

## Report of the Cabinet Member for Finance & Strategy

Cabinet – 20 October 2016

### 21<sup>st</sup> CENTURY SCHOOLS PROGRAMME

#### CONTRACT AWARD AND CAPITAL PROGRAMME AUTHORISATION FOR THE REMODELLING AND REFURBISHMENT OF PENTREHAFOD SCHOOL'S EXISTING SCHOOL BUILDINGS

<b>Purpose:</b>	<ul style="list-style-type: none"><li>• To approve and commit to the Capital Programme the project with revised costs for the refurbishment of Pentrehafod Comprehensive School subject to confirmation of the grant and entering into a contract with Welsh Government (subject to planning approval).</li><li>• To seek authorisation to award the second stage contract to Morgan Sindall, under the agreement that the contractor must obtain planning approval and all risks associated with not achieving planning approval are those of the contractor, and subject to confirmation of the grant and entering into a contract with Welsh Government (subject to planning approval).</li></ul>
<b>Policy Framework:</b>	<ul style="list-style-type: none"><li>• One Swansea Plan.</li><li>• The Revenue and Capital Budget as reported to and approved by Council on the 25 February 2016</li><li>• QEd 2020 programme.</li><li>• Corporate Priority – Safeguarding vulnerable young people</li><li>• Corporate Priority – Improving pupil attainment</li><li>• Corporate Priority – Tackling poverty</li><li>• Corporate Priority – Building sustainable communities</li></ul>
<b>Reason for decision:</b>	<p>To comply with Financial Procedure Rule No. 7 (Capital Programming and Appraisals) – to commit and authorise a new project onto the Capital Programme. Although this has previously been the subject of a report to Cabinet the revised costs of the project have increased by more than 5% of the current budget.</p> <p>To comply with Contract Procedure Rule 13, the award of contract.</p>

**Consultation:** Education, Finance, Legal, Corporate Building and Property Services.

**Recommendation(s);** It is recommended that:

- 1) The capital project with revised costs as detailed together with the financial implications set out in Appendix A is approved, subject to confirmation of the grant and entering into a contract (subject to planning approval) with Welsh Government and,
- 2) The 2nd Stage Contract for the refurbishment, remodelling and extension works to Pentrehafod School be awarded to Tender No. 1 (Morgan Sindell) subject to confirmation of the grant and entering into a contract (subject to planning approval) with Welsh Government.

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## 1.0 Introduction/Background

- 1.1 The Strategic Outline Programme (SOP) detailing the re-organisation and investment need for schools across Swansea was submitted to the Welsh Government (WG) in 2010.
- 1.2 In December 2011, further approval in principle was granted by the WG subject to contract and a local authority contribution of 50% towards the overall costs of the Band A programme.
- 1.3 In line with WG programme requirements, the Capital Budget Programme 2013-2014 to 2019-2020 provides an outline spending profile for priority projects, totalling £51 million. Included within this band of priority projects is the refurbishment and remodelling of Pentrehafod School, with an indicative budget of £12.720 million to be funded by the Council and WG.
- 1.4 WG approval of the Strategic Outline and Outline Business Cases was granted in February 2015.
- 1.5 Two stage tenders were requested from contractors from the SEWSCAP regional framework for the proposed works. Having subsequently been awarded Stage 1, officers worked with the successful contractor, Morgan Sindall Construction & Infrastructure Ltd., to develop the scheme design

and negotiate an acceptable cost for the proposed works. This report seeks to award the Stage 2 contract to Morgan Sindall Construction & Infrastructure Ltd

- 1.6 Subject to the successful approval of the full business case which is due to be presented to the WG Capital Panel on the 20 October 2016; the Council will enter into a formal contract with the WG.

## **2.0 Description of works at Pentrehafod School**

- 2.1 The project aims to provide the pupils and staff of Pentrehafod School with a safe, sound and fit-for-purpose school environment.
- 2.2 The phased programme of works will include the refurbishment of existing buildings, curriculum remodelling and the extension of buildings to replace the substandard demountables which are no longer fit for purpose.
- 2.3 The finished programme of works will also include a new purpose built two classroom block for Pentrehafod Alternative Curriculum Education (PACE) pupils. This building will also accommodate the existing changing rooms which are no longer fit for purpose.
- 2.4 The new PACE unit will be part funded through Schools Challenge Cymru funding of £150,000. This was awarded to the school in 2014 and deferred to 2016 /17 in order to support the wider strategy for the school site. This facility will be available to the community out of school hours.
- 2.5 A separate grant application in conjunction with external partners is to be explored to further develop the existing red gravel area beyond the anticipated tarmac surface to that of a 3G pitch. This will be funded outside the funding as outlined within this report.
- 2.6 The programme of works also includes the demolition of the existing substandard demountable buildings on the school site as well as the relocation and reinstatement of the staff and visitor car park to the front of the school site. Some additional fencing will also be erected in line with Secure by Design recommendations.

## **3.0 Summer programme of works**

- 3.1 In an effort to make use of the summer holiday period, prior to the main programme of works, the contractor outlined a programme of works to include external and enabling works to support the major construction works, due to commence autumn 2016.
- 3.2 The summer programme of works was approved by Cabinet in June 2016. These works were to be carried out using the Authority 50% contribution to the project prior to WG approval of the full business case (FBC) and confirmation of its 50% contribution to the project.

3.3 In July, the market testing undertaken by Morgan Sindall returned a figure greater than the indicative budget value at outline business case stage of £12,720,050. In order to allow time to undertake a value engineering exercise and ensure robust and adequate market testing of the work packages it was not possible to progress with the previously proposed summer works.

#### **4.0 Design development and value engineering exercise**

4.1 The Pentrehafod remodelling and refurbishment outline project design concept was developed by Consultant Architects Stride Treglown and the Council prior to main contractor input. Following the principles of construction best practice, a two-stage tender process was carried out leading to the appointment of a contractor in February 2016. The design was then developed further by the selected main contractor Morgan Sindall in consultation with the school, challenge advisor, ICT consultant and other subject matter experts together with Corporate Building and Property Services Technical advisers.

4.2 The estimated cost at outline business case stage in February 2015 was £12.72m. At that stage, the estimated cost was based on square metre rates which were benchmarked against previous construction projects. The rates were derived from the information available at the time of estimate.

4.3. On the appointment of Morgan Sindall in February 2016, further and more detailed investigative work into the condition of the existing building was undertaken. This included intrusive investigations, asbestos surveys, other testing and detailed survey works being carried out in March, April and May of this year, which determined that the condition of the existing building was substantially more dilapidated than was initially assumed. The original intention to construct a first floor extension on top of the existing single storey structure in block 2 was found not to be feasible due to the condition of the existing structure. This necessitated the rebuilding of a single storey structure which is approximately 325m<sup>2</sup>. Also, the extent of asbestos discovered within the structure was far more substantial than was assumed from previous reports, leading to substantial removal costs.

4.4 The requirement to construct a PACE unit as a stand-alone building has also added to the estimated costs as initially it was proposed that the unit would be accommodated within the existing school fabric. However, this has proved not to be possible due to space requirements and constraints.

4.5 It was always a requirement that the works would need to be phased to maintain the operation of the school during the construction period. However, discussions with the school relating to curriculum delivery have identified a far more complex phasing structure than could have been

initially envisaged, including working in multiple areas of the school within individual phases, which has increased costs in relation to supervision, safety and temporary works.

- 4.6 Using the detailed investigation results and designed scheme the main contractor has market tested the scheme through his supply chain. The costs have been presented in open-book format which ensures complete transparency and allows the Council to interrogate the costs in great depth. The fixed costs presented to the Council exceeded the indicative budget for the works. This can be attributed to a number of factors including those listed in 4.3 to 4.5 above, the current volatility of the steel market and the current buoyant construction market.
- 4.7 In order to attempt to bring the project costs back in line with the budget estimated at outline business case stage, a process of value engineering was undertaken, which included consultation with the school and other stakeholders.
- 4.8 One of the options under consideration was to reduce the curriculum spaces to the minimum set out in Building Bulletin 98, which sets out area guidelines for secondary schools. However, it was concluded that taking account of the school's curriculum needs, the curriculum spaces could not be reduced further.
- 4.9 It has been agreed in accordance with 4.1.1.1 of Appendix 1 of the Corporate Building and Property Services – Installation of Sprinklers in Major Projects Policy November 2013 that there is an exemption from the sprinkler policy in consideration of the benefits of providing sprinklers to part of the school only (as the remodelling and refurbishment does not extend to all parts of the school), and the alternative mitigation measures.
- 4.10 Welsh Government have also been consulted on this element, and they have confirmed they are content for the sprinkler system to be excluded from the project, on the basis that we carry out the alternative measures mentioned and the risks have been suitably assessed, and accepted by the Authority, given the high risk area the school is located in.
- 4.11 Other value engineered elements include;
- Curtain walling to front entrance omitted
  - Reduction in size of brise soleil to front entrance
  - Rear courtyard canopy omitted
  - Mechanical and electrical variations
  - Omission of works to kitchen
  - Reduce extent of cladding to side elevation
  - Reduce central courtyard landscaping
- 4.12A tarmac surface to the existing redgra area has been allowed for within the project budget. It was an aspiration for this to be a 3G, but it was never

expected that this would be achievable within the scope of this project. However, possible alternative grant funding streams are being explored to see if it will be possible to upgrade the surface to a 3G.

- 4.13 The current scheme proposal, with a total cost of £15.1m is considered to be the most cost effective solution without undermining the basic objectives of the scheme.

## **5.0 Key milestones**

- 5.1 The original programme for the delivery and completion of the project was as follows;

- Appointment of Morgan Sindall to carry out stage one design work – January 2016
- Cost certainty – June 2016
- Full business case submission/Delegated Powers Report – July 2016
- Commencement of summer works – July 2016
- Commencement of main works – September 2016
- Completion of works on site – September 2018

- 5.2 The revised programme to allow for sufficient time for a more a robust period of testing across the market in line with the proposed value engineering process is below;

- Cost certainty – 1 September 2016 – *revised date 20 September*
- Full business case submission to Welsh Government (WG) 12 September 2016 - *Revised date 26 September*
- Consideration of full business case by WG Scrutiny Group 6 October 2016
- Consideration of full business case by WG Capital Panel - 20 October 2016
- Report to Cabinet– 20 October 2016
- Commencement of main works – November 2016. It is proposed that these works will be undertaken over five phases which will be further discussed and reviewed with the school in line with teaching and learning demands over the academic year.
- Completion of works on site – November 2018

## **6.0 Equality and engagement implications**

- 6.1 A full Equality Impact Assessment has been completed for the project which shows that the project will not place any group at a disadvantage through the project and its outcomes. Instead the refurbishment programme will enhance the use of the school and its grounds by the wider community out of school hours. The Equality Impact Assessment can be viewed at <http://www.swansea.gov.uk/eia>

## **7.0 Financial implications**

### **Capital**

- 7.1 The WG announced its support in principle for an agreed programme of school building improvements in early 2012. This programme – termed the 21st Century Schools Programme - entails the Welsh Government (WG) providing a 50% contribution in relation to projects costing £51.3m.
- 7.2 The Council is expected to provide the remaining 50% contribution. In recent correspondence WG advised that as we are now in the delivery phase of Band A of the Programme that it must hold Authorities to their delivery commitments as set out in their 21st Century School matrices. WG's budgets for each financial year are fully allocated, and should delivery slip, WG may not be able to guarantee that this funding will be made available in future years.
- 7.3 The slippage that has occurred to the programme due to the need to undertake the value engineering exercise has impacted on the forecast spend profile. Officers are currently reviewing with Welsh Government colleagues the spend profile contained within the 21st Century School matrix; this could change the relative percentage contribution of the WG and the Council for individual schemes, but would not affect the overall 50:50 split across the Band A programme as a whole.
- 7.4 The projects included in the programme were summarised in the Capital Budget and Programme report presented to Council on the 25 February 2016 with the budget for Pentrehafod School being £12.720m.
- 7.5 The revised budget taking account of the value engineered fixed price submission by Morgan Sindall is £15,076m including optimism bias of 3.81% and will if approved be funded by:
- WG grant and Councils own resources of £14,926m from within the 21st Century Schools £51.3m funding envelope on the basis of an overall 50:50 split.
  - £150k Challenge Cymru grant for the PACE unit.
- 7.6 The increased budget will be funded within the 21<sup>st</sup> Century funding envelope. However, the remaining uncommitted funding will no longer be available to facilitate further works which will be reconsidered in the future school programme. There are no committed works which are impacted.
- 7.7 Due to the unpredictable nature of the project, as it is a refurbishment and rebuild project, a further client contingency could be held within central funding resources and accessed as necessary in line with the projects capital deliverables. However this is not considered appropriate at this time.

7.8 In addition there will be £150k of Challenge Cymru funding which has been ring-fenced for the delivery of the PACE unit.

7.9 The increased budget costs also include a client contingency of 3.81% (optimism bias) which is based on an assessment of risks and issues using a standard formula and which is required to be incorporated in the business case submission to Welsh Government.

7.10 The costs are summarised below;

	<b>Expenditure</b>	<b>£</b>
1	Construction	14,112,909
2	CBPS Fees	170,000
3	Education Fees	80,000
4	Digital Learning	40,000
5	Decant	120,000
	<b>Total</b>	<b>14,522,909</b>
7	Optimism bias @ 3.81%	553,322
	<b>Total</b>	<b>15,076,231</b>

7.11 The WG grant is subject to the approval of the full business case and contract with WG. Until this contract is signed, any ongoing costs to the project will need to be met from the Council's own resources but it should then form part of the local authority's 50% local contribution towards the projects.

7.12 Until the Council receives the offer of the grant from WG (subject to planning approval) the successful contractor will not receive notification of the award of the contract.

7.13 Details of the current estimated cost and funding are set out in Appendix A.

## **8.0 Revenue**

8.1 The school's operational revenue costs will continue to be appropriately funded by way of budget share of the total schools delegated budget provided in 2016-2017 budget and future years as set out in the medium term financial plan.

## **9.0 Legal implications**

- 9.1 The contract and offer of grant funding from Welsh Government will contain conditions which are legally binding. The Council will need to ensure that these conditions are reasonable and that it is able to comply with the same.
- 9.2 The Council will need to ensure that it complies with European procurement legislation and its Contract Procedure Rules. The contract with Morgan Sindall should be drafted in conjunction with the Head of Legal and Democratic Services to ensure that the Council's interests are protected.

### **Background papers:**

Cabinet Report 21 January 2016 - 21st Century Schools Programme - Contract award and capital programme authorisation for the design and refurbishment of Pentrehafod School's existing school buildings.

### **Appendices:**

Appendix A                      Financial appraisal.