

The successful contractor will be appointed in terms of his suitably, experience, proposed team etc. and his competitiveness on the above. The contractor’s price will also include the cost associated with providing procurement services during the stage 1 tendering process.

At this stage the contractual relationship between the main contractor and the Trust can be established in 3 ways.

1. As a consultant for stage 1 with the main contract drafted and agreed on the successful completion of a series of performance criteria. Whilst contractually this arrangement is clean and simple, it does conflict with EC/OJEU procedures in that the main contract may be considered a negotiation. In theory therefore a second advertising process would need to be instigated.
2. Under a main contract with the balance of the building works included as provisional sums. Effectively all of the main contract clauses would be active leaving the Trust at greater commercial risk in the event that the tendering process for sub contracts in terms of time, cost or quality fails and needs to be aborted.

3. A hybrid of 2. A main contract is established at stage 1 along with a Provisional Contract Sum. The main contractor performs his pre-construction services as defined by the amended main contract, but the majority of clauses remain dormant until the satisfactory completion of Stage 1. The Trust’s liability is limited therefore to the main contractor’s stage 1 fee only and no further sums for loss or expense in the event that the contract is aborted.

**Procurement Process**

The contractor will tender the work as if establishing sub contracts on a traditional domestic arrangement. Tendering progress will be constantly measured against the Cost Plan. It should be noted that whilst tendering will be carried out in a series of packages, information issued should still be at production level. i.e. complete.

Once all packages have been returned a main contract will be established on a traditional basis by ‘rolling up’ all of the packages into a single lump sum. All appointments will be with the main contractor and the contract documents will effectively be discrete of the tendering process that has been undertaken.

**Advantages**

- Design and tendering process are overlapped to reduce time
- Specialist input can be more readily fed into the design process
- Design team is involved in the selection of sub contractors
- Principles of the traditional procurement process are maintained
- Results of enabling/investigation work can be fed into the stage 1 process
- Cost escalation during tendering process can be managed out

**Disadvantages**

- Lack of incentive for main contractor to drive down subcontract prices
• The cost plan will be re-packaged to reflect the procurement strategy and will act as a target for the main contractor.

• Divergence above a certain level, or on the basis of poor stage 1 performance, will result in the tendering of the project as a single lump sum, using the packages returned (at that point in time) and the balance of the design information.

• An incentive scheme could also be considered for delivering the project under cost plan. This is an inherent feature and benefit of the P21 process.

• Additional preliminaries are included in the package tenders

Clear definition of preliminaries and risk allocation within the stage 1 tender will be a crucial component. The tender return will however include a price for those preliminaries stipulated, and a schedule with budget allowances for those that are intended to be priced by sub-contractors. These schedules will be dovetailed with the pricing document prepared by Turner & Townsend for each of the sub-contract tenders. Any erroneous inclusions made by sub-contractors will be removed during the evaluation process.

P21 encapsulates the benefits of the 2 stage process, whilst in addition has the added benefits outlined within section 4 of this report.

7 Risk Allocation

An important aspect in choosing the most suitable procurement route for any project is to establish how each route allocates risk between the Trust and the Contractor. The diagram below presents spectrum of risk allocation between the contracts. This clearly shows that a procurement route such as design and build transfers risk to the Contractor whereas with a procurement route such as Construction Management, the Trust retains risk. ProCure21 offers a design and build option with full input of stakeholders throughout the design process in order to validate the proposals with an integrated end user sign off procedures. This results in reduced risk of, non-compliance, non-compatibility and suitability of the final building for the Trust. Integrated into this process is a risk workshop regime, which clearly identifies risks and risk allocation. As such, ProCure21 offers not only the risk transfer of design and build but develops a clarity of process and risk allocation and provides a framework in which to deliver best value by identifying the most appropriate person or body to take the risk. The diagram below demonstrates the indicative risk allocation for the four key procurement routes.
8 Contractual Relationships

The following diagrams reflect the contractual relationships in which the Trust will engage for the various procurement routes. The single source of responsibility route demonstrated by ProCure21, as with design and build, Management Contracting and traditional routes, provides simplicity in contractual arrangements. ProCure21 has the added benefit of accessibility to the PSCP supply chain through the development of the design and delivery of works on site due to the nature of the collaborative relationship.
8.1 Traditional

Client/Employer

Contract Administrator  Main Contractor  Design Team

Domestic Sub-Contractor  Nominated Sub-Contractor

Figure 8.1 – Traditional

8.2 Design and Build

Client/Employer

Client’s Representative  Main Contractor

Domestic Sub-Contractor  Nominated Sub-Contractor

Figure 8.2 – Design and Build
8.3 Construction Management

Client/Employer

- Construction Manager
- Design Team
- Trade Contractor
- Trade Contractor
- Trade Contractor

Figure 8.3 – Construction Management

8.4 Management Contracting

Client/Employer

- Contract Administrator
- Management Contractor
- Design Team
- Works Contractor
- Works Contractor

Figure 8.4 – Management Contracting
8.5 Procure 21

Framework Level

SoS for Health / NHS Estates

Long term relationship established between NHS and supply chains.

Scheme Level

Principal Supply Chain Partners

Partnering arrangement established with each NHS Client

NHS Trust

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NHS Trust

Project Director

Trust Advisor

PSCP

Cost Management

Architectural Design

M&E Services Design

Small/Large Constructor

Health Care Planner

M&E Services Installer

Structural Design

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Figure 8.5 – ProCure21
9 Market Testing Approach

9.1 Overview

The purpose of this section is to describe the procurement strategy which will be adopted by Laing O'Rourke to successfully deliver the market testing of the Brighton 3Ts Hospital for the Brighton and Sussex University Hospital NHS Trust.

The Trust and its advisors have worked with Laing O'Rourke to develop a process for market testing to meet the 100% requirement as required by the Department of Health. We will work collaboratively to ensure that all market testing is undertaken in an open book manner, providing full visibility and utilising robust procedures and systems which will demonstrate and deliver affordability and best value for money at all times. The decision on use of in-house companies such as Crown House Technologies and Expanded Limited is still to be determined but we will ensure a rigorous value for money approach is adhered to should the market testing philosophy include them as part of the process.

This report aims to fully address any concerns whilst acknowledging the challenges of the project and the need to satisfy a number of important requirements such as the drivers of value, transparency and competition.

9.2 Ensuring Best Possible Value for Money (VfM)

The approach and procurement strategy for Brighton 3Ts has been written with a key driver 'to obtain the best possible value for money (VfM) from the market place that is compliant to an agreed and signed off design' whilst recognising that best value is derived through a combination of the following criteria:

- Design Robustness
- Purchase and installation cost
- Build quality
- Lasting quality
- Ability to commission
- Ease and cost of maintenance
Adaptability in future use
Effect on delivery programme

With the planned delivery of the market testing exercise utilising the comprehensive trade package procurement programme and adhering to the methodology as described within our processes and procedures (Appendix A), we will provide governance and visibility throughout each stage of the process.

During the design development process Laing O’Rourke will work closely with the design team to assist wherever appropriate to promote and progress any agreed alternatives, options or build ability opportunities which will bring added value and benefits to the Trust. Laing O’Rourke have strong and managed relationships with key sub-contractors, suppliers and Manufacturers representing all standard and specialist sectors. Where agreed with the Trust, their Project Manager and Cost Advisor, Laing O’Rourke will engage with members of our supply chain in order to develop design details and specifications prior to issuing invitations to tender to the market. We believe this is pivotal to our role during the market testing period and are resourced as a team, with specialist support, to make a real difference in this area.

Within the Laing O’Rourke group are a number of in-house specialist companies whom can be introduced to the project to offer advice on the design, cost, build ability, programme and sequence of the project. Our track record working with our in-house resources can be demonstrated by a portfolio of successfully completed projects where Laing O’Rourke have provided technical solutions to overcome logistical constraints, adding considerable value and benefit to the Trust. All in-house specialist companies will adhere to competitively market testing their sub-contracted work packages. Visibility of this process will be given to the Trust’s Project Manager and Cost Advisor as identified within the process map included in Appendix C.

This will also involve detailed component cost breakdowns for every element of the works. 3T’s will benefit from the leverage gained by Laing O’Rourke’s overall Group’s international purchasing spend and volume. At all times, we will ensure that our team work collaboratively with the Trust and their Project Manager and Cost Advisor with core values of transparency, trust and openness.

**Transparent Process**
The PSCP will work closely with the Designers and the Trust’s Project Manager and Cost Advisor providing full visibility to achieve and demonstrate the very best possible value for money from
the market place. At agreed stages within the tendering process Laing O’Rourke will provide all the necessary information that will assist the Trust’s Project Manager and Cost Advisor to fully review, consider and provide where necessary any input to ensure that every aspect of that package is audited and verified for technical compliance, affordability and best value for money (as identified within Appendix C).

During the market testing exercise the design information that will be sent for tendering will allow us to obtain a price for the entire scheme. Using pricing schedules and bills of quantities we will ensure that every tender that is returned is broken down into each phase of the project and will be capable of being let as such.

**Competitive Tendering**
The PSCP and their design team will ensure that the procurement process is aligned to the particular demands of 3T’s. Our processes will ensure that the most competitive tenders are obtained from carefully selected pre-qualified tenderers. Through innovative design solutions and competitively market testing of our work packages (using specialist Sub-contractors within this market) we will demonstrate the benefits of applying a downward pressure on the market to maximise the competitive tension that exists.

**Implications from the financial climate**
The current market conditions offer significant opportunities to drive down costs. sub-contractors and suppliers remain very keen to secure workload. Having ensured tenders are robust and compliant we will push for the best rates available. However, it should be noted that due the longevity of this project the forecast of price fluctuation and cost certainty will be key when negotiating a robust GMP per package. Although the current market does present risk of sub-contractor and supplier insolvency Laing O’Rourke have a series of evaluation and control measures in place to reduce or mitigate this. Detailed financial analysis and risk assessments for all key sub-contractors and suppliers are undertaken with continuous monitoring of each company with an alert system based upon data obtained daily.

**Risk of Construction Inflation**
Using exclusive framework agreements and the robustness of the PSCP supply chain partners, and their global standing, preferential terms and benefits (such as cost and price fixity) can be offered to forecast and manage the risk of inflation during the course of the P21 2 year fixed period. Insight will also be provided into our key supply chain partners giving the Trust an understanding into the commercial benefits that each agreement can deliver.
Savings & Efficiencies
The PSCP can deliver savings without impacting quality and value of the finished project though use of an existing supply chain which has evolved over a number of years and, in addition to surety of cost and delivery, savings and efficiencies can be obtained without detriment to safety and quality. Benefits through effective supply chain management can be driven in the following areas:

1. **Efficient construction methods**
   By employing efficient construction techniques cost can be reduced, programme shortened and safety enhanced. In areas such as off-site modularisation and pre-commissioning of elements, for example, the benefits to cost and programme can enhance value for money.

2. **Value Management**
   As part of a wider approach to value management, the team will work collaboratively to engage with manufacturers and sub-contractors for specialist input on alternative materials and processes. Through a pro-active process, we can focus the emphasis will be on considering better value alternatives without reduction in quality. In addition to construction cost we will integrate the benefits of whole life costing.

   Package workshops will be conducted to discuss capital and life cycle savings whilst also opening up the supply chain to combine the specialist knowledge of the wider project team to optimise every possible solution. We will encourage an environment where all parties including the supply chain are listened to for specialist input and knowledge.

3. **Interrogation of the Cost Plan**
   As part of our responsibility and transparency the respective commercial teams will work closely to interrogate all allowances within the cost plan and investigate areas where the potential for savings may exist. The current cost plan forming part of the OBC refresh, broken down into the various procurement routes is enclosed in Appendix E.

4. **Elimination of risk**
   Early involvement of the supply chain for key packages will improve understanding and engineer risk out of sub-contractor pricing. The Project Team will work with Lainng O’Rourke to identify and address the areas that require extra focus, such as effective installation and commissioning of MEP services. Production of clear tender documentation in line with the procurement programme will be produced which will provide clear direction on exactly what is required,
providing as much relevant detail as possible to remove uncertainty and therefore subcontractor risk.

5. **Currency exchange**
When finalising our Supplier sourcing strategy we will consider whether currency exchange rates can provide additional benefit. If the weak pound strengthens during tender process it will improve buying power on products from outside the UK; the project could benefit from switching its supply source accordingly for trades flexible on geographical supply.

6. **Commercial leverage**
Strong commercial negotiation will provide significant value. Through utilisation of the Laing O'Rourke supply chain we will ensure validation of accurate brief and costing will achieve the requisite rigour in the process to ensure the tender baseline is clear and the very best competitive rates are achieved without risking unsustainable pricing. Laing O'Rourke will utilise and leverage their global presence to benefit from purchase of services and materials from around the World.

9.3 **Risk Management**
In the context to package procurement risk management is pivotal in the delivery of a successful scheme, as it will enable mitigation appropriately, suitable allocation to those best placed to take the risk and will play an important part in the assessment of any potential opportunities and how these may impact on the delivery of the project objectives.

Identifying risks, hazards, implications of potential failure, time scale options available to mitigate failure and remedial actions available will identify value engineering opportunities and / or identify areas in the design to consider further.

Through effective package procurement we can achieve the following:
- Reducing project risk (including on-site health and safety)
- Reducing capital cost
- Provide assistance in seeking reductions in ongoing maintenance
- Reducing system complexity
- Reducing energy consumption
- Reducing embodied carbon
- Increasing project quality
- Increasing component life cycle
**Risk transfer profile**

Monitoring the ownership of risk and mitigation within the members of the Project Team should be carried out at each risk review meeting. This will ensure that the overall cost is managed to its lowest level. Challenging the risk ownership profile will ensure that the overall cost or risk is managed to the optimum benefit of the Employer.

**Options for managing inflation risk at the point of sub-contract placement**

- The process will be followed as noted above with the addition for fixed price beyond an identified base date (identified separately within the tender). From this information it is possible to:
  - a) Consider the potential benefit / risk of placing the sub-contract at a later date, closer to the start on site date should lead-in periods allow.
  - b) Consider placing the sub-contract on a fluctuating basis as per NEC2 (fluctuations method to be agreed between Laing O'Rourke, subcontractor and the Trust.
- Sub-contractors will be invited to propose with their tender returns innovative methods for reducing the impact of risk pricing for inflation, for example:
  - a) Advance payments with security provided.
  - b) Early procurement of key resources at risk such as glass, un-fabricated steel/metal.
  - c) Secured production slots in manufacturing processes.

**Forecasting of inflation risk up to the point of Sub-contract placement**

To operate any effective forecasting and control of future cost increases, including inflationary pressures, certain baseline information is required:

- A detailed breakdown of the elemental costs into their principal components within the budget.
- Programme information identifying the point in time and duration over which expenditure will be incurred.

Once this information is established a tool is needed that enables us to take the detailed base line information; develop this as certainty of costs is established through the process; and apply to it the factors known and considered to impose inflationary pressure. In this way: Implications of anticipated cost pressures are established against the established base line, the likely outcomes of alterations to the programme activity can be tested, the likely outcome of changes to cost due to alterations to the design and specification of the project can be measured. Changes to the procurement and selection process of significant cost components are identified. Challenges can be placed in front of Sub-contractors, Suppliers and manufacturers as to what is reasonable in respect of inflation forecasts and allowances.
Working in partnership with Insite, Laing O'Rourke has developed an inflation modelling tool that meets these requirements. With this in place, the Project Team will be able to effectively manage inflation risk and provide information that will allow the development of a procurement strategy for all 3 phases with a detailed understanding of the risks involved.

The model includes the following detail and facility:

- Package costs allowances, fully adjustable as cost certainty is refined.
- Start and finish dates for each package.
- Package programme profiling to replicate the cost expenditure profile of each package; for example, front end loaded where high initial outlays are anticipated.
- Package by package resource cost breakdowns to enable detailed consideration of inflationary pressures on key costs components – both within the package and aggregated across the project.
- Rapid calculation of the impacts on inflationary costs of changes arising, for example, from:
  a) Changes to the design and specification that impact the principal resource costs.
  b) Impact on overall inflation costs resulting from early or deferred procurement.
  c) Programme changes to start and finish dates of the project and / or each package.

As the design and market test processes progresses the model will be populated progressively with the outputs. Working towards the agreement of the contract sum, inflation risks will be captured within the package prime costs.

### 10 Phasing Options

The proposed 3Ts project delivers the works in 3 main project phases along with the decant element of the works. Indicative costs for each of the phases of works are as follows:

- **Decant**: £30.0m (7% of the overall project value). The decant phase provides mobilisation and facilitation of the main 3Ts build.
- **Phase 1 New Build**: £278.8m (66.5% of the overall project value). This is the most significant phase of the build programme providing essential clinical accommodation.
- **Phase 2 New Build**: £107.1m (25.5% of the overall project value). The second main phase of the new build provides a substantial element of the overall clinical strategy.
- **Phase 3 New build**: £4.2m (1% of the overall project value). These works include delivery of the loading bay and associated external works to provide the final element of the 3Ts development.
Other significant publicly procured schemes support the above approach and provide substantiation of the three preferred routes.

<table>
<thead>
<tr>
<th>Trust</th>
<th>Procurement Route</th>
<th>Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Epsom and St. Helier University Hospitals NHS Trust</td>
<td>P21+ and 2-Stage Design and Build</td>
<td>Early works (Decant, car park, demolitions, £51m), new build (£143m) and refurbishment (£22m)</td>
</tr>
<tr>
<td>North Cumbria University Hospitals NHS Trust (West Cumberland Hospital)</td>
<td>P21</td>
<td>Redevelopment of the hospital site - £90M</td>
</tr>
<tr>
<td>Great Ormond Street Hospital for Children NHS Trust</td>
<td>Design and Build</td>
<td>Redevelopment of part of the site - £140M, second project £130M</td>
</tr>
<tr>
<td>NHS Greater Glasgow and Clyde (South Glasgow Hospitals)</td>
<td>Design and Build</td>
<td>New Adult and Children’s hospitals and Laboratory/Facilities Management building – total value £840M</td>
</tr>
<tr>
<td>Guy’s and St. Thomas’ NHS Foundation Trust</td>
<td>Design and Build</td>
<td>Cancer Centre £140M (£90M build cost)</td>
</tr>
</tbody>
</table>

Epsom and St. Helier were the only Trust from the above list of projects who took a combined procurement approach. The reason for consideration of this approach was due to the change in market conditions in tandem with the significant delivery programme. The 3T’s project also has the programme duration to consider and as such needs to take full account of the alternative procurement solutions at the key project gateways.

There were no completed projects of a similar size and complexity to the St Helier Hospital Development as the largest value project awarded under this framework was approx £80M.

Cumbria had appointed a PSCP under P21 to support them in producing their outline business cases but at this point neither trust has completed the process to full business case.
Epsom and St. Helier have engaged with the market and appointed a P21+ PSCP to undertake the Early Works but have so far not concluded the nuances of their chosen approach for the new build or refurbishment elements of the project.

A similar framework to P21 was established in 2009 in Scotland entitled “Frameworks Scotland”. However, NHS Greater Glasgow and Clyde was already at outline business case stage when the framework went live. The trust considered that the framework was not suitable for their project due to the project’s size/value and that the framework did not offer the level of flexibility required to deliver their project.

One of the key drivers for Guys and St Thomas NHS Foundation Trust to choose a design and build procurement route was their desire to undertake a design competition as part of the procurement process.

Great Ormond Street considered that best value for their project would be obtained via the design and build route due to current market conditions.

It is however important to note that both Guys and St Thomas and Great Ormond Street have utilised P21 to deliver their enabling works packages to support the overall delivery of their major projects.

The Trust need to maintain an open mind on the procurement of both the main Phase 1 new build works in addition to future phases. Based upon the analysis provided above the Trust have a preferred route of using the ProCure21 existing framework for the continued delivery of 3T’s, although demonstration of the commercial value for money needs to provided to contrast and compare this option to ProCure21+ and to a two stage design and build approach.

11 Summary and Conclusion

The initial review of the procurement options available to the Trust for a publicly procured project can be summarised as follows:

- Traditional
- Design and Build
- Construction Management
• Management Contracting
• ProCure21

These options have been reviewed against the following criteria:

• Time
• Cost
• Quality
• Flexibility
• Project objectives.
• Early engagement of the market place.
• Contractor ability.
• Constraints such as funding and timeframe for delivery.
• Risk Management.
• Trust capability of delivering a project of this type.
• Resources and expertise required by the Trust.
• What level of influence does the Trust require over the design?
• Who is best able to carry out the design?
• What influence does the Trust wish to have over planning, risk, design, construction and project interfaces?
• What framework agreements are already in place?

The analysis of these above criteria in conjunction with public procurement guidance identified that the most appropriate method of procurement for the delivery of 3T’s would be either ProCure21, ProCure21+ or a two stage design and build route.

The added value of ProCure21 has been taken into consideration and identifies the benefit of procuring via a nationally agreed framework. Due consideration was then taken of the ProCure21 and ProCure21+ frameworks and the issues surrounding the selection of each of these frameworks as the most suitable route for the Trust. Many factors influence this decision...
making process and need to be revisited at the culmination of Stage 3 and prior to engaging in Stage 4. In addition to this the Trust need to maintain an open mind with regard to procurement of future phases of work under Stage 4 and consider not only the possibility of P21+ but also the potential of a two-stage design and build option.

As such conclude that P21 is the most appropriate route; commercial review of the ProCure21 framework against current market conditions will require validation at the culmination of Stage 3 design and GMP prior to commencement of Stage 4 works on site, although current findings as outlined in section 5 do not consider this to be of concern at this juncture. The agreed protocols for market testing provide a robust approach to the validation of the works packages, preliminaries are interrogated and validated in the usual way for the delivery of the works and the Overhead and Profit Percentage is reflective of the agreed percentage under the ProCure21 framework, this is a fixed percentage although we currently consider the use of BIM, extensive supply chain management and exposure, expertise and knowledge of large health buildings and the inherent processes of the incumbent provider off-set any small premium paid on this element of the project. Further commercial validation is prudent prior to commencement of phase 2 of the new build works in order to provide assurance that value for money is still been achieved at this stage of delivery.
APPENDIX A

The Procurement Process
THE PROCUREMENT PROCESS
Laing O’Rourke use vigorous processes and procedures which link each individual functional discipline to a number of key roles and responsibilities.

The importance of procurement cannot be underestimated and the input from the entire project team is fundamental to ensure that best value is obtained for the Trust during the market testing phase of the project.

Each package will be assessed on its own individual merits in order to agree a specific procurement strategy this will be led by the Laing O’Rourke Procurement Leader Nick Kennedy. However, members of the Laing O’Rourke, Trust and Design Team will be actively involved in contributing to this process. This is demonstrated in the package detail responsibilities matrix shown below.

<table>
<thead>
<tr>
<th></th>
<th>11.1.1.1 Laing O’Rourke Team</th>
<th>11.1.1.2 Trust &amp; Design Team</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Project Leader</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Commercial Manager</td>
<td>11.1</td>
<td>11</td>
</tr>
<tr>
<td>Design Manager</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>MEP Mgr</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Planner</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>H&amp;S Mgr</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Risk Review</td>
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<td>11</td>
</tr>
<tr>
<td>Quality Requirements</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Matters Relating to H&amp;S</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Local Opportunities</td>
<td>11</td>
<td>11</td>
</tr>
</tbody>
</table>

- Leads Activity
- Contributes to / approves activity
The procurement process for the market testing phase of the project is described below.  
*To be read in conjunction with Appendix C – Brighton 3Ts Procurement Process Map*

**Gateway 1: Pre-Qualification**

**Tender list selection including assuring capability and capacity**

We will engage with specialist Sub-contractors and Suppliers who share our values and behaviours and can demonstrate their compliance with our high performance standards, particularly in regard to safety, quality, cost, programme delivery, innovation and environment. All parties will be encouraged to contribute to a tender long-list.

Laing O'Rourke will then invite the companies on the long-list to prequalify in accordance with the agreed process. All prequalification returns will be managed by Laing O'Rourke and will be reviewed and rationalised into an agreed list for tender, which will then be issued to the Trust's Project Manager/Cost Advisor for review and if necessary provide comments.

Sub-contractors and Suppliers will be vetted against relevant criteria including capability, experience, insurances, tax details, financial stability, previous performance and health, safety and environmental accreditation. The process will:

- Ensure transparency and verify financial stability, availability and sustainability of each Sub-contractor and Supplier through our procurement processes
- Ensure that Suppliers are competent and adequately resourced for compliance with the CDM Regulations, and to meet Trust standards and our own best practice standards
- Ensure that local and/or new companies have the opportunity to tender for project packages and that contract terms are appropriate, including the evaluation and verification as to suitability and continuity of supply through the project lifecycle.

**Gateway 2: Market Testing**

**Package Strategy**

The Project Team will meet regularly to agree strategy, hold workshops on works package considerations and formulate package tender documents.

We will define proposals to ensure each package is tendered to the most suitable Sub-contractor or Supplier in accordance with the project’s specific requirements. Each package strategy meeting will specifically address the procurement influences such as scope, programme, market conditions and capacity, collaboration requirements and benefits, proposed bidders and selection criteria. It will recognise programme constraints that force immediate appointment upon award, it will identify the level of project risk in the event of Sub-contractor insolvency and mitigations appropriate to the package such as vetting, vesting and alternative providers.

A key factor in achieving clear, robust and well defined Subcontract packages will be the approach and the tools employed to manage and record the information used to form the basis of each subcontract package. Prior to the issue of any Invitations to Tender a Package Sheet will be completed by the Project Team for each individual trade package and issued to the Project Leader for agreement and approval.

Each package sheet will contain the following information:

- **Package number**
• Package name
• Cost plan allowance / package budget
• Package strategic issues
• Scope of works
• Design responsibilities
• Package specific schedule of attendances
• List of drawings
• List of specifications
• Programme information
• Pricing schedule notes
• Commercial requirements
• Quality requirements
• Package specific health and safety issues
• Local opportunities
• Tender deliverables
• Other details
• Project team commitment and agreement to the package sheet information

Each individual Package Sheet will be issued to the project team not less than 7 days prior to the issue of the relevant Invitation to Tender to provide the opportunity for any comments and amendments to be incorporated. Laing O'Rourke will retain a copy of the Package Sheet throughout the market testing period so any subsequent changes and amendments to individual packages can be clearly monitored and recorded.

The Invitation to Tender will be to a minimum of 3 (maximum of 6) agreed pre-qualified the Sub-contractors and include design information for the Sub-Contractors to provide a lump sum price. Invitations will be on the basis of a specification and drawings basis against an agreed scope of works or a detailed bill of quantities.

The Procurement Package Strategy Schedule and Package Sheet of this procurement strategy provide a summary of:-

• The applicable procurement route for each package
• Any potential Laing O'Rourke in house opportunities being considered
• Intended basis for each tender price i.e. specifications & drawings or Bills of Quantities
• Overview of package design responsibilities

• Retention requirements for each package
• Warranty requirements for each package

**Stage D Design Information Packages**

An Invitation to Tender will be issued to the shortlisted Sub-contractors who will be invited to provide a tender submission to satisfy the following deliverables:-

• Submit tender for the trade package based upon the Stage D design information including;
  • A lump sum cost for the identified scope of works
  • A lump sum for all necessary preliminaries to deliver the works
• A lump sum for design fees required to provide the advice needed to deliver the overall trade package design.
• A lump sum that identifies all the package risks that require incorporation to achieve a not to be exceeded GMP.
• A fixed lump sum for the OH&P required for the construction phase of the project.
• Provide details of the anticipated programme duration for the construction phase of the project and confirmation that this will fit seamlessly into the Laing O’Rourke proposed construction programme
• Demonstrate abilities in design management to co-ordinate the works and the interfaces with other trades.
• Provide details of previous experience of working with NHS Trusts and their facilities management teams
• Provide details of the experience and calibre of people to be employed for both the preconstruction and construction phases of the project.
• Provide details of previous experience and approach to commissioning of the works on site.

Stage E Design Information

When the Stage E design information is available from the design team the relevant information will be forwarded to the proposed Sub-contractors for them to review and provide a fixed lump sum for the project. This will include all the above details or confirmation that the details submitted as part of their Stage D offer remain unchanged:

• A lump sum cost for the identified scope of works
• A lump sum for all necessary preliminaries to deliver the works
• A lump sum for design fees required to provide the advice needed to deliver the overall trade package design.
• A fixed lump sum for the OH&P required for the construction phase of the project.
• Provide details of the anticipated programme duration for the construction phase of the project and confirmation that this will fit seamlessly into the Laing O’Rourke proposed construction programme
• Demonstrate abilities in design management to co-ordinate the works and the interfaces with other trades.
• Provide details of previous experience of working with NHS Trusts and their facilities management teams

Tendering and Evaluation

Tender stage

Shortlisted Sub-contractors and Suppliers will be invited to tender using the Asite Tender Manager application, based on pre-determined quality and price criteria appropriate to
individual packages for supply only or supply and installation work. Mid tender review meetings will be held as agreed with the project team. Any tender questions will be submitted electronically by the tenderer and these will be distributed to relevant parties within the project team for response. Responses to tender queries will be distributed to all tenderers, unless commercially sensitive or confidential or where the tenderer specifically asks for their question to be treated in confidence.

Sub-contractor and Supplier tender returns will be submitted electronically via the Asite Tender application, this will allow electronic sealed tender openings. Only members of the Project Team who have been granted access will be able to view the tender returns.

**ASITE Tender Manager**

Laing O’Rourke would like to propose the use of Asite Tender Manager to electronically manage the market testing exercise.

Asite Tender Manager simplifies communications between Laing O’Rourke, the Design Team and tenderers to ensure consistent information is sent to all. You can also control the format of submissions to speed up the evaluation process and ensure a level playing field.

Tender Manager allows you to securely invite multiple bidding organisations into an Asite Workspace to simply conduct a competitive tender.

We can allow tenderers access to a Tender Document Set and communicate with the bidders to answer queries and notify bidders of clarifications. The powerful audit trail means that we can be sure that the tenderers have received our communications, and the inbuilt security means that we don’t have to worry about BCCing tenderers into e-mails any more. By managing our market testing exercise through one consistent tool we also get the added bonus of a clear log of all of the communications making it easy to see that you have treated each tenderer in the same manner.

We can use Asite Appbuilder to customise the bid return Form of Tender our tenderers will submit. We can specify exact information you require the tenderer to provide, and quickly and easily change this on a tender-by-tender basis. As we control the format of the information coming back from the tenderers, it makes evaluation far easier; saving further time and effort.

Asite Tender Manager handles the complete tender process. It helps us save time and money by reducing the effort required to run our tender and ensures submissions are in a format we can easily assess.

We reserve the right to use traditional tender methods such as hard copy or electronic via e-mail / CD dependant on particular package requirements.

**Package evaluation**

Tenders will be evaluated in an open book environment in accordance with the pre-determined criteria. Relevant members of the Project Team, including the Trust’s project manager, will review elements of each tender. Post-tender meetings will be arranged by Laing O’Rourke to thoroughly understand each tender.

Once a range of compliant tenders have been established and an appropriate package sum is negotiated, Laing O’Rourke will issue to the Trust’s Project Manager/Cost Advisor a LOR Cost
Recommendation. An appointment recommendation report will then be produced for sign off by Trust’s Project Manager/Cost Advisor as agreeing the package sum, which will then be incorporated into the GMP.

**Gateway 3: GMP**

The GMP will be evaluated in terms of risk profile. Market testing alone will not necessarily identify all costs associated with interfaces and or design development. Laing O’Rourke will use of expertise and experience of delivering world class healthcare buildings in order to ensure that the GMP includes a robust allowance to deliver the Trust with a GMP.
APPENDIX B

Supply Chain
SUPPLY CHAIN
Tiered Supply Chain

Laing O’Rourke has recently carried out a full review of the supply chain in order to ensure that the business is best placed to deliver the Procurement Strategy of the Group to:

- Provide a first class service to our projects
- Maximise our purchasing power
- Develop strong supply chain relationships
- Promote e-commerce to reduce costs
- Prioritise Health, Safety and Environmental issues within our supply chain
- Support the Group vision and strategy through DfMA and maximise opportunities
- Unlock the logistics factor

Laing O’Rourke operates international, national and regional supply chains which helps us to maximise the use of local labour whilst maintaining our ability to leverage the market. By operating in this way, we are able to satisfy a Trust’s key drivers whether it is delivering lowest cost, best value, maximising the use of local labour and SMEs or a combination of all of these.

The supply chain review consisted of a detailed analysis of our annual spend and how Suppliers are added and removed from our supply chain.

These reviews have led to the introduction of a tiered system which maintains flexibility with improved controls and governance with particular emphasis placed on the Bribery Act 2010, ISO 27001 Information Security Management, VAT and insurance.

Our supply chain has now been broken down into four tiers which are illustrated and described in the table below.

<table>
<thead>
<tr>
<th>Tier 1 – Strategic</th>
<th>sub-contractors, manufacturers and merchants who offer exclusive benefits at both work winning and operational stages with whom we want to pro-actively increase our spend.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 2 – Preferred</td>
<td>sub-contractors, manufacturers and merchants with whom we have pre-agreed alignment with our HS&amp;E, CSR and DfMA agendas. The aim is to develop our relationship with these organisations.</td>
</tr>
<tr>
<td>Tier 3 – Tactical</td>
<td>sub-contractors and manufacturers. A proven track record with the business but no key allegiance.</td>
</tr>
<tr>
<td>Tier 4 – Temporary</td>
<td>sub-contractors, manufacturers and Suppliers required due to Trust specification or nomination and further bespoke needs on a one off basis</td>
</tr>
</tbody>
</table>

Supply Chain Audits

As part of our commitment to the tiered supply chain structure, Laing O’Rourke regularly audit the supply chain in order to satisfy ourselves that our supply chain members are able to meet our requirements in relation to the following:-

Health and Safety, OHSAS 18001
Laing O’Rourke are the only main contractor who’s own supply chain health and safety audit are recognised by the HSE as acceptable for inclusion within their Safety Schemes in Procurement (SSIP) organisation. The SSIP acts as an umbrella organisation to facilitate mutual recognition between health and safety pre-qualification schemes wherever it is practical to do so. The scheme actively advises and influences clients in relation to acceptable interpretation and appropriateness of health and safety competence standards in UK schemes, embracing the core guidance on competence and training contained within the Approved Code of Practice (ACoP) of the Construction (Design and Management) Regulation 2007.

Environmental, ISO 14001 and Quality, ISO 9001
Laing O’Rourke require that all of our supply chain members operate in accordance with ISO 14001 and 9001 in relation to their management systems for environmental and quality issues respectively. In order to assist our supply chain, Laing O’Rourke engaged with an external consultancy business called ISYS who develop a single integrated management system (IMS) for Environmental, Quality, Health and Safety.

Financial security
Laing O’Rourke have strict internal procedures which govern the financial checking of subcontractors and Suppliers. We use externally procured risk assessment and analysis tools from Dun and Bradstreet in the form of their Supplier Portfolio Manager and Global Decision Maker tools. We also use our own Financial Check Approval Form which is to be used for all package awards over £50k and those deemed as high risk trades e.g. structural steel, envelope, mechanical and electrical services, lifts, scaffolding and dry lining.

Both Dun and Bradstreet tools are internet based and provide ‘real live data’. The Supplier Portfolio Manager is a risk analysis and assessment application that provides a powerful view of total spend and risk across all Suppliers by combining spend data with Dun and Bradstreet data to provide risk analytics at ‘overview’ and ‘Supplier’ levels. The tool provides significant ability to analyse credit risks and instigate mitigation measures. Where a company is not currently on listed on the Supplier Portfolio Manager we use the Global Decision Maker. This application will generate a recommendation based on carefully defined criteria given by Laing O’Rourke. If the Sub-contractor or Supplier is approved, they will then be added to the Supplier Portfolio Manager system.

Performance Management
We will work closely with Suppliers to support them in delivering the project objectives and targets. We will integrate our supply chain into the team through training and joint initiatives to ensure alignment to the project values and goals, mutual benefits from project and wider learning, and optimised overall performance.

As with all our projects we will deploy an effective process for monitoring the performance of our Sub-contractors and Suppliers. The purpose of our supply chain management procedure is not to identify the shortfalls in performance of individuals but to identify any developing issues at an early stage in order that a solution or correction plan can be implemented to resolve the issue with minimal disruption to the delivery of the project.

Our supply chain performance scoring will be carried out monthly. The project team will review the performance of each Sub-contractor and Supplier using our iNTELLIGO system. This records performance in the month for each of the following categories:

- Tender response (time, completeness and design/innovation)
- Pre-site performance
- Safety and environment
- Design
• Quality management
• Quality of workmanship and materials, defects and defect resolution
• Supervision and cooperation
• Adherence to programme
• Settlement with commercial manager

Reviews of performance will be fed back to our Sub-contractors and any performance issues will be discussed with them in review meetings to agree remedial action that the Supplier needs to take to improve. Where necessary we will provide assistance through additional training and support.

Having been given due warning, should any Sub-contractor or Supplier repeatedly fail to meet our performance standards, we will replace them on the project and remove them from the supply chain until they can demonstrate that the necessary improvements have been achieved. The Trust will be welcomed at performance review meetings and will be involved in any decision regarding removal and replacement of any failing sub-contractor or Supplier.
APPENDIX C

Procurement Process Map

PROCUREMENT PROCESS MAP
The Procurement Process Map below illustrates the process and reflects the three gateways which have been described previously. It also clearly identifies where it has been agreed with the Trust’s Project Manager/Cost Advisor are invited to provide comments where necessary.
Appendix D – Procurement Plan

PROCUREMENT PLAN (TORPS)

On receipt of the design information Laing O’Rourke will review the content for completeness to ensure we are obtaining adequate tender responses. This review will also seek to eradicate any discrepancies and divergences between the various documents to ensure the tender returns are submitted in sufficient detail and without ambiguity.

The dates will be inserted into the TORPS (Tender Information, Out to Tender, Tender Return, Place Order, Start on Site) Procurement Plan contained in Appendix E the key milestone dates included are as detailed below:

- Receipt of initial design information for review
- Issue package sheet and tender list approval form to the Project Team for approval
- Receive approval of the package sheet and tender list approval form from the project team
- Out to tender
- Mid tender interview (if required)
- Tender return
- Tender opening and issue tender opening report to the project team
- Issue tender evaluation form to the Project Team
- Post tender interview (if required)
- Issue tender evaluation form including revised tender evaluation form to the project team
- Receive approval of the tender evaluation form report from the Project Team

The Procurement Plan (TORPS) will be updated every week in line with the Project Team co-ordination meetings.
<table>
<thead>
<tr>
<th>Procurement Plan (TORPS)</th>
<th>Brighton and Sussex University Hospitals - 3Ts Project (DRAFT)</th>
<th>Dates Taken From Design Programme</th>
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making the difference
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**Making the Difference**
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making the difference
## Package Database Schedule

### Brighton and Sussex University Hospital - 3's Project (DRAFT)

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**Making the difference**