

Greater Glasgow & Clyde NHS Board

NHS Board Meeting

21 October 2008

Board Paper No. 08/42

Report of the Chief Operating Officer and Director of Acute Services Strategy, Implementation and Planning

Procurement Model for the Construction of the New Development on the Southern General Hospital Site

Recommendation:

Board Members are asked to receive and approve the Procurement Model to construct the New Adult Acute Hospital, Children's Hospital and New Laboratory Facility on the Southern General Hospital site. The recommendation is supported by the Board's Legal, Financial, Technical and Procurement Advisers.

1. Purpose of Paper

This paper provides both an overview of the work undertaken since March 2008 in developing a procurement method and sets out the proposed procurement method to take forward the new hospitals and laboratory developments on the Southern General Hospital site.

The Board embarked upon a plan to determine how best to deliver the new hospitals and laboratory developments on the Southern General Hospital campus prior to the approval of the Outline Business Case (OBC). This plan included taking soundings from a range of Technical Advisers known to the Board and seeking their initial thoughts on the best way to deliver the new facilities.

Following on from this, Senior Board Officers, supported by the Board's Legal and Financial Advisers and with Scottish Government representation, held a formal workshop with a number of Technical Advisers to carry out further analysis and evaluation to develop the most appropriate procurement method.

The workshop considered eight different models of procurement, these were as follows:

- Traditional
- Management Contracting
- Construction Management
- Single Stage Design & Build
- Two Stage Design and Build
- Design, Build and Operate
- Alliancing
- Prime Contracting

From the output of the workshop the project team completed an option appraisal of all eight procurement models measured against the Board's required criteria of cost, programme, quality and risk. The outcome of the option appraisal was the selection of the Two Stage Design and Build as the most appropriate option. This option would meet the Board's criteria and also provide an early estimate of costs. As part of the 2 stage Design and Build procurement method a selection process of 3 bidders (or more) reducing to 2 at the first selection point was adopted. A competition

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between the two selected bidders will lead to a final selection of a preferred bidder and then the appointment of a contractor or a constructor/designer.

In order to test this approach to procurement, the Board's Financial Advisers (Ernst & Young) undertook a market sounding exercise to test out attractiveness and robustness of the proposed procurement model with key players in the market.

The aim of the Market Sounding exercise was to establish the market view on a) how the New South Glasgow Hospitals Project should be procured and b) what the market bidding intentions may be. It was also to determine those factors which would reduce the attractiveness of the project and the market views on how these issues should be addressed.

Ernst & Young have set out the findings of the market consultation and outlined a procurement method that it is believed, will maximise interest from potential bidders and achieve the Board's key objective of identifying a procurement process which:

- allows for an appropriate degree of design development discussions to occur prior to the appointment of a single contractor;
- offers the possibility of market innovation in the design development process;
- provides for competition up to the point where the Guaranteed Maximum Price is largely established;
- meets the delivery timescales.

The points to note from the process are as follows:

- Of the nine companies approached, three indicated that they were sufficiently interested in the project to take part in the consultation process;
- Given the size and complexity of this project there is risk of significant abortive costs being incurred by unsuccessful bidders. Two of the three companies who have an interest in the project have estimated the bid cost between £10m-£20m and have indicated that this sum at risk may prevent their participation. This would significantly reduce the competitive tension available to drive innovation and provide value for money;
- In order to enhance the market attractiveness of the project the companies identified a range of options. These included the Health Board underwriting some, if not all, of the bid costs for the unsuccessful bidders or the rapid selection of a single preferred bidder reducing the initial bidder input and therefore the bid costs at risk;
- In developing the revised procurement process the risks and opportunities of applying different procurement paths were analysed. The key factors are:
 - a) making sure there is sufficient market interest by reducing the risk at the outset thereby achieving value for money through competition. A Target Price and Guaranteed Maximum Price Contract and process which reduces the number of bidders to one at the 1st stage with a reasonable level of design requires significantly lower bidder input, and therefore bid costs at risk, than producing a fully detailed design;
 - b) another key factor is the nature of the procurement selected. The pros and cons of both the restricted and competitive dialogue process were analysed. The competitive dialogue route was considered to provide the degree of dialogue necessary to achieve design innovation, final contract form and financial arrangements to meet the Board's affordability profile;

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- The outcome of the procurement analysis therefore proposes that the most appropriate procurement method to achieve the Board's objectives is a two stage Design and Build process with rapid selection to a single preferred bidder at stage one using the competitive dialogue procedure. At stage two the preferred bidder develops the detailed design in conjunction with the Board.

The project team then presented the final procurement model to the New South Glasgow Executive Board (NSGEB). The NSGEB approved the proposed procurement model but as a final test of its appropriateness and robustness requested the project team test the model with the newly appointed Technical Advisers (Currie & Brown) and Procurement Advisers (Partnership UK). A workshop of all advisers was held on 1st October to go through the model in detail and to identify any critical risks or weaknesses with the procurement model.

The outcome of the workshop was that the model was proved to be appropriate and robust to deliver the Board's requirements. From the workshop the group identified a number of critical risks which are the responsibility of the project team and the Board's Advisers to control and mitigate as part of the Risk Management Strategy for the project.

The Project Team, supported by advisers and other Board Officers, have carried out a robust process to develop, what is proposed as, the most appropriate delivery vehicle for the construction of a New Adult Hospital, New Children's Hospital and Laboratory Facility on the Southern General Hospital Campus.

The Director of Acute Services Strategy Implementation and Planning and the Chief Operating Officer presented the procurement model to the Board's Performance Review Group on the 16th September for information. Members welcomed the approach taken and were content with the next steps outlined to develop the procurement model for the new hospitals and laboratory development.

The Project Director for the New South Glasgow Hospitals Development and the Board's Technical and Financial Advisers presented the proposed procurement model to NHS Board Seminar on the 7th October. The presentation set out:

- the background and process followed in formulating the proposed procurement model, highlighted the outcome of the Market Sounding Exercise;
- the outcomes of the workshop on 1 October 2008 and set out the detail of the Procurement Model.

Board members raised a number of issues with regard to the proposal namely that:

- there should be appropriate risk management arrangements in place to inform the Board at the highest level that all risks are being managed appropriately;
- Audit Scotland participated in the governance structure overseeing the project;
- the cost implications and cost guarantees were managed appropriately by Board Officers;
- there is a plan in place to maximise and sustain a positive impact with the community regarding employment opportunity during and after construction.

Board members agreed that the proposed procurement model be submitted to the NHS Board on 21st October for consideration and approval.

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Recommendation:

Members are asked to receive and approve the attached Procurement Model to construct the New Adult Acute Hospital, Children's Hospital and New Laboratory Facility on the Southern General Hospital site. The recommendation is supported by the Board's Legal, Financial, Technical and Procurement Advisers.

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