

Gateway 2 – Contract Award Approval Construction Works for Peckham Pulse Water Leak Repairs Project

Value-for-Money and Commercial Considerations

The nature and scope of the contract works

1. The procurement strategy for this project recognised the importance of establishing an early relationship with the Contractor in order to benefit from its involvement in the investigative and design stages of project development. The two-stage procedure adopted, facilitated this process, and allowed development and the inclusion of adjustments to the initial design as part of the Pre-Construction Service Contract to the overall benefit of the project.
2. These developments included :
 - the adoption of tunnelling, as opposed to excavation, for the creation of the new culverts designed to carry the replacement water pipework;
 - the inclusion of interrelated maintenance and improvement work within the contract.
- 2.1 Tunnelling Method of Working

A design workshop and options appraisal exercise was conducted with input from all stakeholders including the Contractor. It concluded that the overall benefits of tunnelling from the plant-room outweighed those of excavating from the pool hall.
- 2.2 Rationalising Work Packages

In order to re-open the pool, there are a number of additional items of work which are either consequential upon the pipework failures, or would have needed to be undertaken regardless during the period that the pool has been closed. These include :

 - repair to the flood-damaged plant which is not part of the main remedial contract (eg control panel),
 - work required to enable the main remedial work to be undertaken (eg removal/re-routing of some of the equipment located on the retaining wall),
 - currently due/overdue essential maintenance work to the pool equipment (eg pump lubrication) and other plant (lighting, heating, and ventilation),
 - maintenance/improvement work due in the next two years, which would involve pool shut-down, and which should reasonably be undertaken during the current closure (eg sand filter refurbishment and recharging),
 - maintenance/improvement work to the pool-side facilities, as approved by Committee under the heading of 'facelift';
 - work to the pool (filling, heating, and re-commissioning pool plant) and to other systems (lighting, heating, and ventilation), which will be required in order to bring the pool back into operation.
- 3 Both the tunnelling methodology and the additional work items have been incorporated into the contract in order to ensure that responsibility rests with a single contractor for :
 - undertaking all the remedial and maintenance work necessary to re-open the pool;
 - incorporating all the work within the minimum timescale;
 - commissioning and handing over to the operator all the pool systems;
 - responding as required during the twelve months defects liability period.

The value of the contract works

- 4 The award of the Pre-Construction Services Contract (Stage 1 of the two-stage tender process) established the preferred Contractor for the project. This Contractor had submitted the lowest-priced bid following a selective tendering process.

- 5 The Construction Works Tender (Stage 2) was priced and evaluated, wherever applicable, on the basis of the prices and rates obtained under the competitive first stage process. It varied from the first stage only in respect of the development changes required by the Council.
- 6 The elements of the Construction Works Tender (Stage 2) included :
 - Contract preliminaries
 - Priced/provisional items of work
 - Contractor's overheads and profit
 - Contingency items
- 7 The preliminaries costs and the priced work showed a net increase, and reflected :
 - less onerous responsibilities in the pool halls due to the elimination of excavation works,
 - increased risks associated with the tunnelling option, and
 - the increased costs of additional works.
- 8 The Quantity Surveyor is satisfied generally that the variations in the prices can be considered as value-for-money on the basis that they were :
 - included in the initial competitively tendered submission; or
 - consistent with established market rates; or
 - to be market tested during the contract period by obtaining comparative quotations.
- 9 However, in the following areas it has not been possible to establish that value-for-money will be achieved :
 - additional preliminaries costs for :

- additional head-office management,	£17,000
- site agent responsibilities and extra site security,	£15,000
- additional plant room protection	£19,000
	<u>£20,630</u>
Total	£71,630
 - subsistence charges for pipework designers and installers
- 10 This element of work represents less than 10% of the work content of the proposed contract, and a commercial view has been taken regarding its acceptability.
- 11 The rate charged for overheads and profit remained unchanged from that tendered.
- 12 Contingency provision was added by the Council in response to identified areas of risk.

Commercial Consideration

- 13 Argument against acceptance of the Tender :
 - unsubstantiated value of areas of work representing less than 7.5% of the contract works.
- 14 The alternative to accepting the Tender in the sum of £1,198,546.90p (including the £71,630 referred to above) would be to re-tender the project. This would set the programme back by at least twelve weeks. It is understood that the revenue losses at the Pulse are running at approximately £7,000 per week. Also, additional fees would be incurred, there would be considerable uncertainty over the outcome of the re-tender process, and the positive working relationship and supply-chain arrangements developed with the preferred contractor, Makers UK Limited, would be lost.
- 15 In summary, the arguments for the acceptance of the Tender :
 - the virtual certainty of a prompt start to the works;
 - the avoidance of a delay of at least twelve weeks in order to undertake a new procurement process, with the attendant costs due to loss of operator income;
 - the avoidance of further delay in the re-opening of the facility, and the resulting further loss to the community.
 - the avoidance of fee and other costs associated with any new procurement process;
 - the still-present uncertainty arising from any alternative procurement option.
- 16 This provides a basis for a commercial decision to accept the Construction Works (Second Stage) Tender.