

Tier 1 Analysis : To Buy or Not to Buy (Developer offer with Land)				Preferential Route	
Key issue	Impact under open competition rules developer offer with long leasehold (turnkey)	Impact under council-led site purchase with either self-build or developer partnership	Consultancy Team Comments, where applicable	Developer with land	Council Purchase
Location	The location of the new civic centre will fall within an overall boundary (as defined by the council) but may not be in the optimum position or at the heart of the regeneration masterplan. Valuation of the site is likely to be the same as purchase as developer offer will include market rate site valuation.	The council can define its location preference and develop its own designs without reference to others development timelines.  Council needs to be in position to buy site. The current land ownership arrangements within the selected area is very limited, however current land owners have, through initial discussions, indicated a willingness to sell. This creates an opportunity for the council to have more control on the final outcome of the location of its new building.	It is the consultants view that should a site be available then direct site purchase gives the council far greater control over its destiny and increases competition in the tier 2 analysis.		Yes (1)
Site valuation	Developer will make isolated decision over value of land on offer based on 125/250 year lease requirements. Also likely to value land assuming full benefit of planning before planning actually granted.	Through direct negotiation with a landowner it should be possible to drive greater value than receiving offers in open competition. This is particularly true where the end-user assists the process of masterplan/section 106 negotiations.	The consultants (and working group) were equally split on whether direct negotiations or other factors would drive any greater value from the site due to planning gain issues.	Neutral (0)	Neutral (0)
Design Team selection	The developer will select his design team based on prior working relationships, deliverability and not necessarily world class design capability (albeit this could be a requirement of the OJEU selection)	The council can call for and advertise either a world-class design team or run an architectural competition via RIBA/OJEU routes on a site to select its preferred design approach against the strategic brief.	This is a subtle point and links closely to the Tier 2 analysis. At a strategic level however there is a clear advantage to maintain your own preferred consultant teams.		Yes (1)
Impact of masterplan to time	The impact of the wider Wembley masterplan may affect the timeline for developer-led design proposals to the council. Should the preferred sites fall within the primary landlords ownership the development of their masterplan may affect their appetite to submit detailed proposals in an open OJEU environment. This may artificially preference alternative landlords.	Only one key landlord is in the early stages of developing a Stage 2 masterplan for the old Palace of Industry site area. This has been commenced but is unlikely to be in an indicative form until the middle of 2008. If the council can secure its own site it will be able to influence the masterplan rather than be respondent to it.	It is of benefit to the council to be in the lead with its own master plan/ urban design proposals that other master plans must respond to rather than being beholdent to them and other development timescales.		Yes (1)
Time Line	Would appear, at face value, to take approximately 5 years from January 2008, dependant on smooth OJEU procurement processes, minimal design changes, clear decision making and straight forward planning.  Council's timescale may suit some developers/ landowners in the defined offer zone.  For those landowners (in this specific instance due to the predominance of land ownership in the preferred zone by one landowner) who have their own development masterplan timescale to enter the OJEU process may not suit.  Council need to define risk profile of specification – watertight lease specification will take circa 6 months to produce. If issued earlier.	Despite different process steps, would (subject to all same points as those for developer offer) complete also in 5 years from 2008.  Refer to separate sheet on timescale. Key risk to this procurement option (which is relevant only to this route) is: - length of time to define and negotiate site purchase - Time to approve purchase strongly with members.	The high-level indicative route map illustrates the principles of purchase. design and construct vs developer turnkey only. There are other hybrid options which are available between these two 'extremes' that should be explored in more detail. All the task periods should be reviewed and audited in the next stage. On face value however both routes would appear, if well managed, to conclude at the same time.	Neutral (0)	Neutral (0)
Competition - Construction Tendering - Monopoly of dominant landlord	Due to the limited number of developers (1-3) in the preferred location and the dominance of one national developer ownership competition in construction terms is extremely limited. The market availability of numerous construction bidders is effectively cut off.	Should the Council purchase its own piece of land, the option to procure a development partner to design and construct the new building still exists but within the confines of the Council's preferred site. There will however be more competition available through this process as the limitation on land requirements will have been removed, thus widening the market for a development partner.	Should it be achievable for the council to buy its own plot of land it will enable the council to significantly open the market for competition during both the design and construction phases.		Yes (1)
<b>Totals</b>				<b>0</b>	<b>4</b>

### 2.3 Procurement Option Matrix - Tier 1

#### Tier 1 Decision

The following table illustrates the strategic summary of the key issues which effect the tier 1 decision-making. These issues have been agreed with the Project Working Group at the joint meeting of 5th December, 2007. It should be noted that it is agreed that all issues are equal in weighting. The question posed to the group was:

"Which route (either developer led offer with land or Council led purchase) is clearly preferential for the Council"

Only a yes or no response was asked for. Where the team felt there was no clear difference between either route the issue was scored neutrally.

A clear decision was made unanimously by the Civic Centre Project Working Team that for the Tier 1 decision, to pursue a council led purchase of a site is agreed.

**Tier 2 Discussion/Analysis**

From a financial view the real decision to be made is whether the Council feels it is adequately resourced, with the correct skills and time, to be able to manage the risks associated with a self build project.

The risks profile and value will differ between the two options but broadly the same level should be factored into each approach.

The developer option the will price the risk into the overall project. If risks come to fruition it will be at the developers cost to mitigate these. However, with successful management the developer can increase his return on the project by any unspent funds. As a rule of thumb, risk allowances range between 10% - 20%, meaning on a project of £160M then allowances range from £16M - £32M. This approach protects the Council from unforeseen costs and gives the Council a budget that, provided variations are kept to a minimum, is set at the outset.

A self build approach allows the Council to manage its own risks. Risk is defined as the probability of occurrence of a defined hazard and the magnitude of the consequences. It may be that risks included at the beginning of the project may not occur and subject to the successful management of other risks these amounts can be managed back it to the project, creating a more value scheme, or can be used to fund other Council priorities.

However, whereas the developer option shields the Council from the costs associated with mitigating risks, the self build route means that the Council is responsible, however large, for funding all the risks in the projects. The Council needs to assure itself that all possible risks and hazards are identified and where possible costed.

Risk Identification requires the establishment of the risk profile and the frequency and severity of hazard together with the impact on the project operation and project finance. The profile is established by systematic identification and quantification of the risk exposure.

The main techniques for identifying risk are:

- risk register or check list;
- interview of project experts and participants;
- brain storming by Risk Team.

The essential technique is to obtain a detailed understanding of the project process and the environment in which it is to be constructed and in which it will operate. This requires all three processes to be adopted. The check list provides a starting point. Interviews allows past corporate experience to be used. Brain storming allows the new types of risk to

**2.4 Procurement Option Matrix - Tier 2**

be identified.

The following are simple examples of hazards which should be part of any checklist:

Client

- Political or economic changes
- Revenue changes (market)
- Operability
- Maintainability
- Reliability
- Health and Safety
- Environment

Project

- Cost increase
- Time over-run
- Quality not compliant
- Inadequate information for design
- Weather
- Buildability
- Health and Safety
- Environment

Contractor

- Client performance
- Inadequate project definition
- Inadequate project organisation
- Inadequate estimate
- Subcontractor performance
- Inflation
- Exchange rates
- Health and Safety
- Environment

**Building Design & Construction**

Should the Council agree to seek to proceed with land acquisition, this opens up a number of further procurement decisions in terms of design and construction of the new building. These options range from appointing a development partner to provide a turnkey solution to the Council appointing its own team of designers and contractors for the project.

There are a large number of issues to be considered as part of this decision making process and ideally this will be highlighted through a risk workshop where each of the key criteria can be reviewed. The Council will need to consider the extent of risk it is willing to accept based upon its requirements on delivery, cost certainty, control and timeliness of the project.

This report does not cover the above in detail but seeks to highlight the necessity of further decisions being required at the early stages of the scheme.

It should also be noted that all of the options under tier 2 will require an OJEU process to be followed.

Tier 2 Procurement Option Matrix: Issues & Commentary

Tier 2 issues & commentary: for further discussion at working group level			
Key Issue	Impact under open competition rules developer offer with long leasehold (turnkey)	Impact under council-led site purchase with either self-build or developer partnership	Consultancy Team Comments, where applicable
<b>Cost Certainty</b>	Competitive bids will give clear understanding of overall costs at outset.  As developer will be granted full control of design and development the council will know and agree financial deal at commencement.  Risk is usually priced upfront and at a premium.	Certainty of cost is difficult to define at the outset unless a strict timetable (i.e. similar to that of OJEU requirement) is given to the internal team.  Valuation of sites may take longer to define/agree.  Design process may require OJEU process.	Cost certainty can be more immediately grasped and will be controlled by professionals in that field in the developer led offer, so to some degree this route de-risks overspend probability. However design changes will cost more once a developer is appointed so cost certainty is eroded should client changes occur. Nevertheless it is generally accepted that a developer offer with give greater certainty of cost.
<b>Cost Control</b>	Control of cost remains in hands of the developer. In his financial model will be developers profit, risk assessment and/or premium.  Changes made by the council will carry a developers premium making any change from agreement of the deal more expensive due to this developers add-on.  The advantage is that the council does not need to have strong management/administration skills with a main contractor.  Shadow team will be required in council.	As design-development is a specialist/risky field and councils do not specialise in it, cost control can become all-powerful and extremely difficult.  However, if the council adequately equips itself the control of the risk premium and developers profit elements (see graph over) fall into the councils hands. If risk is controlled well, this risk contingent would fall back into revenue.  The developers profit would also be delivered back to the council.	Linked to the above point. Control of cost is a specialist skill that needs to be inputted into both routes. With the site purchase and develop route the key difference is that the council remains in control of all the budgets and expenditure until the end of the project and can manage the risk allocation budget accordingly.
<b>Ability to make design changes</b>	Can be done, but at a cost premium. Omissions of facilities may also cost rather than save revenue.  Post construction design changes may be punitive.	Design changes pre-construction incur only design team fees (not design team plus developers premium).  Post construction start design changes will be costly.	Design changes in both procurement routes impacts on time, and cost particularly if significant.  However, the council has less cost exposure if changes are likely (due to probability of change in the organisation over the next 3 years) when designing its own building.
<b>Internal resources</b>	Council will need a comprehensive 'shadow team' to review and manage the developers submissions, valuations and design. This team is illustrated elsewhere but would include a shadow architect and shadow services engineers, plus other ad-hoc specialists to assess technical conformity of design proposals. This is in addition to the cost of the developers design team.  These appointments might be direct employee arrangements or OJEU selections.	Council will need to appoint its own full design team.  An OJEU selection process is likely to be required (or framework selection). This team is in essence, smaller than that of the developer-led as the shadow consultants are not required. The council can also decide on World class.	The council pays more for its internal and consultant teams in the developer site offer as the council pays for the developers design team plus shadow consultants to technically check/ approve proposals from that team.

<b>Design Team selection</b>	The developer will select his design team based on prior working relationships, deliverability and not necessarily world class design capability (albeit this could be a requirement of the OJEU selection)	The council can call for and advertise either a world-class design team or run an architectural competition via RIBA/OJEU routes on a site to select its preferred design approach against the strategic brief.	
<b>Design Quality</b>	Subject to design team selection point, the quality of design solutions should be able to be managed to an acceptable level.	Design quality can be more directly managed as direct input to the design process can be made.	As design is subjective the consultants have concluded that regulatory functions, such as planning process plus mechanisms such as internal design reviews and CABE/GLA A&U unit will protect design integrity equally in both routes.
<b>Risk Management</b>	If risks during construction come entirely to fruition, and in theory the developer bites into his profit margin.  In reality, if the risk premium has been consumed the developer bites into product quality. This can be done in many ways without end-user notification or knowledge.  Alternatively if risks do not come to fruition developer simply increases development profit margin.	Risk management remains entirely in the council's hands.  If well managed risks will be quantified, managed and mitigated, releasing back for benefit of scheme. During construction a design and build style project could be used – transferring key construction risks to the main contractor, or NEC forms or construction management contracts could be used to manage risks.	The benefit of risk allocation budgets fall to the council, enabling use of contingent monies throughout the project. Linked strongly to cost certainty points.  Attitude to risk management is key to decision making of which carries the greater benefit.
<b>Construction supplier procurement</b>	Relative size/prestige of the developer may influence the buying power of that organisation within a saturated/expensive construction market. This may yield benefits to the council as construction pricing may be more competitive.  Strong supply chains and proven relationships with national contractors should yield benefits.	The open procurement (through OJEU) of both design team and then subsequently contractor tender show deliver best value in the marketplace due to competitive nature of the tendering process.  Quality of contractor may not be as high as developer offer.	On balance the developer-led approach should enable access to highly competent contractors and strong supply chain relationships.
<b>Output</b>	To secure a strong product quality in built terms a robust specification incorporating engineering requirements in addition to architectural and strategic functions is required. This documentation forms the 'control-book' against which all developer proposals are reviewed – to completion on site.  Time to produce robust documentation developing the strategic brief should be allowed to secure output quality of design and construction.	The strategic brief currently written forms the basis of a design team competition/design brief – giving clear parameters for accommodation function, adjacency and spatial objective. This would enable a design team to be procured in early 2008 and competitive design proposals sought. This would improve the design solutions/debate and enable time to be accelerated.	